



22nd Annual International Conference on
Policy Challenges for the Financial Sector

Managing Financial Stability During Structural Change and Transition



Session 6: What's Next for Policymakers and Supervisors? (Concluding Session)

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Completing Basel III Implementation and Proportionality Considerations

- Consistent **implementation** of agreed international standards is essential.
- Proportionality is about **simplifying regulations and reducing compliance costs**; not about reducing stringency.
- It is not all about regulation. **Sound supervision is key.**
- Discussing potential **improvements to the Basel Framework** could be useful.



Maintaining operational resilience under evolving technologies

- **Risks & threats landscape**
 - *complex, heterogeneous, multi-dimensional (e.g., conjunctural shocks + structural transformations), unceasing, constrained predictive ability.*
- **Shift in focus needed?**
 - *non-financial risks & loss minimization more prominent - emphasis on—operational readiness; scenario simulation; effective testing; clear communication strategy; strengthening response and recovery, and crisis preparedness.*
- **Setting tone from the top**
 - *Boards to lead on identifying key operations, setting risk tolerance, articulating a fit-for-purpose approach, allocating financial, human and technical resources to close gaps.*
- **Digital technology & supervision**
 - *Anticipating technological progress, digitizing supervision to catch up, conscious review of perimeter at frequent intervals, recruitment of qualified resources; adoption and use of new technologies using strategic approach increasingly important in supervision.*
- **3rd party risk management**
 - *fundamental challenges—regulatory perimeter; concentration risk; interconnectedness, common exposures; domestic & cross-border coordination; entity-based vs. activity-based approach.*
- **Operationalizing high-level principles**
 - *jurisdictions must reflect on local environment and financial sector when transposing to domestic guidelines.*



Assembling Puzzle of Climate Risk Supervisory Tools & Approaches

- **Climate and environmental risks are financial risks, and there is an urgent need for action across stakeholders**
(keeping proportionality in mind)
- **Central banks and supervisors can contribute to awareness creation and capacity building**
- **Disclosure has a key role in shaping climate action**
(e.g., Basel Pillar 3 and ISSB standards), as we still learn about the suitability of Pillar 1 and 2 mobilization
- **Beware of complexity**
(e.g., the interaction between ambitious climate mitigation and nature preservation; or, the unintended consequences from some approaches like green supporting factors)
- **Admit... we are still learning**
(e.g., prudential transition plans hold great potential to steer and facilitate, but challenges remain)



Reflecting Issues of Crypto Asset Exchanges to Stem Risks

- **Rapid development of the industry..**
 - *Recent but rapidly growing industry (different financial services/ types of platforms)*
 - *Less of mean of payments than to invest, store value, remittances*
 - *Borderless, rapidly evolving, volatile value of assets, still largely unregulated*
 - *Expanding in emerging economies (Chile, new exchange cases in Africa)*
 - *Future tokenization development for new assets (mortgage loans, property titles, equity and bonds)*
- **..with limited impact on financial stability (so far)..**
 - *Not affecting - yet - the overall financial sector stability*
 - *Eroded trust and market decline in 2022 (already rebounding since, about 5% of all VC assets)*
 - *The underlying crypto technology did not fail*
- **..however regulatory challenges and concerns are growing..**
 - *“Classical” problems of fraud/unsegregated assets/undue leveraging / operational risk/ mis-information*
 - *Growing concerns : AML, Consumer Protection, KYC*
 - *Define what they are (US: commodities or securities), used technology, main risks, who is in charge*
 - *Expected important international regulatory framework (high principles, October 2023, FSB leading)*
 - *Chilean approach: part of law (high principles, technology neutral, stable coin for CB, exchange for SEC)*
 - *More clear regulatory boundaries for players like banks to ‘play safe’ (less so for crypto natives?)*
- **..highlighting the need for cooperation**
 - *Regulatory cooperation (across countries, national agencies, complex debate in the US)*



Thank you!