

5. Finance: Systemically Important Financial Institutions

Commitment [#83]:

“We endorsed the policy framework, work processes, and timelines proposed by the FSB to reduce the moral hazard risks posed by systemically important financial institutions (SIFIs) and address the too-big-to-fail problem.”

Seoul Summit Document

Assessment:

Country	Lack of Compliance	Work in Progress	Full Compliance
Argentina		0	
Australia		0	
Brazil		0	
Canada		0	
China		0	
France		0	
Germany		0	
India		0	
Indonesia		0	
Italy		0	
Japan		0	
Korea		0	
Mexico		0	
Russia		0	
Saudi Arabia		0	
South Africa		0	
Turkey		0	
United Kingdom		0	
United States		0	
European Union		0	
Average Score		0	

* Because FSB recommendations or the results of national supervisors’ self-assessments will not be available for review in time for the publication of the interim compliance report, for this report all G20 members receive a score of 0 for “work in progress.” These scores will be revised for the final compliance report, to be published in advance of the G20 Cannes Summit in November 2011.

Background:

The G20 identified systemically important financial institutions (SIFIs) as major sources of potential systemic risk during times of financial crisis, noting that these firms can lead to the ‘too-big-to-fail’ problem whereby governments are obliged to ‘bail out’ systemically important firms in order to prevent broader contagion and shareholder losses. At the Seoul Summit in November 2010, G20 leaders endorsed the FSB’s policy framework and timeline for addressing the moral hazard risks posed by these firms. G20 Finance Ministers and Central Bank Governors agreed at a

February 2011 meeting that the FSB should publish its recommendations in October 2011, a month earlier than the originally agreed-upon timeline of November 2011.³⁶³

A 10 April 2011 report by the Financial Stability Board (FSB) called Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability notes that the FSB and other standard-setting actors are working to formulate a set of recommendations on resolution regimes for SIFIs and for financial institutions that are important in a global context, or G-SIFIs, which will be published by October 2011.³⁶⁴ National supervisors are required to submit self-assessments of their ability to effectively supervise SIFIs in accordance with the Basel Core Principles by June 2011.³⁶⁵

Commitment Features:

In October 2010, the FSB published a policy framework for reducing the moral hazard posed by systemically important financial institutions (SIFIs), in order to prevent the necessity of states rescuing large or complex banks during a financial crisis.

According to the FSB report entitled “Reducing the Moral Hazard Posed by Systemically Important Financial Institutions,”³⁶⁶ the FSB policy framework demands action by G20 members and international financial institutions in five areas.

1. Improvements to resolution regimes to ensure that any financial institutions can be resolved without disruptions to the financial system and without taxpayer support.
2. That SIFIs, and in particular global SIFIs (G-SIFIs), have additional loss absorption capacity beyond the Basel III standards to reflect the greater risks that these institutions pose to the global financial system.
3. More intensive supervisory oversight for financial institutions which may pose systemic risk.
4. More robust standards for core financial infrastructure to reduce contagion risks from the failure of individual institutions.
5. Peer review by an FSB Peer Review Council of the effectiveness and consistency of national policy measures for G-SIFIs, beginning by end-2012.

The particular recommendation areas and deadlines in the report that fall under the jurisdiction of G20 are listed in Table 6.

³⁶³ Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability, Financial Stability Board (Basel) 10 April 2011. Date of Access: 26 April 2011.

http://www.financialstabilityboard.org/publications/r_110219.pdf

³⁶⁴ Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability, Financial Stability Board (Basel) 10 April 2011. Date of Access: 26 April 2011.

http://www.financialstabilityboard.org/publications/r_110219.pdf

³⁶⁵ Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability, Financial Stability Board (Basel) 10 April 2011. Date of Access: 26 April 2011.

http://www.financialstabilityboard.org/publications/r_101111a.pdf

³⁶⁶ Reducing the moral hazard posed by systemically important financial institutions, Financial Stability Board (Basel) 20 October 2010. Date of Access 26 January 2011.

Table 6: Recommendations for SIFIs

Area	Recommended Action
Resolution	<p>By end-March 2011 all FSB members, using the BCBS Cross-border Bank Resolution Group recommendations and the FSB draft Key Attributes of Effective Resolution Regimes, will report their assessment of their capacity to resolve SIFIs operating in their jurisdictions under their existing resolution regimes and the legislative and other changes to national resolution regimes and policies needed to accomplish effective resolution.</p> <p>- The FSB is planning to set out by mid-2011 criteria for assessing the resolvability of SIFIs, which the G20 will take into account to determine the systemic risk of a G-SIFI, and the attributes of effective resolution regimes, including the minimum level of legal harmonisation and legal preconditions required to make cross-border resolutions effective. G20 members are supposed to use these criteria and attributes to set out their plans to address areas where legal or regulatory changes or improvements to their resolution policies are needed, by end-2011.</p> <p>- By end-2011, authorities should have drawn up institution-specific cooperation agreements that specify the respective roles and responsibilities of the authorities at all stages of a crisis for all G-SIFIs.</p>
Increased supervisory oversight for financial institutions which may pose systemic risk	<p>G20 members should conduct a self assessment against the relevant Core Principles, including essential and additional criteria, and identify deficiencies and corrective actions in a letter addressed to the FSB Chair, covering: supervisory mandates and independence; supervisory powers; and comprehensive consolidated supervision. These letters should be issued by mid-2011 for BCBS Core Principles and by early 2012 for IAIS Core Principles. Since the deadline for the IAIS Core Principles falls outside the current compliance cycle, the requirement that letters be issued for IAIS Core Principles will not apply for assessment of G20 member state compliance.</p>
Stronger robustness standards for core financial infrastructure*	<p>National authorities should implement: (i) the G20 commitments that all standardised OTC derivatives contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties (CCPs), and OTC derivatives contracts should be reported to trade repositories; and (ii) the recommendations set forth in the forthcoming report of the FSB OTC Derivatives Working Group.</p>

*For more information on G20 commitments on OTC derivatives see the separate report in this document.

In sum, G20 member states are expected to comply with three of the five aforementioned recommendation areas: resolution, increased supervisory oversight for financial institutions that might pose systemic risk, and stronger robustness standards for core financial infrastructure.

Definitions

SIFIs: Financial institutions whose disorderly failure, because of their size, complexity, and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity.³⁶⁷

367 <http://www.efinancialnews.com/story/2010-11-12/group-twenty-endorses-financial-stability-plan>

G-SIFIs: Financial institutions that are clearly systemic in a global context,” which must consequently have “higher loss-absorbency capacity than the minimum levels agreed in Basel III.”³⁶⁸ The FSB report also notes that G-SIFIs “must also be subject to more intensive co-ordinated supervision and resolution planning to reduce the probability and impact of their failure.”³⁶⁹

Scoring Guidelines:

-1	Member does not take any actions in compliance with the three FSB recommendation areas and associated timelines to reduce moral hazard posed by SIFIs and address the too-big-to-fail problem.
0	Member takes actions in compliance with at least one of the FSB recommendations areas and associated timelines to reduce moral hazard posed by SIFIs and address the too-big-to-fail problem.
+1	Member takes actions in compliance with all three FSB recommendation areas and associated timelines to reduce moral hazard posed by SIFIs and address the too-big-to-fail problem.

Argentina: 0

Argentina has made progress toward complying with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

In a report released in September 2010, the Central Bank of Argentina (BCRA) reiterated its commitment to the “series of proposals for reform designed to strengthen the international financial system.”³⁷⁰ The report notes, “financial system exposure to the private sector fell slightly” at the beginning of 2010.³⁷¹ The BCRA reiterates its commitment to “strengthen adherence to international prudential regulatory and supervisory standards.”³⁷²

In a 12 November 2010 report on progress in financial reform since the 2008 Washington Summit, the FSB reported that Argentine authorities have “signed MoUs with many other financial supervisors, for consolidated supervision and information sharing.” Progress is reported to be ongoing.³⁷³ Argentina has previously established “resolution procedures for all financial

³⁶⁸Reducing the moral hazard posed by systemically important financial institutions, Financial Stability Board (Basel) 20 October 2010. Date of Access 26 January 2011.

http://www.financialstabilityboard.org/publications/r_101111a.pdf

³⁶⁹Reducing the moral hazard posed by systemically important financial institutions, Financial Stability Board (Basel) 20 October 2010. Date of Access 26 January 2011.

http://www.financialstabilityboard.org/publications/r_101111a.pdf

³⁷⁰ Financial Stability Report, Second Half 2010, Central Bank of Argentina (Buenos Aires) September 2010. Date of Access: 10 April 2011. <http://www.bkra.gov.ar/pdfs/polmon/bef0210i.pdf>

³⁷¹ Financial Stability Report, Second Half 2010, Central Bank of Argentina (Buenos Aires) September 2010. Date of Access: 10 April 2011. <http://www.bkra.gov.ar/pdfs/polmon/bef0210i.pdf>

³⁷² FSB Report on Progress Since the Washington Summit; Argentina, Financial Stability Board 12 November 2010. Date of Access: 10 April 2011.

http://www.financialstabilityboard.org/publications/r_101111b.htm

³⁷³ FSB Report on Progress Since the Washington Summit; Argentina, Financial Stability Board 12 November 2010. Date of Access: 10 April 2011.

http://www.financialstabilityboard.org/publications/r_101111b.htm

institutions taking deposits... and for insurance companies in Argentina.”³⁷⁴ The National Securities Commission (CNV) is currently “working on initiatives in order to improve the bankruptcy process in futures and derivative markets.”³⁷⁵

Argentina has committed to use domestic resolution powers and tools already in existence “in a manner that preserves financial stability and are committed to implement the ten key recommendations on cross-border bank resolution issued by the BCBS in March 2010.” While this process is ongoing, steps have been taken to “review resolution regimes and bankruptcy laws in light of recent experience to ensure that they permit an orderly wind-down of large complex crossborder financial institutions.”³⁷⁶

Thus Argentina has been awarded a score of 0 for its commitment to reviewing and restructuring policy to reduce the risks associated with SIFIs.

Analyst: Kate Partridge

Australia: 0

Australia has made progress toward complying with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

The global financial crisis did not place as much of a burden on Australia as other countries because Australian financial institutions had, according to the Minister for Superannuation and Corporate Law Nick Sherry, “very little direct exposure to the US sub-prime sector.”³⁷⁷ However, Australian regulators are proposing and implementing multiple reforms to the Australian financial sector.

Australia implemented the Basel II Framework at the start of 2008.³⁷⁸ The Australian Prudential Regulation Authority (APRA) undertakes regular stress testing of regulated institutions in compliance with this framework. In addition to this, capital adequacy and liquidity management are also stress tested.³⁷⁹

³⁷⁴ FSB Report on Progress Since the Washington Summit; Argentina, Financial Stability Board 12 November 2010. Date of Access: 10 April 2011.

http://www.financialstabilityboard.org/publications/r_101111b.htm

³⁷⁵ FSB Report on Progress Since the Washington Summit; Argentina, Financial Stability Board 12 November 2010. Date of Access: 10 April 2011.

http://www.financialstabilityboard.org/publications/r_101111b.htm

³⁷⁶ FSB Report on Progress Since the Washington Summit; Argentina, Financial Stability Board 12 November 2010. Date of Access: 10 April 2011.

http://www.financialstabilityboard.org/publications/r_101111b.htm

³⁷⁷ Address by Minister for Superannuation and Corporate Law Nick Sherry at the European Australian Business Council Boardroom (Sydney) 10 October 2008. Date of Access: 7 April 2011.

<http://www.treasurer.gov.au/DisplayDocs.aspx?doc=speeches/2008/031.htm&pageID=005&min=njs&Year=&DocType=1>

³⁷⁸ The implementation of Basel II in Australia, The Australian Prudential Regulation Authority (Sydney) January 2008. Date of Access: 7 April 2011.

http://www.apra.gov.au/Insight/upload/Insight_Issue_2_2008_implementation_baselII_aust.pdf

³⁷⁹ Australia’s banks survive APRA stress test, The Wall Street Journal (New York) 9 June 2010. Date of Access: 7 April 2011. <http://www.theaustralian.com.au/business/industry-sectors/australias-banks-strong-apra-stress-test/story-e6frg976-1225877541994>

APRA is also making progress in implementing the Basel III requirements.³⁸⁰ In December 2010 APRA and the RBA announced together a proposal in which ADIs will be able to meet the BCBS liquidity coverage ratio requirements. These details will be subject to consultation in 2011-2012.³⁸¹ However, Australia does not include the same information as the BCBS in their Tier 1 Capital.³⁸²

Moreover, Australia is implementing new regulatory reforms for SIFIs. The Reserve Bank of Australia (RBA) and APRA participated in the Basel Committee on Banking Supervision (BCBS) and the Group of Central Bank Governors and Head of Supervision's (GHOS) discussions on introducing a leveraging ratio, and are now taking steps to implement it.³⁸³

Australia has been successful in creating cross-border supervisory organizations. In 2009 the AASB and FRC were instrumental in creating the Asia-Oceania Standards Setters Group, which promotes adoption, convergence, and application of IFRS in the region.³⁸⁴ Australia has been peer reviewed, in compliance with the G20 Seoul Commitment, by the Global Forum on Transparency and Exchange of Information for Tax Purposes.³⁸⁵ This report confirmed their compliance on multiple financial reforms.

In October 2010 the IASB issued the Financial Instruments – Classification and Measurement report, which declared that requirements to alleviate supervisory issues would be finalized by June 2011. This is to compliment the already released ASF industry standards on disclosure and reporting.³⁸⁶

In May 2008 Australia formed an OTC working group to discuss FSB-recommended OTC derivatives reforms.³⁸⁷ Furthermore, Australia monitors industry developments as representatives on the international steering group, 'OTC Derivatives Regulator's Forum'. The Australian working group announced APRA's intentions to implement the Basel III Rules related to counterparty credit risk including higher capital charges for non-centrally cleared OTC

³⁸⁰ Developments in the Financial System Architecture, the Reserve Bank of Australia (Sydney) March 2011. Date of Access: 7 April 2011. <http://www.rba.gov.au/publications/fsr/2011/mar/pdf/dev-fin-sys-arch.pdf>

³⁸¹ Developments in the Financial System Architecture, the Reserve Bank of Australia (Sydney) March 2011. Date of Access: 7 April 2011. <http://www.rba.gov.au/publications/fsr/2010/mar/html/dev-fin-sys-arch.html>

³⁸² Australian Bank Capital and the Regulatory Framework, the Reserve Bank of Australia (Sydney) September 2010. Date of Access: 7 April 2011. <http://www.rba.gov.au/publications/bulletin/2010/sep/pdf/bu-0910-6.pdf>

³⁸³ Reforming international financial regulation, The Institute of Chartered Accountants in Australia (Sydney) May 2010. Date of Access: 7 April 2011. http://www.charteredaccountants.com.au/~media/Files/News%20and%20media/Reports%20and%20insights/Reforming_international_financial_regulation.ashx

³⁸⁴ Asian-Oceania Standards Setters Group created, International Financial Reporting Standards (London) 10 June 2009. Date of Access: 7 April 2011. <http://www.ifrs.org/Archive/INSIGHT+journal/Asian-Oceanian+Standards+Setters+Group+created.htm>

³⁸⁵ Peer Review Report of Australia, Centre for Tax Policy and Administration (Paris) January 2011. Date of Access: 7 April 2011. <http://browse.oecdbookshop.org/oecd/pdfs/browseit/2311061E.PDF>

³⁸⁶ Securitisation: Looking ahead to a brighter 2010, Australian Banking and Finance (Sydney) 20 March 2010. Date of Access: 7 April 2011. <http://www.australianbankingfinance.com/capital-markets/securitisation-looking-ahead-to-a-brighter-2010/>

³⁸⁷ Survey of OTC Derivatives Market in Australia, Reserve Bank of Australia (Sydney) 22 May 2009. Date of access: 7 April 2011. <http://www.rba.gov.au/media-releases/2009/jmr-09-rba-apra-asic.html>

derivatives.³⁸⁸ In 2009 Australia established the G20 Reform Implementation Committee to coordinate domestic implementation of G20 commitments on financial sector reform.³⁸⁹

Thus Australia has been awarded a score of 0 for its commitment to reviewing and restructuring policy to reduce the risks associated with SIFIs.

Analyst: Lauren Millar

Brazil: 0

Brazil has made progress toward complying with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

The Central Bank of Brazil is currently analyzing a legislative proposal “to reduce the probability of failure of financial institutions and facilitate their orderly resolution.”³⁹⁰ All financial institutions are required to follow “standardized approaches for credit, market and operational risks as recommended by BCBS.”³⁹¹ Currently, Brazil has more conservative regulations than the international standard. As such, the adoption of stricter Basel III standards will be less stressful than for other countries.

In a 12 November 2010 report on progress in financial reform since the 2008 Washington Summit, the FSB reported that important financial institutions in Brazil will need to strengthen their capital bases and improve their ability to absorb losses in order to meet Basel III standards.³⁹² In the FSB self-assessment submitted in 2010, Brazil committed to “studying the implementation of regulatory adjustments from 1 July 2012.”³⁹³ This deadline is consistent with the ultimate implementation of Basel III by 1 January 2014.

The Central Bank of Brazil “participates in the Cross Border Resolution Group of BCBS and is committed to adopt the recommendations concerning contingency and resolution plans, once they are eventually approved.” The Central Bank has also proposed improvements to domestic resolution procedures, which are awaiting approval by the Federal Legislative Branch.³⁹⁴

³⁸⁸ Address by Assistant Governor (Financial System) Malcolm Edey, Basel III Conference 2011 (Sydney) 24 March 2011. Date of Access: 7 April 2011. <http://www.rba.gov.au/speeches/2011/sp-ag-240311.html>

³⁸⁹ International Financial Co-operation, Reserve Bank of Australia (Sydney) 2009. Date of Access: 7 April 2011. <http://www.rba.gov.au/publications/annual-reports/rba/2009/html/intl-fin-coop.html>

³⁹⁰ “Publications – FSB “FSB report on Progress since the Washington Summit in the Implementation of the G20 Recommendations for Strengthening Financial Stability”,” November 8, 2010, Date of Access: 9 April 2011. http://www.financialstabilityboard.org/list/fsb_publications/index.htm

³⁹¹ “Publications – FSB “FSB report on Progress since the Washington Summit in the Implementation of the G20 Recommendations for Strengthening Financial Stability”,” November 8, 2010, Date of Access: 9 April 2011. http://www.financialstabilityboard.org/list/fsb_publications/index.htm

³⁹² “Publications – FSB “FSB report on Progress since the Washington Summit in the Implementation of the G20 Recommendations for Strengthening Financial Stability”,” November 8, 2010, Date of Access: 9 April 2011. http://www.financialstabilityboard.org/list/fsb_publications/index.htm

³⁹³ “BC divulga orientações preliminares e cronograma de implementação das recomendações de Basileia III – BC announces preliminary guidelines and timetable for implementing the recommendations of Basel III,” February 17, 2011,

<http://www.bcb.gov.br/textonoticia.asp?codigo=2927&IDPAI=NOTICIAS>

³⁹⁴ FSB Report on Progress Since the Washington Summit; Brazil, Financial Stability Board 12 November 2010. Date of Access: 10 April 2011. http://www.financialstabilityboard.org/publications/r_101111b.html

Thus Brazil has been awarded a score of 0 for its commitment to reviewing and restructuring policy to reduce the risks associated with SIFIs.

Analyst: Kate Partridge

Canada: 0

Canada has made progress toward complying with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

On 2 November 2010 Bank of Canada Governor Mark Carney announced “a series of concerted measures will be required to build resilient, continuously open funding and derivatives markets and to restore market discipline to financial institutions.”³⁹⁵ However, Canada’s Office of the Superintendent of Financial Institutions (OSFI) has repeatedly announced that it does not consider Canada’s banks to be G-SIFIs.³⁹⁶ The OSFI has also voiced concerns that “the public identification of SIFIs would create additional moral hazard” in the Canadian and global financial systems.³⁹⁷

On 24 February 2011, OSFI released the updated Supervisory Framework, the criteria used by OSFI to evaluate the safety and soundness of financial institutions, which included recommendations on improving the supervision of SIFIs.³⁹⁸ Finally, the Financial Consumer Agency of Canada (FCAC) has included high-level financial stability risk as a component to its market conduct risk assessment model.³⁹⁹

Thus Canada has been awarded a score of 0 for its commitment to reviewing and restructuring policy to reduce the risks associated with SIFIs.

Analyst: Vera Gavrilova

China: 0

China has made progress toward complying with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

During the 2008-2009 global financial crisis, China’s banking sector remained relatively unscathed since it had little exposure to US subprime debt or the sovereign debt of peripheral

³⁹⁵ Addressed by Mark Carney at the International Center for Monetary and Banking Studies, Bank of Canada (Ottawa) 9 November 2010. Date of Access: 12 April 2011. <http://www.bank-banque-canada.ca/en/speeches/2010/sp091110.html?style1=print>.

³⁹⁶ Canadian Bank Regulator Reiterates Top Five Not Globally Systemically Important, The Wall Street Journal (New York) 11 January 2011. Date of Access: 12 April 2011. <http://online.wsj.com/article/BT-CO-20110111-713545.html>.

³⁹⁷ Canadian Bank Regulator Reiterates Top Five Not Globally Systemically Important, The Wall Street Journal (New York) 11 January 2011. Date of Access: 12 April 2011. <http://online.wsj.com/article/BT-CO-20110111-713545.html>.

³⁹⁸ Supervisory Framework, Office of the Superintendent of Financial Institutions Canada (Ottawa) 24 February 2011. Date of Access: 12 April 2011. http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?ArticleID=4234.

³⁹⁹ Financial Stability Board Report on Progress since the Washington Summit Canada, Financial Stability Board (Basel) 12 November 2011. Date of Access: 12 April 2011. http://www.financialstabilityboard.org/publications/r_110401d.pdf.

euro-zone governments.⁴⁰⁰ However, following the state-directed lending boom in 2009-2010, there were concerns over the future health of the banking sector.⁴⁰¹ Over the years 2009-2010, the reduction in the non-performing loan ratio (NPL) reflected huge growth in the loan base.⁴⁰²

On 17-18 March 2011, China hosted the 5th CBRC-US Banking Supervisors' Bilateral Conference. At the Conference, senior officials from the CBRC and representatives from the Fed, the OCC, the FDIC, the Fed of New York and the Fed of San Francisco exchanged views on the following issues: (1) major risks in the global banking market; (2) supervision over the SIFIs; (3) impact of international financial reform and new international supervisory standards on China and the US; and (4) cross-border crisis management and supervisory cooperation, etc.⁴⁰³

China has also taken steps toward reducing the systemic risk posed by SIFIs and address the too-big-to-fail problem in compliance with the three FSB recommendation areas and associated timelines.

The People's Bank of China (PBC) began drawing proposals on establishing more stringent regulations on capital, leverage ratio, liquidity and risk provisions and on setting up clear settlement arrangements and risk resolution following the unveiling of the FSB framework for SIFIs in November 2010.⁴⁰⁴ The PBC is also working on establishing a clearly-layered risk resolution and payment arrangement for SIFIs which plans to: (1) strengthen responsibilities of institutions, shareholders and creditors, (2) quickening the establishment of deposit insurance mechanisms, and (3) giving full play of its supportive role as the central bank.⁴⁰⁵

On 21 February 2011, China's Banking Regulatory Commission (CBRC) confirmed to the China Securities Journal that it was drafting new rules to set tougher criteria for capital adequacy, provisions, leverage and liquidity conditions for lenders.⁴⁰⁶

⁴⁰⁰ China banks: subsector update, Economist Intelligence Unit (New York) 4 January 2011. Date of Access: 12 April 2011.

http://www.eiu.com/index.asp?layout=ib3Article&article_id=277795612&country_id=&pubtypeid=1132462498&industry_id=&company_id=470055047&channel_id=&rf=0

⁴⁰¹ China banks: subsector update, Economist Intelligence Unit (New York) 4 January 2011. Date of Access: 12 April 2011.

http://www.eiu.com/index.asp?layout=ib3Article&article_id=277795612&country_id=&pubtypeid=1132462498&industry_id=&company_id=470055047&channel_id=&rf=0

⁴⁰² China banks: subsector update, Economist Intelligence Unit (New York) 4 January 2011. Date of Access: 12 April 2011.

http://www.eiu.com/index.asp?layout=ib3Article&article_id=277795612&country_id=&pubtypeid=1132462498&industry_id=&company_id=470055047&channel_id=&rf=0

⁴⁰³ The 5th CBRC--U.S. Banking Supervisors' Bilateral Conference was held in Beijing, CBRC (Beijing) 17-18 March 2011. Date of Access: 12 April 2011.

<http://www.cbrc.gov.cn/english/home/jsp/docView.jsp?docID=2011032501C697BDE3D5D8C0FF8E9DB727FE6800>

⁴⁰⁴ FSB-G20 Monitoring Progress – Germany September 2010 [For Publication in March 2011], Financial Stability Board (Basel) 12 November 2010. Date of Access: 10 April 2011.

http://www.financialstabilityboard.org/publications/r_110401g.pdf

⁴⁰⁵ Progress since the Washington Summit in the Implementation of the G20 Recommendations for Strengthening Financial Stability, FSB (Basel) 8 November 2010. Date of Access: 11 April 2011.

<http://www.fsa.go.jp/inter/fsf/20101119/01.pdf>

⁴⁰⁶ CBRC to set new rules for banking sector, China Daily (Beijing) 23 February 2011. Date of Access: 12 April 2011. <http://www.cdeclips.com/en/business/fullstory.html?id=60976>

On 25 February 2011, the CBRC created a draft for a new set of capital requirement rules.⁴⁰⁷ Under the draft, China's SIFIs will be subject to a minimum capital adequacy ration (CAR) of 11.5% under 'normal conditions.'⁴⁰⁸

On 12 April 2011, the China Securities Journal reported that the CRBC would enhance scrutiny on commercial banks through monitoring their average daily would-to-deposit ratios starting from June.⁴⁰⁹ Also on 12 April 2011, Xinhua News' Economic Information Daily reported that China might raise its reserve requirement ratio by 50 basis points on 15 or 22 April 2011.⁴¹⁰

Thus China has been awarded a score of 0 for its commitment to reviewing and restructuring policy to reduce the risks associated with SIFIs.

Analyst: Hermonie Xie

France: 0

France has made progress toward complying with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

France has taken unilateral and multilateral (EU-led) actions to reduce moral hazard posed by SIFIs and address the too-big-to-fail problem.

On 21 January 2010, the French government announced the creation of the French Prudential Supervisory Authority (ACP) under the auspices of the Banque de France. ACP was formed from the merger of four licensing and supervisory authorities in order to establish a unified entity that could directly address the issue of financial stability.⁴¹¹ The purpose of ACP is to strengthen the stability of the financial system, improve consumer protection, and enhance international supervisory cooperation.⁴¹² As part of their action plan, ACP is urging France's major banks to expose their contingency funding plans, de-risking plans, and resolvability capacity developments.⁴¹³

⁴⁰⁷ CBRC to set new rules for banking sector, China Daily (Beijing) 23 February 2011. Date of Access: 12 April 2011. <http://www.cdclips.com/en/business/fullstory.html?id=60976>

⁴⁰⁸ China drafts new rules on bank capital requirements, International Business Times (New York) 25 February 2011. Date of Access: 12 April 2011. <http://uk.ibtimes.com/articles/116568/20110226/basel-iii-guidelines-china-banking-regulatory-commission-financial-institutions-capital-adequacy-rat.htm>

⁴⁰⁹ China Stocks: Baoshan Iron, China Construction, ICBC, Vanke, Bloomberg (New York) 12 April 2011. Date of Access: 12 April 2011. <http://www.bloomberg.com/news/2011-04-13/china-stocks-baoshan-iron-china-construction-icbc-vanke.html>

⁴¹⁰ China Stocks: Baoshan Iron, China Construction, ICBC, Vanke, Bloomberg (New York) 12 April 2011. Date of Access: 12 April 2011. <http://www.bloomberg.com/news/2011-04-13/china-stocks-baoshan-iron-china-construction-icbc-vanke.html>

⁴¹¹ On the Reform of Supervision of the Financial Institutions, Prudential Supervisory Authority (Paris) 21 January 2011. Date of Access: 12 April 2011. <http://www.iopsweb.org/dataocd/32/24/45563488.pdf>

⁴¹² The ACP: an Overview, Banque de France (Paris) December 2010. Date of Access: 12 April 2011. <http://www.banque-france.fr/acp/presentation-de-l-acp/201012-ACP-Overview.pdf>

⁴¹³ Financial Stability Board Report on Progress since the Washington Summit France, Financial Stability Board (Basel) 12 November 2010. Date of Access: 12 April 2011. http://www.financialstabilityboard.org/publications/r_110401f.pdf

On 20 October 2010, the European Commission published a communiqué on a EU framework for crisis management in the financial sector.⁴¹⁴ The communiqué describes a legal framework that the Commission intends to propose in the spring of 2011, which involves equipping authorities with tools and powers to tackle banking crises at the earliest possible moment and minimize costs for taxpayers.⁴¹⁵

Thus France has been awarded a score of 0 for its commitment to reviewing and restructuring policy to reduce the risks associated with SIFIs.

Analyst: Vera Gavrilova

Germany: 0

Germany has made progress toward complying with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

Germany has taken unilateral and multilateral (EU-led) actions to reduce moral hazard posed by SIFIs and address the too-big-to-fail problem.

On 21 February 2008, the Bundesbank and Federal Financial Supervisory Authority (BaFin) published guidelines on carrying out and ensuring the quality of the ongoing monitoring of credit and financial services institutions.⁴¹⁶ According to the ongoing monitoring guideline, supervision of banking institutions will be more rigorous, with emphasis on detailed analyses of risks and repercussions on the institution's risk-bearing capacity.⁴¹⁷

On 27 July 2010, the German Federal Government enforced the Act to Prevent Abusive Securities and Derivatives Transactions.⁴¹⁸ The act stipulates a number of regulatory restrictions on certain securities and derivatives transactions that the German legislature believes may have contributed to the global financial crisis. The act includes restrictions contained in the general decrees issued by the BaFin on 18 May 2010, which prohibits: (1) short sales of certain companies' shares, (2) naked short sales of debt securities by EU member states within the

⁴¹⁴ Technical details of a possible EU framework for bank recovery and resolution, Norton Rose Group (London) 11 January 2011. Date of Access: 10 April 2011.

<http://www.nortonrose.com/knowledge/publications/2011/pub33460.aspx?lang=en-gb&page=all>

⁴¹⁵ An EU framework for Crisis Management in the Financial Sector – Frequently Asked Questions, Europa Communiqués de Presse RAPID (Brussels) 20 October 2010. Date of Access: 10 April 2011.

<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/10/506&format=HTML&aged=0&language=FR&guiLanguage=fr>

⁴¹⁶ Guideline for carrying and ensuring the quality of the ongoing monitoring of credit and finances institutions by the Deutsche Bundesbank of 21 February 2008, BaFin (Bonn) 21 February 2008. Date of Access: 10 April 2011.

http://www.bafin.de/nr_720786/SharedDocs/Aufsichtsrecht/EN/Richtlinie/aufsichtsrichtlinie_en.html

⁴¹⁷ FSB-G20 Monitoring Progress – Germany September 2010 [For Publication in March 2011], Financial Stability Board (Basel) 12 November 2010. Date of Access: 10 April 2011.

http://www.financialstabilityboard.org/publications/r_110401g.pdf

⁴¹⁸ General Decree of the Federal Financial Supervisory Authority (BaFin) on the prohibition of naked short-selling transactions in debt securities of Member States of the EU whose legal currency is the euro of 18 May 2010 (revoked with effect from 27 July 2010), BaFin(Basel) 18 May 2010. Date of Access: 10 April 2011.

http://www.bafin.de/nr_722758/SharedDocs/Aufsichtsrecht/EN/Verfuegungen/vf_100518_leerverkauf_schuldtitel_en.css=big.html

eurozone, (3) some naked credit fault swaps. In addition, the act provides for further restraints on other kinds of securities and derivatives transactions and increases disclosure requirements.⁴¹⁹

On 20 October 2010, the European Commission published a communiqué on a EU framework for crisis management in the financial sector.⁴²⁰ The communiqué describes a legal framework that the Commission intends to propose in Spring 2011, which involves equipping authorities with tools and powers to tackle banking crises at the earliest possible moment and minimize costs for taxpayers.⁴²¹

On 25 August 2010, the German government adopted the Draft Restructuring Act (Restrukturierungsgesetz) aimed to establish a framework for resolving banks in distress.⁴²² The draft bill encompasses: (1) rules and mechanisms for the reorganization of banks, (2) introduction of instruments to resolve crises at systemically important banks, including the possibility for the Bundesbank and BaFin to transfer systemically relevant assets to public or private ‘bridge-banks,’ (3) establishment of a restructuring fund for credit institutions, and (4) extension of the limitation periods for management and supervisory board members’ liability towards stock corporations and banks.⁴²³ The finalized German Restructuring act came into force on 1 January 2011.⁴²⁴

Thus Germany has been awarded a score of 0 for its commitment to reviewing and restructuring policy to reduce the risks associated with SIFIs.

Analyst: Hermonie Xie

India: 0

India has made progress toward complying with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

On 4 March 2011, the first meeting of the Sub-Committee of the Financial Stability Development Council (FSDC) was held in the Reserve Bank of India with Dr. Subbarao, Governor of the

⁴¹⁹ General Decree of the Federal Financial Supervisory Authority (BaFin) on the prohibition of naked short-selling transactions in debt securities of Member States of the EU whose legal currency is the euro of 18 May 2010 (revoked with effect from 27 July 2010), BaFin(Basel) 18 May 2010. Date of Access: 10 April 2011.

http://www.bafin.de/nm_722758/SharedDocs/Aufsichtsrecht/EN/Verfuegungen/vf_100518_leerverkauf_schuldtitle_en.css=big.html

⁴²⁰ Technical details of a possible EU framework for bank recovery and resolution, Norton Rose Group (London) 11 January 2011. Date of Access: 10 April 2011.

<http://www.nortonrose.com/knowledge/publications/2011/pub33460.aspx?lang=en-gb&page=all>

⁴²¹ An EU framework for Crisis Management in the Financial Sector – Frequently Asked Questions, Europa Communiqués de Presse RAPID (Brussels) 20 October 2010. Date of Access: 10 April 2011.

<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/10/506&format=HTML&aged=0&language=FR&guiLanguage=fr>

⁴²² FSB-G20 Monitoring Progress – Germany September 2010 [For Publication in March 2011], Financial Stability Board (Basel) 12 November 2010. Date of Access: 10 April 2011.

http://www.financialstabilityboard.org/publications/r_110401g.pdf

⁴²³ FSB-G20 Monitoring Progress – Germany September 2010 [For Publication in March 2011], Financial Stability Board (Basel) 12 November 2010. Date of Access: 10 April 2011.

http://www.financialstabilityboard.org/publications/r_110401g.pdf

⁴²⁴ FSB-G20 Monitoring Progress – Germany September 2010 [For Publication in March 2011], Financial Stability Board (Basel) 12 November 2010. Date of Access: 10 April 2011.

http://www.financialstabilityboard.org/publications/r_110401g.pdf

Reserve Bank of India, as its chairman.⁴²⁵ The mission of the Sub-Committee of the FSDC is to review developments in the macro economy and financial markets including “the global developments in respect of policies for SIFIs and their possible impact on financial institutions in India.”⁴²⁶ No report has thus far been published by the Sub-Committee on developments related to SIFIs and their impact on financial institutions in India.

On 6 March 2011, a senior Indian regulatory official stated that the issue of “additional regulatory and capital adequacy requirements for ‘too big to fail’ banking and other financial sector conglomerates in India” was currently being discussed by the top two Indian financial sector regulators, the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI), in consultation with the Union Finance Ministry of India.⁴²⁷ The official claimed that Indian regulators were very confident about the robustness of Indian financial institutions, but preferred to undertake the assessment “to avoid any sense of complacency.”⁴²⁸ The senior regulatory official also stated that India would wait for firm guidance from the international community before taking any action.⁴²⁹

There was no Report on Progress since the Washington Summit available for India on the Financial Stability Board website.⁴³⁰

Thus India has been awarded a score of 0 for its commitment to reviewing and restructuring policy to reduce the risks associated with SIFIs.

Analyst: Krystal Montpettit

Indonesia: 0

Indonesia has made progress toward complying with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

In its response to the FSB survey on progress toward G20 financial reforms, Indonesia noted that it is not a major financial centre. However, Bank Indonesia (BI), Indonesia’s largest bank, has acknowledged that “risk factors stemming from uncertainty surrounding the pace and strength of

⁴²⁵ Sub-Committee of the Financial Stability Development Council meets today, Reserve Bank of India (Mumbai) 4 March 2011. Date of Access: 9 April 2011.

http://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=24016

⁴²⁶ Sub-Committee of the Financial Stability Development Council meets today, Reserve Bank of India (Mumbai) 4 March 2011. Date of Access: 9 April 2011.

http://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=24016

⁴²⁷ ‘Too big to fail’ financial entities may face more scrutiny, Business Line (New Delhi) 6 March 2011. Date of Access: 9 April 2011. <http://www.thehindubusinessline.com/industry-and-economy/banking/article1514604.ece>

⁴²⁸ ‘Too big to fail’ financial entities may face more scrutiny, Business Line (New Delhi) 6 March 2011. Date of Access: 9 April 2011. <http://www.thehindubusinessline.com/industry-and-economy/banking/article1514604.ece>

⁴²⁹ ‘Too big to fail’ financial entities may face more scrutiny, Business Line (New Delhi) 6 March 2011. Date of Access: 9 April 2011. <http://www.thehindubusinessline.com/industry-and-economy/banking/article1514604.ece>

⁴³⁰ Report on Progress Since the Washington Summit, Financial Stability Board (Basel) 12 November 2010. Date of Access: April 7 2011. http://www.financialstabilityboard.org/publications/r_101111b.htm

the global economic recovery process” have implications for Indonesia. BI is accordingly “starting to step forward into Basel II/III regimes in 2011.”⁴³¹

BI also seeks to “strengthen risk management and good governance in the financial sector.”⁴³² To this end, BI “encourages [banks] to enhance the quality of their risk management and governance ... to meet Bank Indonesia’s regulations.”⁴³³

The Indonesian Bank Restructuring Agency (IBRA), a branch of the Department of Finance, in collaboration with BI is tasked with “restructuring and supervising banks” to ensure that resolution regimes are put in place.⁴³⁴

Indonesia has submitted a self-assessment to the FSB, in accordance with the commitment to facilitate greater supervisory insight for financial institutions that may pose systemic risk. The FSB report labels the process of instituting Basel III regulations as ongoing.⁴³⁵ BI has reiterated its commitment to more intensive supervision and to review the crisis management protocols. However, supervisory bodies have existed in Indonesia since 1998.

Indonesia has been participating in cross-border supervisory meetings and has made progress towards establishing formal cross-border cooperation and information sharing. Indonesia does not have an over-the-counter derivative market.⁴³⁶

Thus Indonesia has made progress toward complying with its commitment to reviewing and restructuring policy to reduce the risks associated with SIFIs.

Analyst: Kate Partridge

Italy: 0

Italy has made progress toward complying with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

⁴³¹ FSB Report on Progress Since the Washington Summit; Indonesia, Financial Stability Board. 12 November 2010. Date of Access: 10 April 2011.

http://www.financialstabilityboard.org/publications/r_101111b.html

⁴³² Bank Indonesia Financial Stability Review, Bank Indonesia (Jakarta) September 2010. Date of Access: 10 April 2011. <http://www.bi.go.id/NR/rdonlyres/2E21321D-2974-442D-A4AB-33826E1EDCF2/21990/FSRNo15Sep2010.pdf>

⁴³³ Bank Indonesia Financial Stability Review, Bank Indonesia (Jakarta) September 2010. Date of Access: 10 April 2011. <http://www.bi.go.id/NR/rdonlyres/2E21321D-2974-442D-A4AB-33826E1EDCF2/21990/FSRNo15Sep2010.pdf>

⁴³⁴ Bank Indonesia Financial Stability Review, Bank Indonesia (Jakarta) September 2010. Date of Access: 10 April 2011. <http://www.bi.go.id/NR/rdonlyres/2E21321D-2974-442D-A4AB-33826E1EDCF2/21990/FSRNo15Sep2010.pdf>

⁴³⁵ FSB Report on Progress Since the Washington Summit; Indonesia, Financial Stability Board. 12 November 2010. Date of Access: 10 April 2011.

http://www.financialstabilityboard.org/publications/r_101111b.html

⁴³⁶ FSB Report on Progress Since the Washington Summit; Indonesia, Financial Stability Board. 12 November 2010. Date of Access: 10 April 2011.

http://www.financialstabilityboard.org/publications/r_101111b.html

Italy has reaffirmed the importance of the structural stability of international firms.⁴³⁷ During the Seoul Summit, the Bank of Italy committed to accelerate the pace of implementation of financial reforms to avoid the emergence of new threats to financial stability.⁴³⁸

Italian financial institutions did well during the 2008 economic due to their reliance on a more traditional business model with a high reliance on lending, small trading activities and minimal exposure to toxic assets.⁴³⁹

The Bank of Italy already takes the systemic importance of an institution into account; however in October 2010 they reviewed the development of a framework for the recovery and resolution plans for SIFIs.⁴⁴⁰ Furthermore, on 11 November 2010 the Bank of Italy announced the development of an institutional apparatus to liquidate a systemically important firm while minimizing risk to the financial system.⁴⁴¹

The Bank of Italy in conjunction with the Italian Supervisory Authority for Private Insurance Companies (ISVAP) is in the process of overhauling supervisory oversight. Currently the Bank of Italy and ISVAP are home supervisors for numerous large Italian cross-border banking groups, the largest being Unicredit and Intesa Sanpaolo, established in 2006 and 2007 respectively.⁴⁴² In 2006, supervisors gained legal protection and were given an increase in supervisory resources including the ability to call meetings with executives. Furthermore they were given the ability to remove directors and senior officers that were considered to have become unfit for their positions.⁴⁴³

The ISVAP has also applied to become an International Association of Insurance Supervisors (IAIS) signatory of the Memorandum of Understanding (MoU). The completion of this process will further enhance cross-border supervisory cooperation.⁴⁴⁴

During autumn 2009 the Bank of Italy took part in the development of an action plan on the standardization of CDS markets and oversight for OTC derivatives.⁴⁴⁵ Furthermore, on 15 September 2010 a proposal for the Regulation of the European Parliament and of the Council on

⁴³⁷ Draghi: nuovo patto di stabilita, *Il Sole 24 Ore* (Italy) 4 May 2010. Date of Access: 11 April 2011. http://www.ilsole24ore.com/art/SoleOnLine4/Editrice/IlSole24Ore/2010/05/04/Economia%20e%20Lavoro/3_C.shtml?uuid=ca3a126c-573f-11df-b335-c4e158cb6808&DocRulesView=Liberio

⁴³⁸ Draghi: subito le riforme finanziarie, *Il Sole 24 Ore* (Italy) 11 November 2010. Date of Access: 11 April 2011. <http://www.ilsole24ore.com/art/notizie/2010-11-11/draghi-subito-riforme-finanziarie-063702.shtml?uuid=AYFAljiC&fromSearch>

⁴³⁹ Peer Review of Italy, Financial Stability Board (Switzerland) 27 January 2011. Date of Access: 9 April 2011. http://www.financialstabilityboard.org/publications/r_110207b.pdf

⁴⁴⁰ Monitoring Progress—Italy September 2010, Financial Stability Board (Switzerland) 12 November 2010. Date of Access: 10 April 2011. http://www.financialstabilityboard.org/publications/r_110401k.pdf

⁴⁴¹ Draghi: subito le riforme finanziarie, *Il Sole 24 Ore* (Italy) 11 November 2010. Date of Access: 11 April 2011. <http://www.ilsole24ore.com/art/notizie/2010-11-11/draghi-subito-riforme-finanziarie-063702.shtml?uuid=AYFAljiC&fromSearch>

⁴⁴² Monitoring Progress—Italy September 2010, Financial Stability Board (Switzerland) 12 November 2010. Date of Access: 10 April 2011. http://www.financialstabilityboard.org/publications/r_110401k.pdf

⁴⁴³ Monitoring Progress—Italy September 2010, Financial Stability Board (Switzerland) 12 November 2010. Date of Access: 10 April 2011. http://www.financialstabilityboard.org/publications/r_110401k.pdf

⁴⁴⁴ Peer Review of Italy, Financial Stability Board (Switzerland) 27 January 2011. Date of Access: 9 April 2011. http://www.financialstabilityboard.org/publications/r_110207b.pdf

⁴⁴⁵ Monitoring Progress—Italy September 2010, Financial Stability Board (Switzerland) 12 November 2010. Date of Access: 10 April 2011. http://www.financialstabilityboard.org/publications/r_110401k.pdf

OTC derivatives, central counterparties and trade repositories was published by the European Commission. The Bank of Italy directly participated in and contributed to the proposal.⁴⁴⁶

During the Seoul Summit the Bank of Italy also announced they would add more stringent capital regulations for SIFIs. All large and cross-border firms would be required to maintain a minimum amount of capital in order to maintain basic functions during periods of high economic stress.⁴⁴⁷

Italy has made progress toward complying with its commitment to reduce the moral risks presented by SIFIs. Thus Italy has been awarded a score of 0.

Analyst: Enko Koceku

Japan: 0

Japan has made progress toward complying with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

On 29 December 2010, Japan's Financial Services Agency and the Bank of Japan reported that they had compiled a list of the top 60 systemically important financial institutions that should be subjected to additional requirements by the Financial Stability Board.⁴⁴⁸ While the Japanese regulators included the obvious Deutsche Bank, Goldman Sachs and JP Morgan Chase in the top 60, they also listed several Japanese institutions. They ranked Nomura Holdings 19th, Mitsubishi UFJ Financial Group 24th, Mizuho Financial Group 36th, and Daiwa Securities Group 48th.⁴⁴⁹

On 27 October 2010, Kiyohiko G. Nishimura, Deputy Governor of the Bank of Japan weighted in on the measures that should be implemented to tackle the problem of SIFIs. During his 27 October 2010 address at the Annual Conference of the International Association of Deposit Insurers (IADI), the Deputy Governor of the Bank of Japan first commanded the ongoing discussions to address the moral hazard problem caused by systemically important financial institutions.⁴⁵⁰

However, Nishimura then declared that each individual country – as opposed to the global Financial Stability Board – should respectively decide of the measures it deems most appropriate

⁴⁴⁶ Monitoring Progress—Italy September 2010, Financial Stability Board (Switzerland) 12 November 2010. Date of Access: 10 April 2011. http://www.financialstabilityboard.org/publications/r_110401k.pdf

⁴⁴⁷ Draghi: subito le riforme finanziarie, Il Sole 24 Ore (Italy) 11 November 2010. Date of Access: 11 April 2011. <http://www.ilsole24ore.com/art/notizie/2010-11-11/draghi-subito-riforme-finanziarie-063702.shtml?uuid=AYFAljiC&fromSearch>

⁴⁴⁸ Japanese regulators make list of 60 systematically important financial institutions, Reuters (London) 29 December 2010. Date of Access: 6 April 2011. <http://in.reuters.com/article/2010/12/29/idINIndia-53826620101229>

⁴⁴⁹ Japanese regulators make list of 60 systematically important financial institutions, Reuters (London) 29 December 2010. Date of Access: 6 April 2011. <http://in.reuters.com/article/2010/12/29/idINIndia-53826620101229>

⁴⁵⁰ The Importance of Developing Financial Safety Nets and the Role of Central Banks, Address at the Annual Conference of the International Association of Deposit Insurers (IADI), Bank of Japan (Tokyo) October 27 2010. Date of Access: 7 April 2011. http://www.boj.or.jp/en/announcements/press/koen_2010/data/ko1010f.pdf

to deal with its national SIFIs.⁴⁵¹ Contending that the environment surrounding a financial system is country-specific, he stated that each state should be entitled to choose the best practice or combination of practices – capital surcharges, liquidity surcharges, strengthened supervision or improvements in resolvability – that best tackle the risks of SIFIs while respecting national specifics.⁴⁵²

In its Financial System Report published in September 2010, the Bank of Japan (BOJ), while expressing its support of regulatory reforms on SIFIs by international regulatory authorities to ensure the stability of the financial system, makes a point of stressing that the framework of crisis management differs significantly by country and region.⁴⁵³ It also emphasizes that appropriate policy options as measures to cope with SIFIs largely depend on SIFIs' business models.⁴⁵⁴ Furthermore, the BOJ Financial System Report endorses the June 2010 FSB report stating that there may be a case for a degree of national discretion in the management of SIFIs.⁴⁵⁵

Japan has taken concrete steps toward “consolidated supervision and regulation with high standards.” First, on 21 January 2010, the Japanese Financial Services Agency (FSA) published the “Development of Institutional Frameworks Pertaining to Financial and Capital Markets,” which introduced regulation and supervision on a consolidated basis for securities companies as well as prudential standards on a consolidated basis for insurance companies.⁴⁵⁶

The relevant draft bill was then submitted to the National Diet of Japan – Japan’s bicameral legislature – on 9 March 2010.⁴⁵⁷ The bill was enacted on 12 May 2010 and issued on 19 May 2010.⁴⁵⁸ Also, the Japanese Financial Services Agency is currently assessing a method of calculating the consolidated solvency margin ratio and aims to make this rule effective by March 2012.⁴⁵⁹

⁴⁵¹ The Importance of Developing Financial Safety Nets and the Role of Central Banks, Address at the Annual Conference of the International Association of Deposit Insurers (IADI), Bank of Japan (Tokyo) October 27 2010. Date of Access: 7 April 2011.

http://www.boj.or.jp/en/announcements/press/koen_2010/data/ko1010f.pdf

⁴⁵² The Importance of Developing Financial Safety Nets and the Role of Central Banks, Address at the Annual Conference of the International Association of Deposit Insurers (IADI), Bank of Japan (Tokyo) October 27 2010. Date of Access: 7 April 2011.

http://www.boj.or.jp/en/announcements/press/koen_2010/data/ko1010f.pdf

⁴⁵³ Financial System Report, Bank of Japan (Tokyo) September 2010. Date of Access: April 7 2011.

<http://www.boj.or.jp/en/research/brp/fsr/data/fsr10b.pdf>

⁴⁵⁴ Financial System Report, Bank of Japan (Tokyo) September 2010. Date of Access: April 7 2011.

<http://www.boj.or.jp/en/research/brp/fsr/data/fsr10b.pdf>

⁴⁵⁵ Financial System Report, Bank of Japan (Tokyo) September 2010. Date of Access: April 7 2011.

<http://www.boj.or.jp/en/research/brp/fsr/data/fsr10b.pdf>

⁴⁵⁶ Report on Progress Since the Washington Summit – Japan, Financial Stability Board (Basel) 12 November 2010. Date of Access: April 7 2011.

http://www.financialstabilityboard.org/publications/r_1104011.pdf

⁴⁵⁷ Report on Progress Since the Washington Summit – Japan, Financial Stability Board (Basel) 12 November 2010. Date of Access: April 7 2011.

http://www.financialstabilityboard.org/publications/r_1104011.pdf

⁴⁵⁸ Report on Progress Since the Washington Summit – Japan, Financial Stability Board (Basel) 12 November 2010. Date of Access: April 7 2011.

http://www.financialstabilityboard.org/publications/r_1104011.pdf

⁴⁵⁹ Report on Progress Since the Washington Summit – Japan, Financial Stability Board (Basel) 12 November 2010. Date of Access: April 7 2011.

http://www.financialstabilityboard.org/publications/r_1104011.pdf

In addressing “the development of resolution tools and frameworks for the effective resolution of financial groups to help mitigate the disruption of financial institution failures and reduce moral hazard in the future,” the Japanese Deposit Insurance Law and other related laws already provide for adequate resolution regimes that reduce moral hazard.⁴⁶⁰ Both the Financial Services Agency (FSA) and the Bank of Japan (BOJ) have nevertheless committed themselves to continue taking part in the discussion concerning SIFIs at the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB).⁴⁶¹

Japan has made progress toward complying with its commitment to reduce the systemic risk presented by SIFIs. Thus it has been awarded a score of 0.

Analyst: Krystel Montpetit

Korea: 0

Korea has made progress toward complying with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

The Financial Services Commission (FSC) of Korea has set up a Task Force for the purpose of “laying the ground” for implementation of the follow-up measures agreed at the G20 Seoul Summit in November 2010.⁴⁶² Composed of members from the Bank of Korea (BOK), Financial Supervisory Service (FSS), Korean Deposit Insurance Corporation (KDIC) and academic experts, the Task Force mainly aims to introduce policies on regulating systemically important financial institutions, and to build an infrastructure for OTC derivatives market.⁴⁶³

Following up on the agreement reached at the Seoul Summit to introduce a regulatory regime to deal with SIFIs more effectively, the Task Force plans to finalize legislations by the end of the year 2011 to strengthen the supervision of the soundness of the SIFIs.⁴⁶⁴ The Task Force also plans to push ahead with reforming the Financial Investment Service and Capital Markets Act in order to build infrastructure for central counterparties (CCP), and for the clearing of OTC derivatives.⁴⁶⁵

Korea has made progress toward complying with its commitment to reduce the systemic risks presented by SIFIs. Thus it has been awarded a score of 0.

Analyst: David Byun

⁴⁶⁰ Regulators aim for minimum big bank safeguards, Reuters (London) April 4 2011. Date of Access: 7 April 2011. <http://uk.reuters.com/article/2011/04/04/uk-fsb-banks-idUKTRE7333ON20110404>

⁴⁶¹ Regulators aim for minimum big bank safeguards, Reuters (London) April 4 2011. Date of Access: 7 April 2011. <http://uk.reuters.com/article/2011/04/04/uk-fsb-banks-idUKTRE7333ON20110404>

⁴⁶² South Korean authorities launch task force to follow up G20 requirements, Complinet, 14 March 2011. Date of access 6 April 2011. <http://www.complinet.com/global/news/news/article.html?ref=141979>

⁴⁶³ Financial Services Commission has launched a Task force to follow up with G20 agreement, Korea Financial Services Commission (Seoul), 10 March 2011. Date of Access 6 April 2011. <http://fscukorea.wordpress.com/tag/systemically-important-financial-institution/>

⁴⁶⁴ South Korean authorities launch task force to follow up G20 requirements, Complinet, 14 March 2011. Date of access 6 April 2011. <http://www.complinet.com/global/news/news/article.html?ref=141979>

⁴⁶⁵ Financial Services Commission has launched a Task force to follow up with G20 agreement, Korea Financial Services Commission (Seoul), 10 March 2011. Date of Access 6 April 2011.

Mexico: 0

Mexico has made progress toward complying with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

In July 2010, Mexico created the Financial System Stability Board (FSSB), which, as a coordination mechanism, would oversee the stability of its financial system.⁴⁶⁶ It also plans to promote financial deepening through regulator changes and measures to increase access to banking services.⁴⁶⁷ Furthermore, the FSSB plans to expand regulatory perimeter to cover systemic non-bank entities, and to strengthen framework for bank bankruptcies.⁴⁶⁸ As of April 2011, Mexico has completed an FSB peer review of its financial system and regulatory proposals.⁴⁶⁹

Mexico has made progress toward complying with its commitment to reduce the systemic risks presented by SIFIs. Thus it has been awarded a score of 0.

Analyst: David Byun

Russia: 0

Russia has made progress toward complying with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

Russian authorities have strengthened supervisory oversight for financial institutions, which may pose systemic risk. On 22 March 2011, the financial stability department was established as a structural body of the Russian Central Bank.⁴⁷⁰ The department will be responsible for, inter alia, oversight of financial institutions in the banking sector.⁴⁷¹

⁴⁶⁶ Seoul Summit Supporting Document, Canadainternational, 2010. Date of access 6 April 2011.
http://www.canadainternational.gc.ca/g20/assets/pdfs/2010%20%20Seoul%20Summit%20Supporting_Document.pdf

⁴⁶⁷ Seoul Summit Supporting Document, Canadainternational, 2010. Date of access 6 April 2011.
http://www.canadainternational.gc.ca/g20/assets/pdfs/2010%20%20Seoul%20Summit%20Supporting_Document.pdf

⁴⁶⁸ Seoul Summit Supporting Document, Canadainternational, 2010. Date of access 6 April 2011.
http://www.canadainternational.gc.ca/g20/assets/pdfs/2010%20%20Seoul%20Summit%20Supporting_Document.pdf

⁴⁶⁹ Seoul Summit Supporting Document, Canadainternational, 2010. Date of access 6 April 2011.
http://www.canadainternational.gc.ca/g20/assets/pdfs/2010%20%20Seoul%20Summit%20Supporting_Document.pdf

⁴⁷⁰ Rozhkov A., Central Bank is Going to Deal with Financial Stability, Vedomosti 22 March 2011. Date of Access: 4 April 2011.
http://www.vedomosti.ru/finance/news/1236253/centrobank_zajmetsya_finansovoj_stabilnostyu

⁴⁷¹ Rozhkov A., Central Bank is Going to Deal with Financial Stability, Vedomosti 22 March 2011. Date of Access: 4 April 2011.
http://www.vedomosti.ru/finance/news/1236253/centrobank_zajmetsya_finansovoj_stabilnostyu

Russia has taken measures to implement FSB stronger robustness standards for core financial infrastructure. On 7 February 2011, Russian President Medvedev signed a law, defining the procedure of clearing through central counterparties, which is also applied to OTC derivatives.⁴⁷²

In April 2011, the Russian Government and the Russian Central Bank adopted the Strategy of Russian Banking Sector Development for the period up to 2015, which provides for the opportunity to appoint employees of the Central Bank to SIFIs to control their activities starting in 2011.⁴⁷³

No facts of Russia's implementing measures to improve resolution regimes for SIFIs have been registered.

Russia has made progress toward complying with its commitment to reduce the systemic risks presented by SIFIs. Thus it has been awarded a score of 0.

Analyst: Andrey Shelepov

Saudi Arabia: 0

Saudi Arabia has made progress toward complying with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

In its 46th Annual Report on The Latest Economic Developments 1431H (2010G), the Saudi Arabian Monetary Agency (SAMA) supported the Basel Committee's review of the need for additional capital, liquidity or other supervisory measures to reduce the threat posed by systemically important institutions.⁴⁷⁴ The SAMA also expressed its confidence that the Basel Committee would be mindful of avoiding negative effects on bank lending activity that could impair the economic recovery while introducing new standards on SIFIs to reduce externalities.⁴⁷⁵ It also noted that the Basel Committee ought to put in place adequate phase-in measures for a sufficiently long period to ensure a smooth transition to the additional requirements on SIFIs.⁴⁷⁶

In an opening speech to the "Special Data Dissemination Standard and Monetary Statistics Workshop," Dr. Muhammad Bin Sulaiman Al-jasser, Vice Governor of the Saudi Arabian Monetary Agency (SAMA) reaffirmed SAMA's commitment to monitoring systemic risk originating from SIFIs.⁴⁷⁷ He stressed the need to fill existing data gaps in key statistical areas

⁴⁷² Federal Law of 7 February 2011 No. 7-FZ on Clearing and Clearing Activities, Office of the President (Moscow) 9 February 2011. Date of Access: 4 April 2011.

<http://text.document.kremlin.ru/SESSION/PILOT/loadfavorite.html?page=1&pid=12182694>.

⁴⁷³ Draft Strategy of Russian Banking Sector Development for the Period up to 2015, Ministry of Finance of the Russian Federation (Moscow) 3 March 2011. Date of Access: 4 April 2011.

<http://www.minfin.ru/common/img/uploaded/library/2011/03/Strategiya.zip>.

⁴⁷⁴ 46th Annual Report on The Latest Economic Developments 1431H (2010G), Saudi Arabian Monetary Agency (Riyad) July 2010. Date of Access: 8 April 2011.

⁴⁷⁵ 46th Annual Report on The Latest Economic Developments 1431H (2010G), Saudi Arabian Monetary Agency (Riyad) July 2010. Date of Access: 8 April 2011.

⁴⁷⁶ 46th Annual Report on The Latest Economic Developments 1431H (2010G), Saudi Arabian Monetary Agency (Riyad) July 2010. Date of Access: 8 April 2011.

⁴⁷⁷ Opening Speech of Dr. Muhammad Bin Sulaiman Al-jasser to the "Special Data Dissemination Standard and Monetary Statistics Workshop," (Riyad) 11 December 2010. Date of Access: 8 April 2011.

<http://www.sama.gov.sa/sites/samaen/News/Pages/SpecialDataDisseminationSpeech.aspx>

that can help authorities better measure the risks to the global financial system.⁴⁷⁸ He also identified the monitoring of SIFIs as a critical issue of and insisted on better compilation and dissemination of statistical data as a main area of improvement in supervising SIFIs.⁴⁷⁹

The FSB did not release a Report on Progress on G20 financial reform for Saudi Arabia.⁴⁸⁰

There is no other information available to assess Saudi Arabia's compliance with its commitment on systemically important financial institutions. Saudi Arabia however remains committed to the discussions concerning SIFIs at both the Financial Stability Board (FSB) and the Basel Committed on Banking Supervision (BCBS) levels.⁴⁸¹

Saudi Arabia has made progress toward complying with its commitment to reduce the systemic risks presented by SIFIs. Thus it has been awarded a score of 0.

Analyst: Krystel Montpetit

South Africa: 0

South Africa has taken steps toward complying with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

South Africa recovered more quickly from 2007/08 financial crisis than many other countries,⁴⁸² due to its limited exposure to toxic assets,⁴⁸³ its sound institutional regulations,⁴⁸⁴ and its "stable and well capitalized financial sector."⁴⁸⁵ The country did not witness the failure of any systemically important financial institutions during the crisis; however it is taking action to comply with FSB recommendations to reduce the moral hazard of systemically important institutions and mitigate their future risks to the financial sector.⁴⁸⁶

⁴⁷⁸ Opening Speech of Dr. Muhammad Bin Sulaiman Al-jasser to the "Special Data Dissemination Standard and Monetary Statistics Workshop," (Riyad) 11 December 2010. Date of Access: 8 April 2011.

⁴⁷⁹ Opening Speech of Dr. Muhammad Bin Sulaiman Al-jasser to the "Special Data Dissemination Standard and Monetary Statistics Workshop," (Riyad) 11 December 2010. Date of Access: 8 April 2011. <http://www.sama.gov.sa/sites/samaen/News/Pages/SpecialDataDisseminationSpeech.aspx>

⁴⁸⁰ Report on Progress Since the Washington Summit, Financial Stability Board (Basel) 12 November 2010. Date of Access: April 7 2011. http://www.financialstabilityboard.org/publications/r_101111b.htm

⁴⁸¹ 46th Annual Report on The Latest Economic Developments 1431H (2010G), Saudi Arabian Monetary Agency (Riyad) July 2010. Date of Access: 8 April 2011.

⁴⁸² South Africa: Report on the Observance of Standards and Codes on Banking Supervision, Insurance Supervision and Securities' Regulation, International Monetary Fund (Washington) 8 December 2010. Date of Access: 7 April 2011. <http://www.imf.org/external/pubs/ft/scr/2010/cr10352.pdf>

⁴⁸³ Africa draws big powers, Times Live (Johannesburg) 9 November 2009. Date of Access: 8 April 2011. <http://www.timeslive.co.za/business/article183897.ece>

⁴⁸⁴ A Safer Financial Sector to Serve South Africa Better, National Treasury (Pretoria) 23 February 2011. Date of Access: 8 April 2011. <http://www.treasury.gov.za/documents/national%20budget/2011/A%20safer%20financial%20sector%20to%20serve%20South%20Africa%20better.pdf>

⁴⁸⁵ South Africa: Report on the Observance of Standards and Codes on Banking Supervision, Insurance Supervision and Securities' Regulation, International Monetary Fund (Washington) 8 December 2010. Date of Access: 7 April 2011. <http://www.imf.org/external/pubs/ft/scr/2010/cr10352.pdf>

⁴⁸⁶ S.Africa's cbank: financial system remains resilient, Reuters (Pretoria) 28 April 2010. Date of Access: 7 April 2011. <http://af.reuters.com/article/idAFJON00001620100428>

South Africa has taken steps to strengthen its resolution capacity in line with FSB recommendations. On 23 February 2011, the South African National Treasury released a policy document entitled “A Safer Financial Sector to Serve South Africa Better.” The report outlines proposed policy changes to reform South Africa’s financial sector to be implemented in coming years and identifies some of the steps South Africa is taking to meet FSB recommendations regarding systemically important financial institutions. So far South Africa has focused on strengthening its “financial crisis resolution framework” by increasing interagency coordination.⁴⁸⁷ The country plans to further strengthen its resolution framework, by implementing a joint review on crisis contingency frameworks followed by legal changes to ensure “authorities have all the appropriate tools available in the unlikely event of a crisis.”⁴⁸⁸

The South African government has also taken steps to increase supervision of financial institutions. From 15-31 March 2010, IMF and World Bank representatives, at the request of the South African government, conducted standard assessments on South Africa’s financial sector, including an assessment against Basel Core Principles covering the areas of supervisory independence, supervisory power and consolidated supervision.⁴⁸⁹ On 8 December 2010, the results of the assessment were published along with a list of recommended actions, which have been acknowledged by the South African government. The 23 February policy proposal contains provisions that address some of these recommendations, including provisions to create a new Council of Financial Regulators to increase supervisory consolidation between the FSB and the Supervisory division of the Reserve Bank, as well as proposals that introduce new legislation to increase supervisory independence and expand supervisory powers.⁴⁹⁰

South Africa has complied with the commitment to increase robustness standards for core financial infrastructure. It has moved towards meeting G20 regulations on centralized clearing of OTC contracts by enacting new legislation under the Financial Markets Bill to be introduced in 2011.⁴⁹¹ The country has also taken steps to increase regulation of the credit derivatives market by forming a task team composed of National Treasury representatives, FSB members and Johannesburg Stock Exchange representatives and has promised to introduce new legislation on credit derivative standardization following an upcoming review.⁴⁹²

⁴⁸⁷ A Safer Financial Sector to Serve South Africa Better, National Treasury (Pretoria) 23 February 2011. Date of Access 7 April 2011.

<http://www.treasury.gov.za/documents/national%20budget/2011/A%20safer%20financial%20sector%20to%20serve%20South%20Africa%20better.pdf>

⁴⁸⁸ A Safer Financial Sector to Serve South Africa Better, National Treasury (Pretoria) 23 February 2011. Date of Access: 8 April 2011.

<http://www.treasury.gov.za/documents/national%20budget/2011/A%20safer%20financial%20sector%20to%20serve%20South%20Africa%20better.pdf>

⁴⁸⁹ South Africa: Report on the Observance of Standards and Codes on Banking Supervision, Insurance Supervision and Securities' Regulation, International Monetary Fund (Washington) 8 December 2010. Date of Access: 7 April 2011. <http://www.imf.org/external/pubs/ft/scr/2010/cr10352.pdf>

⁴⁹⁰ A Safer Financial Sector to Serve South Africa Better, National Treasury (Pretoria) 23 February 2011. Date of Access: 8 April 2011.

<http://www.treasury.gov.za/documents/national%20budget/2011/A%20safer%20financial%20sector%20to%20serve%20South%20Africa%20better.pdf>

⁴⁹¹ FSB- G20 – Monitoring Progress – South Africa, Financial Stability Board (Basel), March 2011. Date of Access: 9 April 2011 http://www.financialstabilityboard.org/publications/r_110401s.pdf

⁴⁹² FSB- G20 – Monitoring Progress – South Africa, Financial Stability Board (Basel), March 2011. Date of Access: 9 April 2011 http://www.financialstabilityboard.org/publications/r_110401s.pdf

South Africa has made progress toward complying with its commitment to reduce the systemic risks presented by SIFIs. Thus it has been awarded a score of 0.

Analyst: Huda Abdi

Turkey: 0

Turkey has taken steps toward complying with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

The government of Turkey has recognized the importance of addressing the issue of financial stability, noting in a Strategy and Action Plan that “it is a priority matter that the existing structure in Turkey must be reinforced to ensure effective and sustained cooperation and coordination between regulatory and supervisory authorities and manage systemic risk.”⁴⁹³

In order to enhance prudential supervision, the government of Turkey established the Systemic Risk Coordination Committee that is mandated to monitor the country’s financial system.⁴⁹⁴ It has been identified that “the duties and functions of the current Systemic Risk Committee shall be reinforced in order to identify and prevent systemic risk and enhance horizontal coordination between regulatory and supervisory authorities in the financial sector.”⁴⁹⁵ The Committee is responsible for reporting negative developments in the financial system to the Council of Ministers.⁴⁹⁶

Turkey has made progress toward complying with its commitment to reduce the systemic risks presented by SIFIs. Thus it has been awarded a score of 0.

Analyst: Vera Gavrilova

United Kingdom: 0

The United Kingdom has taken steps toward complying with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

On 21 February 2009, the 2009 Banking Act came into force in the United Kingdom. The Banking Act provides a permanent regime to allow the Financial Services Authority (FSA), the UK Treasury and the Bank of England to resolve failing banks in the UK.⁴⁹⁷ Under the Banking Act, these authorities are given powers such as: (1) the power to issue share transfer orders to

⁴⁹³ Strategy and Action Plan for Istanbul International Financial Center, State Planning Organization (Ankara) October 2009. Date of Access: 12 April 2011.

http://www.dpt.gov.tr/DocObjects/View/5066/Strategy_and_Action_Plan_for_Istanbul_International.pdf.

⁴⁹⁴ Overview of Progress in the Implementation of G20 Recommendations for Strengthening Financial Stability: Report of the Financial Stability Board to G20 Leaders, Financial Stability Board (Basel) 18 June 2010. Date of Access: 12 April 2011. http://www.financialstabilityboard.org/publications/r_100627c.pdf.

⁴⁹⁵ Strategy and Action Plan for Istanbul International Financial Center, State Planning Organization (Ankara) October 2009. Date of Access: 12 April 2011.

http://www.dpt.gov.tr/DocObjects/View/5066/Strategy_and_Action_Plan_for_Istanbul_International.pdf.

⁴⁹⁶ Financial Stability Board Report on Progress since the Washington Summit Turkey, Financial Stability Board (Basel) 12 November 2010. Date of Access: 12 April 2011.

http://www.financialstabilityboard.org/publications/r_110401v.pdf.

⁴⁹⁷ Risk management supervision and regulation, Barclays (London) 2008. Date of Access: 12 April 2011. <http://www.barclaysannualreports.com/ar2008/index.asp?pageid=143>

transfer all or some of the securities issued by a bank to a commercial purchaser or Bank of England entity and (2) the power to transfer all or some of the property, rights and liabilities of the UK bank to a purchaser or Bank of England entity.⁴⁹⁸

On 18 March 2009, the FSA published the Turner Review and the associated Discussion Paper that included a comprehensive set of proposals aimed at addressing the risks posed by systemically important financial institutions.⁴⁹⁹ On 30 September 2009, the FSA published the Feedback Statement to The Turner Review that outlines the ongoing debate and consideration of Recovery and Resolution Plans (RRPs) or living wills.⁵⁰⁰ The FSA also proposed in the statement that all SIFIs be required to develop and submit RRP to the FSA for approval.⁵⁰¹

On 22 October 2009, the FSA published The Turner Review Conference Discussion Paper, which focused on two issues: (1) problems created by systemically important banks and relevant policy options including higher capital levels and RRP, and (2) assessing the cumulative impact of capital and liquidity reforms.⁵⁰²

On 27 November 2009, the British House of Commons Treasury Committee published a report on the banking crisis and regulation and supervision.⁵⁰³ In the report, the government voiced its support for the FSB to develop possible measures to address the ‘too big to fail’ problems associated with SIFIs by the end of October 2010, including the related work by the Basel Committee to assess merits of a capital surcharge to mitigate the risk of systemic banks.⁵⁰⁴

On 8 April 2010, the Financial Services Act received Royal assent.⁵⁰⁵ The Act allows for: (1) new powers for the FSA to enforce Remuneration Code of Practice and nullify firm’s remuneration agreements, (2) compulsory RRP for UK banks and building societies, (3) extensive information

⁴⁹⁸ Risk management supervision and regulation, Barclays (London) 2008. Date of Access: 12 April 2011. <http://www.barclaysannualreports.com/ar2008/index.asp?pageid=143>

⁴⁹⁹ The Will to Live: Recovery and Resolution Plans for UK Banks, Morrison and Foerster (London) 29 December 2009. Date of Access: 12 April 2011. <http://www.mofo.com/files/uploads/Images/091229TheWilltoLiveRecoveryandResolutionPlansforUKBank.s.pdf>

⁵⁰⁰ The Will to Live: Recovery and Resolution Plans for UK Banks, Morrison and Foerster (London) 29 December 2009. Date of Access: 12 April 2011. <http://www.mofo.com/files/uploads/Images/091229TheWilltoLiveRecoveryandResolutionPlansforUKBank.s.pdf>

⁵⁰¹ FSA publishes Turner Review Conference Discussion Paper, Lexology (London) 29 October 2009. Date of Access: 12 April 2011. <http://www.lexology.com/library/detail.aspx?g=a1b55ade-0266-47ee-8eda-156214d770ab>

⁵⁰² FSA publishes Turner Review Conference Discussion Paper, Lexology (London) 29 October 2009. Date of Access: 12 April 2011. <http://www.lexology.com/library/detail.aspx?g=a1b55ade-0266-47ee-8eda-156214d770ab>

⁵⁰³ The Will to Live: Recovery and Resolution Plans for UK Banks, Morrison and Foerster (London) 29 December 2009. Date of Access: 12 April 2011. <http://www.mofo.com/files/uploads/Images/091229TheWilltoLiveRecoveryandResolutionPlansforUKBank.s.pdf>

⁵⁰⁴ The Will to Live: Recovery and Resolution Plans for UK Banks, Morrison and Foerster (London) 29 December 2009. Date of Access: 12 April 2011. <http://www.mofo.com/files/uploads/Images/091229TheWilltoLiveRecoveryandResolutionPlansforUKBank.s.pdf>

⁵⁰⁵ International Reform of Financial Regulation Overview and Implementation Timetable, Linklaters (London) 1 January 2011. Date of Access: 10 April 2011. www.linklaters.com/pdfs/.../FR_Timetable_Download_version_FINAL.pdf

gathering powers from managers and owners of hedge funds and investment funds, (4) enhancement of FSA's rulemaking and disciplinary powers, and (5) establishment of Council for Financial Stability.⁵⁰⁶

On 22 June 2010, the UK Government announced the introduction of a bank levy to be charged on the worldwide-consolidated balance sheets of UK banks and building society groups, as well as UK subsidiaries of a foreign bank.⁵⁰⁷ The levy is based on the chargeable equity and liabilities of the group or entity to the extent that these exceed GBP 20 billion.⁵⁰⁸ On 9 December 2010, the government published revised draft legislation on the bank levy to be included in the Finance Bill 2011.⁵⁰⁹

On 20 October 2010, the European Commission published a communiqué on a EU framework for crisis management in the financial sector.⁵¹⁰ The communiqué describes a legal framework that the Commission intends to propose in Spring 2011, which involves equipping authorities with tools and powers to tackle banking crises at the earliest possible moment and minimize costs for taxpayers.⁵¹¹

On 14 February 2011, Her Majesty's Treasury (HM Treasury) published its second consultation document on regulatory reform.⁵¹² Under the reform, the FSA will cease to exist in its current form, and the Government will create two new focused financial regulators.⁵¹³ A new Prudential Regulation Authority (PRA) will be responsible for day-to-day supervision of financial institutions that are subject to significant prudential regulation.⁵¹⁴

On 11 April 2011, the UK Independent Commission on Banking (ICB) released its first interim report.⁵¹⁵ The UK government created the ICB to consider whether a structural reform of banks would make them more resilient and competitive, and to compile a final report with

⁵⁰⁶ Financial Services Bill, Linklaters (London) 13 April 2010. Date of Access: 11 April 2011. www.linklaters.com/.../FinancialServicesBill_Newsletter_091124.pdf

⁵⁰⁷ Budget: Bank levy to raise £8.3bn in four years, BBC News (London) 22 June 2010. Date of Access: 11 April 2011. <http://www.bbc.co.uk/news/10377429>

⁵⁰⁸ International Reform of Financial Regulation Overview and Implementation Timetable, Linklaters (London) 1 January 2011. Date of Access: 10 April 2011. www.linklaters.com/pdfs/.../FR_Timetable_Download_version_FINAL.pdf

⁵⁰⁹ Budget: Bank levy to raise £8.3bn in four years, BBC News (London) 22 June 2010. Date of Access: 11 April 2011. <http://www.bbc.co.uk/news/10377429>

⁵¹⁰ Technical details of a possible EU framework for bank recovery and resolution, Norton Rose Group (London) 11 January 2011. Date of Access: 10 April 2011. <http://www.nortonrose.com/knowledge/publications/2011/pub33460.aspx?lang=en-gb&page=all>

⁵¹¹ An EU framework for Crisis Management in the Financial Sector – Frequently Asked Questions, Europa Communiqués de Presse RAPID (Brussels) 20 October 2010. Date of Access: 10 April 2011. <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/10/506&format=HTML&aged=0&language=FR&guiLanguage=fr>

⁵¹² A new approach to financial regulation: building a stronger system, HM Treasury (London) 17 February 2011. Date of Access: 11 April 2011. http://www.hm-treasury.gov.uk/consult_finreg_strong.htm

⁵¹³ The structure of UK financial regulation, HM Treasury (London) 17 February 2011. Date of Access: 11 April 2011. http://www.hm-treasury.gov.uk/fin_stability_regreform_structure.htm

⁵¹⁴ The structure of UK financial regulation, HM Treasury (London) 17 February 2011. Date of Access: 11 April 2011. http://www.hm-treasury.gov.uk/fin_stability_regreform_structure.htm

⁵¹⁵ Independent Commission on Banking: publishing of Interim Report, The COI (London) 11 April 2011. Date of Access: 12 April 2011. <http://nds.coi.gov.uk/Content/detail.aspx?NewsAreaId=2&ReleaseID=419100&SubjectId=2>

recommendations to the Government by September 2011.⁵¹⁶ The interim report sets out the Commission's current and provisional views on the need for reform and on possible reform options.⁵¹⁷

The United Kingdom has made progress toward complying with its commitment to reduce the systemic risks presented by SIFIs. Thus it has been awarded a score of 0.

Analyst: Hermonie Xie

United States: 0

The United States has taken steps toward complying with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

On 21 July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law by U.S. President Barack Obama.⁵¹⁸ The act was described by United States President Barack Obama as “the most sweeping overhaul of financial regulation since the 1930s.”⁵¹⁹ The Volcker Rule, added in January 2010, is aligned with the 2010 Seoul Summit commitment to reform SIFIs. The document prohibits a bank or institution from participating in proprietary trading.⁵²⁰ However, recent steps have been made in both houses of the United States Congress to counteract both the Dodd-Frank Act and the Volcker Rule.⁵²¹

On 11 January 2011, the Office of the Comptroller of the Currency published a notice of proposed rulemaking (NPR) that would revise their market risk capital rules.⁵²² This is consistent with the July 2009 publication by the Basel Committee on Banking Supervision of ‘Revisions to the Basel II market risk framework.’⁵²³

Increased supervisory oversight is in the process of being implemented in the United States. New regulatory reforms have called for higher capitalization of major banks, following the implementation of the Supervisory Capital Assessment Program. This program includes the

⁵¹⁶ International Reform of Financial Regulation Overview and Implementation Timetable, Linklaters (London) 1 January 2011. Date of Access: 10 April 2011.

www.linklaters.com/pdfs/.../FR_Timetable_Download_version_FINAL.pdf

⁵¹⁷ Independent Commission on Banking: publishing of Interim Report, The COI (London) 11 April 2011. Date of Access: 12 April 2011.

<http://nds.coi.gov.uk/Content/detail.aspx?NewsAreaId=2&ReleaseID=419100&SubjectId=2>

⁵¹⁸ Bill Summary & Status H.R. 4173, The Library of Congress (Washington) 29 June 2010. Date of Access: 7 April 2011. <http://thomas.loc.gov/cgi-bin/bdquery/z?d111:HR04173:@@L&summ2=m&#major%20actions>

⁵¹⁹ Is Obama's Financial-Reform Plan Bold Enough?, Time Magazine (New York) 18 June 2009. Date of Access: 7 April 2011. <http://www.time.com/time/business/article/0,8599,1905314,00.html>

⁵²⁰ President Obama Calls for New Restrictions on Size and Scope of Financial Institutions to Rein in Excesses and Protect Taxpayers, Office of the Press Secretary (Washington) 21 January 2010. Date of Access: 7 April 2011. <http://www.whitehouse.gov/the-press-office/president-obama-calls-new-restrictions-size-and-scope-financial-institutions-rein-e>

⁵²¹ House panel majority ‘skeptical’ on Dodd-Frank, Pensions & Investments (Washington) 5 April 2011. Date of Access: 5 April 2011. <http://www.pionline.com/article/20110405/DAILYREG/110409948>

⁵²² Basel II Advanced Approaches Floor NPR, Office of the Comptroller of the Currency, US Department of the Treasury (Washington) 11 January 2011. Date of Access: 7 April 2011. <http://www.occ.treas.gov/news-issuances/bulletins/2011/bulletin-2011-2.html>

⁵²³ Press Release, Board of Governors of the Federal Reserve System (Washington) 26 June 2008. Date of Access: 7 April 2011. <http://www.federalreserve.gov/newsevents/press/bcreg/20080626b.htm>

implementation of stress testing by 17 January 2012.⁵²⁴ However, the exact nature of these tests as well as the extent that disclosure of results will be mandated has not been agreed upon.⁵²⁵

The United States is also in the process of making policy changes to accommodate the Basel III requirements. The US already has a leverage ratio in accordance with the Basel Committees standards.⁵²⁶ Furthermore, the United States is participating in discussions with the Basel Committee to develop a set of international rules that would improve the global quantity and quality of bank capital, which would ultimately impact rules regarding G-SIFIs.⁵²⁷ The United States is strengthening adherence to international supervisory and regulatory standards by allowing the National Association of Insurance Commissioners to undergo review and allow the IMF to complete the U.S. Financial Sector Assessment Program.⁵²⁸

The United States is working towards stronger robustness standards for core financial infrastructure through the Dodd-Frank act, which gives the Commodity Futures Trading Commission (CFTC) and the Securities and Exchange Commission (SEC) jurisdiction over OTC Derivatives. The Federal Deposit Insurance Corporation, under Title II, can be appointed as receiver for nonbank financial forms, however, although the law is enacted, the FDIC is currently drafting regulations on the logistics of the implementation of its authority.⁵²⁹

The United States has made progress toward complying with its commitment to reduce the systemic risks presented by SIFIs. Thus it has been awarded a score of 0.

Analyst: Lauren Millar

European Union: 0

The European Union has taken steps toward complying with its commitment to reduce the moral hazard posed by systemically important financial institutions (SIFIs) with respect to: 1) resolution 2) increased supervisory oversight for financial institutions that might pose systemic risk and 3) strong robustness standards for core financial infrastructure.

⁵²⁴ The Supervisory Capital Assessment Program: Design and Implementation, Board of Governors of the Federal Reserve System (Washington) 24 April 2009. Date of Access: 7 April 2011.

<http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20090424a1.pdf>

⁵²⁵ Bank Stress Tests (Supervisory Capital Assessment Program), New York Times (New York) 8 May 2009. Date of Access: 7 April 2011.

http://topics.nytimes.com/topics/reference/timestopics/organizations/f/federal_reserve_system/supervisory_capital_assessment_program/index.html

⁵²⁶ The Leverage Ratio, The World Bank (Washington) December 2009. Date of Access: 7 April 2011.

<http://www.worldbank.org/financialcrisis/pdf/leverage-ratio-web.pdf>

⁵²⁷ Consultative proposals to strengthen the resilience of the banking sector announced by the Basel Committee, Bank for International Settlements (Basel) 17 December 2009. Date of Access: 7 April 2011.

<http://www.bis.org/press/p091217.htm>

⁵²⁸ United States: Publication of Financial Sector Assessment Program Documentation – Technical Note on Crisis Management Arrangements, International Monetary Fund, May 2010. Date of Access: 7 April 2011.

<http://www.imf.org/external/pubs/ft/scr/2010/cr10120.pdf>

⁵²⁹ Bill Summary & Status H.R. 4173, The Library of Congress (Washington) 29 June 2010. Date of Access: 7 April 2011. <http://thomas.loc.gov/cgi-bin/bdquery/z?d111:HR04173:@@L&summ2=m&#major%20actions>

On 20 October 2010, the European Commission stated its plans to build a new supervisory framework for a more effective crisis management in the financial sector.⁵³⁰ Recognizing that no financial institution should be considered as “too big to fail,” the communication calls for national resolution regimes with well-defined powers and processes, in order to ensure that financial authorities throughout Europe can resolve bank failures without having to use taxpayer money.⁵³¹ Such powers would include: preventative measures (such as a requirement for banks to prepare for recovery), early intervention powers (such as powers to demand the replacement of bank management), and resolution tools (such as powers to effect takeover of a failing financial institution by another); together, these tools would allow authorities to “ensure the continuity of essential services” and to “manage the failure in an orderly way.”⁵³²

On 6 January 2011, the European Commission published a consultation paper to work on the technical details of the aforementioned supervisory framework for resolution regimes.⁵³³ The Commission proposed that supervisory authorities, such as the European Banking Authority (EBA), be given considerable emergency powers and additional resolution tools over SIFIs in order to not only intervene at an early stage but also to resolve or restructure financial institutions without relying on taxpayer funds.⁵³⁴ Such resolution tools include: sale of business tool, bridge bank tool, asset separation tool, and debt write-down or conversion tool, all of which would strengthen the supervisory regime and its regulatory oversight over financial institutions under the Capital Requirements Directive (CRD).⁵³⁵ Furthermore, the Commission proposed to establish resolution colleges of supervisors to supervise cross-border SIFIs and to require its member states to set up a bank resolution fund to cover the costs of resolution tools.⁵³⁶ The Commission plans to adopt a legislation that incorporates these proposals in June 2011.⁵³⁷

⁵³⁰ Commission sets out its plans for a new EU framework for crisis management in the financial sector, European Commission (Brussels), 20 October 2010. Date of Access 7 April 2011. <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/1353&format=HTML&aged=0&language=EN&guiLanguage=en>

⁵³¹ Bank Resolution Regimes, European Parliament (Brussels), March 2011. Date of Access: 7 April 2011 http://www.europarl.europa.eu/document/activities/cont/201103/20110316ATT15696/20110316ATT15696_EN.pdf

⁵³² Commission sets out its plans for a new EU framework for crisis management in the financial sector, European Commission (Brussels), 20 October 2010. Date of Access: 7 April 2011. <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/1353&format=HTML&aged=0&language=EN&guiLanguage=en>

⁵³³ Commission seeks views on possible EU framework to deal with future bank failures, European Commission (Brussels), 6 January 2011. Date of Access 7 April 2011 <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/10&format=HTML&aged=0&language=EN&guiLanguage=en>

⁵³⁴ European Resolution and Recovery Framework for Financial Institutions, JDSupra, 17 February 2011. Date of Access: 7 April 2011 <http://www.jdsupra.com/post/documentViewer.aspx?fid=f0ec7db0-1c95-4613-9600-92fbf33c0f88>

⁵³⁵ European Resolution and Recovery Framework for Financial Institutions, JDSupra, 17 February 2011. Date of Access: 7 April 2011 <http://www.jdsupra.com/post/documentViewer.aspx?fid=f0ec7db0-1c95-4613-9600-92fbf33c0f88>

⁵³⁶ European Resolution and Recovery Framework for Financial Institutions, JDSupra, 17 February 2011. Date of Access: 7 April 2011 <http://www.jdsupra.com/post/documentViewer.aspx?fid=f0ec7db0-1c95-4613-9600-92fbf33c0f88>

⁵³⁷ European Resolution and Recovery Framework for Financial Institutions, JDSupra, 17 February 2011. Date of Access: 7 April 2011 <http://www.jdsupra.com/post/documentViewer.aspx?fid=f0ec7db0-1c95-4613-9600-92fbf33c0f88>

As of April 2011, the European Union has taken initiatives to establish a European systemic regulator and three European supervisory authorities as a part of its proposed supervisory package—together, these regulatory authorities are to monitor financial markets, safeguard financial stability, and improve supervision of cross border entities.⁵³⁸ It has also undertaken a comprehensive regulatory reform program in order to improve efficiency of financial markets and safeguard stability.⁵³⁹

The European Union has made progress toward complying with its commitment to reduce the systemic risks presented by SIFIs. Thus it has been awarded a score of 0.

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⁵³⁸ Seoul Summit Supporting Document, Canadainternational, 2010. Date of access 6 April 2011.
http://www.canadainternational.gc.ca/g20/assets/pdfs/2010%20%20Seoul%20Summit%20Supporting_Document.pdf

⁵³⁹ Seoul Summit Supporting Document, Canadainternational, 2010. Date of access 6 April 2011.
http://www.canadainternational.gc.ca/g20/assets/pdfs/2010%20%20Seoul%20Summit%20Supporting_Document.pdf