Today's Regulatory Challenges and Trends

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Overview

- Introduction: Evolution of financial regulation
- Trends in financial regulation
- The G20/FSB Agenda
- Financial regulation in the European Union
- Financial regulation in Switzerland
- Implications for the industry
Financial regulation
Evolving stages

Implementation → Crisis → Recovery/Resolution → Lessons Learnt → Regulatory concepts → Implementation
Financial regulation

Trends

- Comprehensive overhaul of existing regulation
- Expansion to previously unregulated sectors
- Increasing influence of international actors / norms
- Focus on financial stability
- Focus on conduct rules (MiFID II)
- Increasing supervisory intensity
Internationalisation of financial regulation

Prevention of regulatory arbitrage

International monitoring / comparability

Level playing field

Basis for the recognition of group supervision

Confidence building
Most international standards are not binding

But influence national legislation through three channels

- **Reputation**
  - Regulatory reviews / assessments
  - Financial Sector Assessment Program (FSAP) of IMF
  - Regulatory Consistency Assessment Program (RCAP) of BCBS

- **Equivalence**
  - Pre-condition to market access
  - Third country regime in the European Union

- **Extraterritoriality**
  - Interference with national authority
  - Dodd Frank Act in the United States (Volcker Rule, Swap Dealer requirements)
The G-20 / FSB reform agenda
The new “face” of global finance

Overarching objective: Increase resilience of the financial system and institutions

- New requirements for capital and liquidity (Basel 3)
- Policy measures for SIFIs
- Resolution of financial institutions
- Transparency in the OTC market
- Shadow banking
- Compensation practices
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<th>What has been done?</th>
<th>What will be done?</th>
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<td>Increase resilience</td>
<td>• Capital (Basel 3 and G-SIB surcharge)</td>
<td>• Adequacy of internal models</td>
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<td></td>
<td>• Liquidity Coverage Ratio</td>
<td>• Review of Leverage Ratio</td>
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<td>• Development of NSFR</td>
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<td>Effective resolution</td>
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<td>• Bail-in tool / strategy</td>
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<td>Improve resolvability</td>
<td>• Recovery and Resolution Planning</td>
<td>• Structural reforms</td>
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Resolution of financial firms «SPE» or «MPE»?

Single point of entry (SPE)

- Hold Co
  - Sub 1
  - Sub 2

Multiple point of entry (MPE)

- Hold Co
  - Intermediate Hold Co 1
  - Intermediate Hold Co 2

Application of resolution tools («bail-in»)
GLAC = Gone Concern Loss Absorbing Capacity

Purpose: Ensure G-SIBs have sufficient capacity to absorb losses and/or contribute to a recapitalisation through the resolution process

Permit a resolution strategy that can achieve the continuity of the G-SIB’s critical economic functions while preserving financial stability.

Instruments eligible towards GLAC must be both credibly and feasibly exposed to loss in resolution

Quantitative (amount) as well as qualitative (location within the group, duration) of debt instruments
Financial market regulation in the EU
Complete overhaul

- Overarching aim: Integrated financial market in the EU
  - Harmonisation of regulatory and supervisory regime
- ECB will be primary supervisor of around 120 “significant” banks
- Creation of a single European Rulebook (= limitation of national discretion)
- Around 25 different legislative initiatives
  - Retail consumer protection (MIFID II)
  - Infrastructure (EMIR)
  - Prudential (CRD IV)
- Third country regimes and equivalence requirements, however different design, no horizontal approach
### Financial market regulation in Switzerland

#### Prudential requirements
- High prudential standards (Capital, Liquidity, Risk management)
- «Swiss Finish» for systemically important banks

#### “Slim” and principle based regulation
- Low regulatory density
- Room for pragmatism and innovation (e.g. conduct)
- Less prescriptive (for instance bank structure)

#### Limitation of systemic risk
- Credible and feasible strategy to resolve of – above all else – systemically relevant banks

#### Internationally equivalent and accepted
- Swiss financial sector is export-oriented
- Access to foreign markets only with equivalent regulation and supervision
- Reputation
Financial market supervision
Towards a new trilemma?

- Consolidated group supervision put into question
- Trend towards subsidiaries (instead of branches)
- Greater localisation (financial as well as operational)

-> Importance of international cooperation is paramount
Implications for the industry

- Strengthening of capital and liquidity position
- Reduce risk exposure
- Focus on core activities
- Group structure (efficiency and resolution perspective)
- Trend toward subsidiarisation
- Pressure on profitability (compounded by low interest rate environment)
- Industrialization