

# Financial stability and regulation: gaps and challenges



## Post Crisis Financial Regulation: Experiences from the Two Sides of the Atlantic

FRBNY–Bank of Italy Workshop

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## Regulatory Reform Agenda

1. Capital and liquidity frameworks

2. Regulation and supervision of financial institutions

3. Supervision of complex financial system

4. Resolution regimes

5. New risks, regulatory perimeter, coordination

# Capital and liquidity frameworks: not all elements are in place

*Gaps remain in all sectors*

## Banks

- Market risk framework – work-in-progress
- No consensus on sovereign exposures

## Insurers

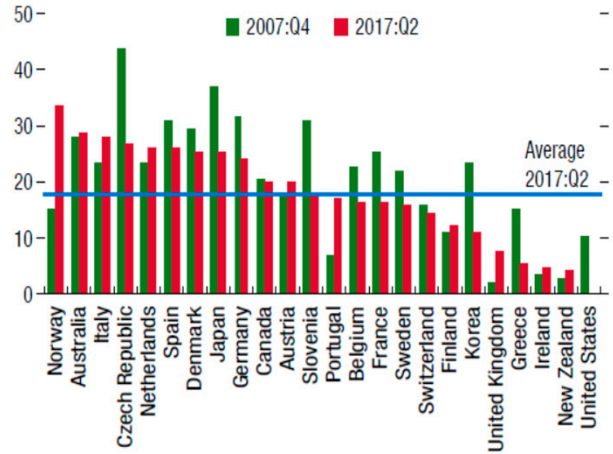
- No international capital standards

## Asset managers

- No leverage framework

*Sovereign-bank nexus is still strong in some countries*

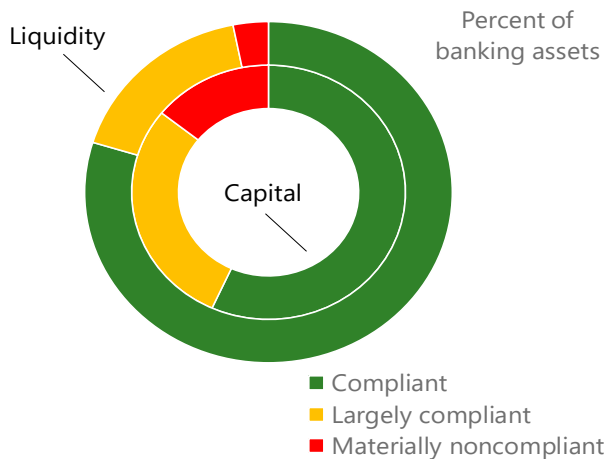
**Domestic Bank Holdings of General Government Debt Securities**  
(percent of total)



# Banking supervision: independence and resourcing

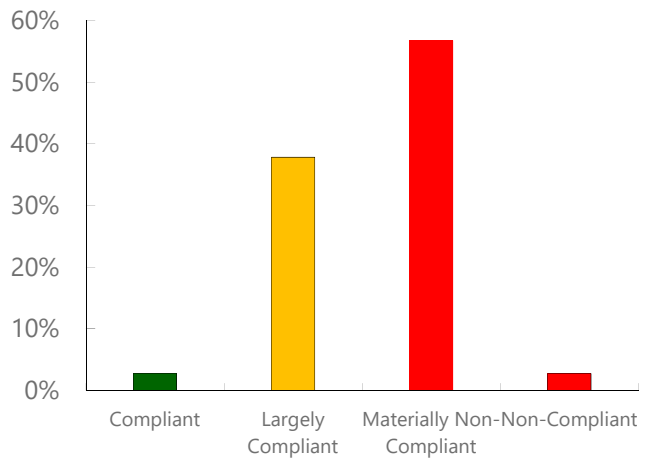
*Most bank assets reside in countries with good quality regulation and supervision*

**Quality of regulation and supervision of capital and liquidity**  
based on FSAP data (percent of total banking assets)



*...but there are still important deficiencies in independence and resourcing of supervisors*

**Principle 2: Independence, accountability, resourcing, and legal protection for supervisors**  
(All BCP assessments since 2012, IMF FSAPs)



# Banking supervision: governance and conduct



*Good corporate governance is critical for containing excessive risk taking*

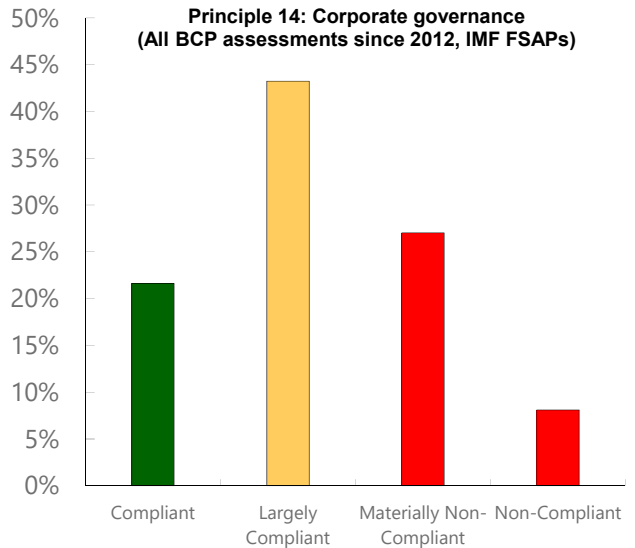
## Regulatory framework

- Governance (incl. remuneration), risk management and conduct regulations

## Independence and quality of oversight

## Supervisory intensity

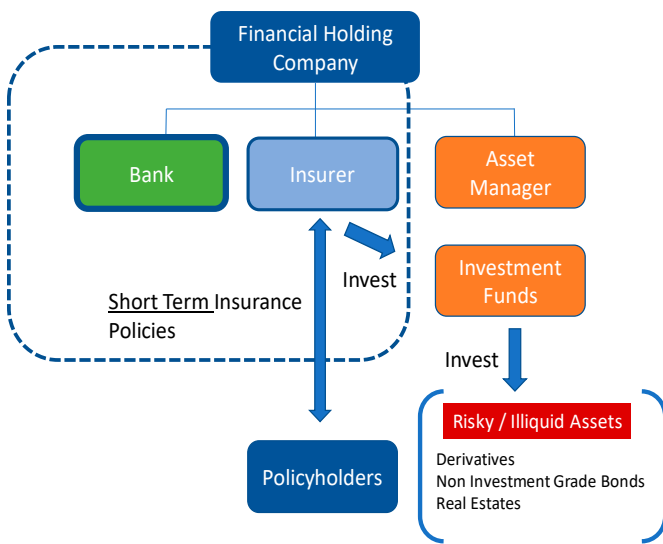
*Governance standards need to be strengthened further*



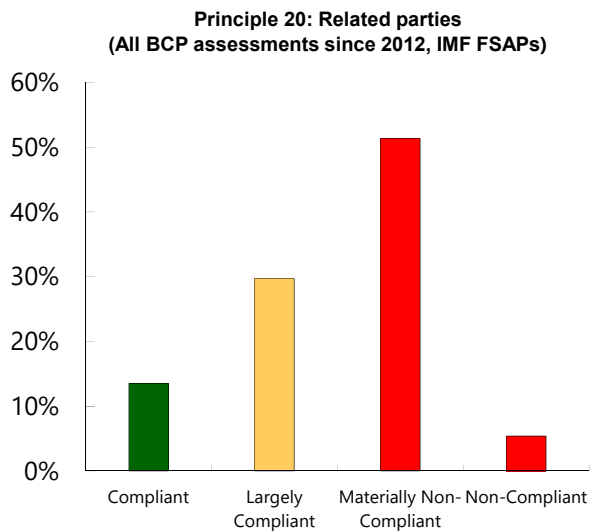
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# Supervision of complex financial system: conglomerates

*Financial conglomerates could offer opportunities for regulatory arbitrage*



*Supervision of financial conglomerates is not equally effective in all jurisdictions*



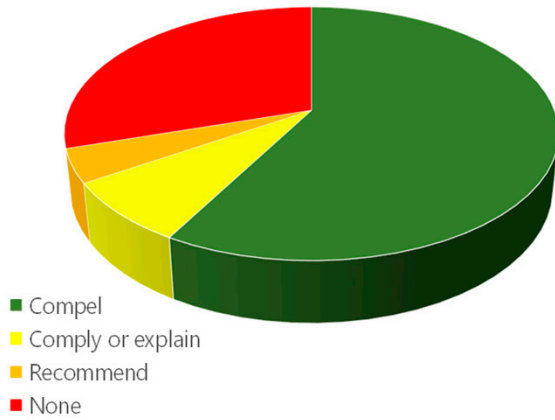
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# Supervision of complex system: macropru oversight

*Macropru oversight authorities have been established in most countries*

## Macroprudential Authorities' Powers

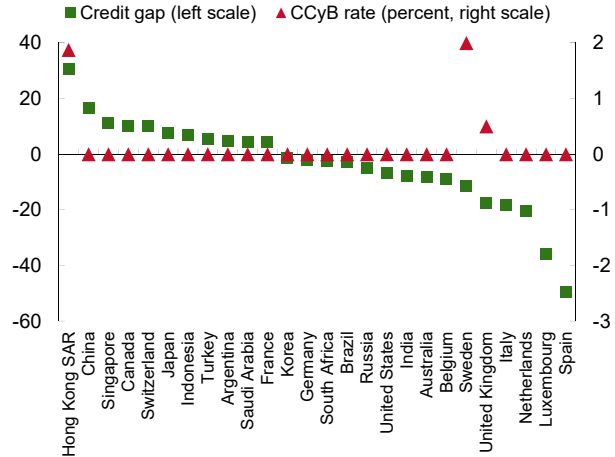
Percent of countries, 2017



*... though they are not always pro-active in triggering macropru tools*

## Total Credit-to-GDP Gaps and Countercyclical Buffers

(percentage points, deviations from credit-to-GDP trend)



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# Resolution & cross-border coordination

*Frameworks for resolution of non-banks and adequate cross-border coordination are still lacking*

## Banks

- Resolution frameworks mostly in place but untested

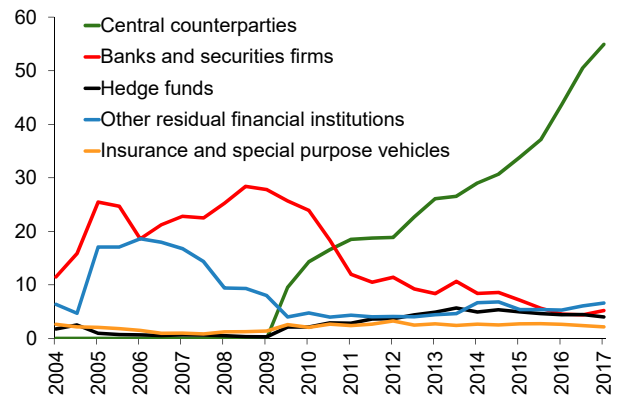
## Insurers, CCPs

- Resolution regimes for SIs and CCPs need to be finalized/implemented
- No framework for cross-border coordination

*Central counterparties have become more systemically important*

## CCPs and Other Counterparties in Derivatives Clearing

(share of different counterparties, percent)



Note: the remaining two categories, "reporting dealers" and "nonfinancial institutions", are not shown in the chart

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## Potential new risks: monitoring and policy tools

*New risks require greater focus on the regulatory perimeter and cross-border coordination*

### Market-based finance

- The liquidity risk framework -- implementation challenges

### Fintech

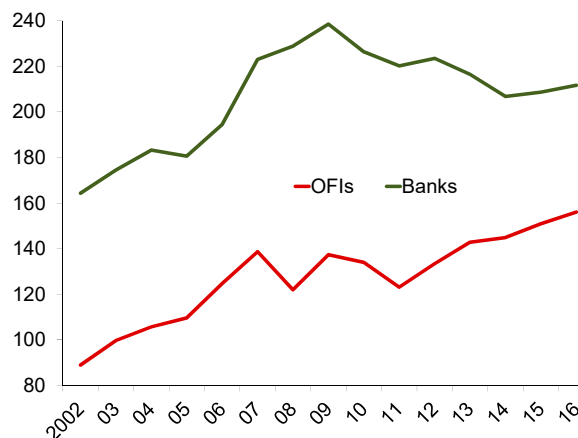
- Fragmented framework

### Cyber risks

- Lack of cross-border coordination

*Credit has been increasingly provided by non-bank financial institutions*

**Bank and Other Financial Institutions' Assets**  
(percent of GDP)



Note: the remaining two categories, "reporting dealers" and "nonfinancial institutions", are not shown in the chart