WWW.WORLDBANK.ORG/FINSAC

FINANCIAL SECTOR ADVISORY CENTER (FINSAC)
ANNUAL INTERNATIONAL CONFERENCE

Back to Basics in Banking Regulation and Supervision

Date to be confirmed | Vienna, Austria
Federal Finance Academy – BFA

WORLD BANK GROUP
Finance, Competitiveness & Innovation
Financial Sector Advisory Center (FinSAC)

Overview

More than a decade after the global financial crisis (GFC), countries around the world have come a long way in implementing the core components of the Basel Committee on Banking Supervision's Basel III package and the Financial Stability Board's (FSB) post-crisis regulatory reforms more generally. Central banks and prudential regulators have undertaken a concerted effort to strengthen the prudential rulebook and significantly tighten capital and liquidity requirements. For the most part, they have also sought to mitigate procyclicality in the financial sector by introducing countercyclical capital buffers and to address the too-big-to-fail problem by introducing capital surcharges for global and domestic systemically important banks and revamping bank resolution frameworks.

Eastern Europe and Central Asia (ECA) region, which stood out as the region worst impacted by the global financial crisis, is no exception to this pattern. Policymakers have worked hard to implement the key tenets of the post-crisis regulatory reform package, in a bid to converge with applicable global and European Union (EU) standards in a way that best suits their financial sectors—that is, proportionately. The consensus view is that these reforms have contributed to stronger and more resilient banking sectors.

The implementation of the post-GFC regulatory agenda has, however, also absorbed much of policymakers' attention. In environments with limited capacity to implement complex financial sector reforms, this has had the inevitable effect of diverting some attention from more basic prudential topics that are not part of the post-crisis package, but are nonetheless critical for financial stability. The 2020 edition of FinSAC's annual international conference seeks to return the focus to these important topics. On the first day this includes frameworks for licensing and transfer of significant ownership, and related party exposures. Shortcomings in these areas are among the leading causes for banking crises, both in ECA region and beyond, but they have received only limited attention in recent years. In addition, the event will consider how supervision can be made more effective in addressing risk, and how capital requirements can be adjusted to banks' risk profiles. There will also be a session on supervisory organization.

The second day of the event focuses on some of the challenges that regulators in ECA region have experienced in introducing the post-GFC regulatory agenda. Topics include the operationalization of macroprudential supervision, aimed at adding a macro overlay to existing policies meant to secure the safety and soundness of individual financial institutions; loan classification and provisioning; and the challenges emanating from introducing expected loss methodologies. Finally, the event will discuss practical measures for emerging and developing countries to resolve the too-big-to-fail dilemma, through enhancements to bank resolution frameworks and the operationalization of resolution planning.

DAY 1

08:30 – 09:00	**Registration and breakfast & coffee**
09:00 – 09:10	**Introduction** by Miquel Dijkman, FinSAC Coordinator
09:10 – 09:40	**Keynote speech** **Alfonso García Mora** | Global Director, Finance, Competitiveness and Innovation Global Practice, The World Bank Group (Confirmed)
09:40 – 10:00	**Word of welcome** **Harald Waiglein** | Director General, Economic Policy & Financial Markets, Federal Ministry of Finance, Austria (Confirmed)
10:00 – 11:30	**Session 1.** Gatekeeper function: bank ownership trends and licensing practices Most countries in ECA region have banking sectors with a significant degree of foreign participation, as illustrated by the dominance of subsidiaries of EU parent banks in the region. For the most part, these countries have small domestic markets, raising questions whether banks have the necessary scale to be commercially viable and to deliver financial services in a cost-effective manner. At the same time, some European banking groups have been scaling down their presence in the region by selling their business. This trend for further consolidation in the banking sector comes at a time when it is increasingly challenging to attract qualified and reputable investors as EU parent banks' appetite for cross-border acquisitions and expansions in non-core markets has decreased. The possible prospect of changing ownership structures raises important questions about supervisory practices regarding licensing and transfer of ownership, which this session explores.
11:30 – 11:45	**Coffee break**
11:45 – 13:15	**Session 2.** Cautionary tales of related and insider lending Several countries in ECA region have experienced first-hand how weaknesses in frameworks for licensing and transfer of bank ownership led to the emergence of opaque ownership structures in the banking sector. The lack of shareholder transparency enabled the buildup of concealed related party exposures, which then set the stage for costly banking crises. In this session, the speakers delve into their own experiences dealing with connected and insider lending. Furthermore, they explain their current approach to the issue, emphasizing the changes that have been implemented in their regulation and supervisory practices as a response to the crisis.
13:15 – 14:00	**Lunch**

14:00 – 16:00	**Session 3.** Risk-based supervision trends and Pillar 2 approaches Following the GFC, supervisors have been rethinking their approaches to risk-based supervision. New approaches towards supervisory rating systems have been emerging, with the EU's Supervisory Review and Evaluation Process (SREP) as one of the most prominent. In addition, more attention is being paid to ensuring that capital requirements are tailored to a banks' risk profile. In the ECA region, supervisory authorities are increasingly replacing their existing, usually CAMEL-based approaches with SREP. This migration entails several methodological, operational, and organizational challenges discussed during this session.
16:00 – 16:15	**Coffee break**
16:15 – 17:30	**Session 4.** Supervisory organization trends, how to ensure supervisors can adapt to new times Recent years have witnessed profound changes in banks' business models and in regulatory and supervisory approaches. Both regulators and the financial industry have been undergoing rapid changes due to technology, including the intensive use of big data, and the developments of models for decision-making in banks. Banks are increasingly using digital channels to meet their clients' needs. At the same time, more relevance is being given to internal models in the new regulatory, accounting, and supervisory framework as shown by the prevalence of stress testing in the supervisory toolkit, or the new International Financial Reporting Standard 9 (IFRS 9) expected loss approach to determine the accounting for loan losses. In an increasingly complex context, it can be challenging to effectively integrate onsite supervision and offsite monitoring. Supervisory authorities need to adapt themselves to these challenges, including the need for more specialized knowledge and the setting up of these new supervisory teams. Speakers share their experiences in these areas.
17:30 – 17:45	**Closing of Day I**
18:30 – 20:00	**Dinner**

DAY 2

08:30 – 09:00	**Breakfast & coffee**
09:00 – 09:15	**Word of Welcome** tbc
09:15 – 09:45	**Keynote Speech** tbc
09:45 – 10:00	**Proportionality**
10:00 – 11:30	**Session 5.** Macroprudential Supervision – Implementation experiences In the aftermath of the GFC, interest in systemic risk has surged among academics and policy makers. The mitigation of systemic risk is now widely accepted as the fundamental underlying concept for the design of the post-crisis regulatory agenda. Effective mitigation requires the presence of a well-developed analytical methodology for monitoring systemic risk, so that policy makers can make informed policy choices. This remains a challenging area, particularly in developing and emerging economies characterized by rapid structural changes and gaps in data availability. This session discusses some of the challenges that policymakers are facing in operationalizing macroprudential supervision.
11:30 – 11:45	**Coffee break**
11:45 – 13:15	**Session 6.** Loan classification and coverage under IFRS9: implementation challenges International standard setting bodies have taken steps in recent years to harmonize the identification, recognition, and classification of non-performing and forborne assets. In addition, the new IFRS9 accounting standard introduces provisioning based on expected credit losses for all the loan portfolios. Banks have reacted to these changes by developing new credit risk models and a governance framework for determining loan loss provisions. This new framework involves more professional judgment in deciding the loan losses. The corollary of these developments being that it becomes increasingly challenging for supervisors to scrutinize banks' provisions for loans. Since banks are predominantly exposed to credit risk, this is an issue of serious concern for supervisors in ECA region. The speakers share their experiences in implementing IFRS9, including the supervisory measures, policies, and tools they have developed for effective supervision of credit risk.
13:15 – 14:15	**Lunch**

14:15 – 15:30	**Session 7.** Bank resolution under BRRD: implementation challenges and impacts in the banking system The GFC evidenced the importance of having sound frameworks for dealing with weak banks. In this context, the Financial Stability Board agreed and published its Key Attributes for Effective Resolution Regimes. The EU responded with the Bank Recovery and Resolution Directive (BRRD) which, besides developing FSB's principles also included some specific rules, such as the minimum requirement for own funds and eligible liabilities (MREL) and the need to set up resolution funds. The BRRD regime has wielded a significant influence over most of ECA countries. In this panel, the speakers discuss the main challenges in implementing this regime, and the risks of implementing the full regime without adapting it to the specific needs of usually small, underdeveloped financial systems.
15:30 – 15:45	**Coffee break**
15:45 – 17:15	**Session 8.** Operationalization of resolution plans. Where are we and where do we need to go? An effective framework for dealing with weak banks involves a significant amount of ex-ante, preparatory work. Resolution plans and resolvability assessments are being prepared by resolution authorities based on information provided by banks but there are some inherent challenges to address. Authorities must operationalize plans and ensure their effectiveness on a cross-border basis.
17:15 – 17:30	**Closing remarks**