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Thinking ahead for Europe

The G-20, five years on

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Five years ago, the G-20 was created almost from scratch in response to the shock provoked by the financial crisis and the fear that it would lead to a global economic slowdown. Decisive policy action at the London and the subsequent G-20 meetings led to an impressive re-regulation of the financial sector, above all in the EU and the US. Five years on, the question emerges whether we have succeeded in taming the 'wild beast of finance'. Following the public debates in the developed countries, it seems that much remains to be done to make the financial sector function properly again.

The key element of the G-20 was the decision that all systemically important financial institutions, instruments and markets must be adequately regulated and supervised. The Financial Stability Board (FSB), established in April 2009 as the successor to the Financial Stability Forum (FSF) and hosted by the Bank for International Settlements in Basel, was tasked with monitoring adherence to international financial standards and fostering "a race to the top", in which peers encourage all countries and jurisdictions to raise their level of adherence. FSB member jurisdictions "will lead by example", through implementation of the agreed standards, disclosure and peer reviews.

Five years on, a huge regulatory agenda has been pushed through in many jurisdictions. Hence, at first sight, global governance is working, and the G-20 managed to become the driving force. This leads to the first question we would like to explore: Is this effectively the case, or was the G-20 simply the crystallising actor that managed to bring a better global governance structure in place, together with the IMF, the FSB and other bodies? The second question we would like to address is: How effective is the implementation and enforcement? Rules that are not enforced only increase bureaucracy, but the G-20 has no supranational power, only peer pressure. Is this system working now? And why did it not work in the past? We will start with a discussion on the re-balancing of financial markets post-crisis, and the prospects towards 2050.

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Global rebalancing ongoing

The G-20 was in essence a process by which the G-7 asked the rest of the world to participate in a huge cover-up exercise affecting its financial system. The EU-US financial system, which before the crisis accounted for a large slice of total GDP, bank assets, stock market capitalisation and debt securities outstanding, fell back on all accounts, while the non-G-7 countries increased their part in the meantime (see Table 1). The EU's share of global bank assets went down from 52% to 42% from 2006 to 2012, and the US share of global debt securities declined from 41% to 32% in the same period. To re-regulate its financial system, the G-7 asked the rest of the world to do the same, whereas the other countries had not necessarily been as liberal as the G-7, with probably the exception of Canada.

It is worth recalling that the G-20 is a recent creation in the panoply of international institutions. It was launched in 1999 as a forum for discussion primarily among finance ministers and central bankers, and until the crisis hit, had a more limited agenda. The proposal to discuss the crisis in this forum was initiated by the EU, more in particular by the French President Nicolas Sarkozy who called for the launch of a "new Bretton-Woods" during his tenure at the helm of the French Presidency of the EU Council in the second half of 2008. While it would be entirely unworkable to tackle this issue in a UN context, the G-20 seemed a more appropriate framework, bringing together North and South. Developing countries were the victims of the financial crisis, which in their eyes originated entirely in the Western world. Dealing with these matters in the G-7 (created in 1975 also by the French government under Valéry Giscard d'Estaing), on the other hand, would reactivate the North-South tensions of the 1970s, and it would not contribute to a comprehensive solution.

Hence relying on the G-20 was intuitively the right move, and adapted to a rapidly changing world. It is now expected that, under different scenarios, that the EU and the US will jointly account for about 25% of global GDP by 2050, whereas today they account for more than 50%. China should by that time account for 28% and India 12% (see, e.g. Faure et al., 2010).

Where are we with the core London G-20 commitments?

The main components of the financial regulatory reform concern: 1) bank capital, 2) central clearing and trading of OTC derivatives, 3) regulation of ratings agents and hedge funds and 4) bank resolution regimes. The follow-up to these commitments has been impressive in the G-20 countries (see summary in the annex), indicating that the G-20 process effectively worked. The remaining task now is the monitoring of effective implementation and the exercise of peer pressure.

Key to the entire financial regulation programme is **bank capital** and the effective enforcement of the agreed rules. Although the 1988 Basel Accord was a huge step forward, the implementation of the rules left a lot to be desired until recently. Even within the EU, where the rules were implemented in EU directives, meaning they were legally applicable and enforceable in all member states, important differences remained in the interpretation of the definition of capital, and member states were given leeway in the risk weighting of assets.[1]

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[1] The definition of capital could be affected through, for example, the inclusion of minority interests or differences in accounting standards. The first harmonised definition of capital in the EU dates back to 1989, with the own funds Directive (EEC/89/229), but it took 25 years to reach a near-harmonised definition in the 2013 capital requirements Regulation and Directive (CRDIV, Directive 2013/36/EU and Regulation 575/2013).

Table 1. Comparative data (GDP, Total domestic bank assets, stock market capitalisation, total debt securities market)

€ bn		World	EU	%	US	%	Canada	%	Australia	%	China	%	Japan	%	Brazil	%	India	%
GDP (current prices)	2006	39,857	11,765	29.52%	10,671	26.77%	1,018	2.55%	624	1.57%	2,160	5.42%	3,474	8.72%	870	2.18%	723	1.81%
	2012	56,208	12,997	23.12%	12,643	22.49%	1,417	2.52%	1,119	1.99%	6,398	11.38%	4,639	8.25%	1,753	3.12%	1,433	2.55%
Domestic bank assets	2006	53,804	27,822	51,7%	7,748	14,4%	1,463	2.71%	1,030	1,91%	4,279	7.95%	4,775	8.87%	550	1,02%	547	1.01%
	2012	85,307	35,472[2]	41.60%	10,175	11.90%	2,788	3.26%	2,117	2.48%	16,254	19.05%	7,772	9.11%	1,843	2.16%	1,063	1.24%
Stock mkt cap	2006	40,528	10,285	25,4%	14,750	36,4%	1,291	3.18%	832	2.05%	2,172[3]	5.35%	3,642[4]	8.98%	539[5]	1.32%	1,209[6]	2.98%
	2012	41,362	8,090	19.60%	14,523	35.10%	1,560	3.77%	1,051	2,54%	4,948	11.96%	2,789	6.74%	930	2.24%	1,893	4.57%
Debt securities mkt[7]	2006	49,434	17,326	35.04%	20,161	40.78%	1,050	2.12%	702	1.42%	922	1.86%	6,627	13.04%	613	1.24%	267	0.54%
	2012	69,334	22,719	32.76%	22,156	31.95%	1,791	2.58%	1,213	1.74%	2,993	4.31%	11,201	16.15%	1,825	2.63%	517	0.74%

Sources: IMF, ECB, WFE, BIS, OSFI (Office of the Superintendent of Financial Institutions), APRA (Australian Prudential Supervisory Authority), CBRC (China Banking Regulatory Commission), BoJ (Bank of Japan), BCB (Central Bank of Brasil) and RBI (Reserve Bank of India).

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[2] Only domestic credit institutions. When foreign-controlled subsidiaries and/or branches are included, the total is €45 trillion.

[3] Hong Kong Exchanges, Shanghai SE and Shenzhen SE.

[4] Osaka and Tokyo SE.

[5] BM&FBOVESPA (largest exchange in Latin America).

[6] BSE India and National Stock Exchange India.

[7] Total debt market = Total domestic debt market (all issuers, by residency) +Total international debt market (all issuers, by nationality).

All issuers= general government, financial and non-financial corporations.

The force of the Accord was watered down in the Basel II agreement, which allowed the risk weighting of assets based upon a standardised external or an internal ratings-based approach. The former was based upon ratings of credit rating agencies, the latter on internal models of credit risk, leaving much discretion to banks in setting their capital levels.

The internal models approach created distortions with smaller banks following the standardised approach, leading to calls to set a minimum leverage ratio, or a minimum level of capital. These debates led US federal banking agencies to decide not to apply the Basel II standards to the vast majority of smaller local banks, and concerns over the impact of the more sophisticated approaches on the effective capital base of large banks caused delays in its application to the latter. Hence the US entered the financial crisis without Basel II, which seriously undermined the authority of the Basel Committee.

Given the lacklustre performance with Basel II, it is impressive to note that a mere three years after the agreement on Basel III was reached, about 2/3 of the jurisdictions and all of the G-20 members have implemented its provisions. Regulatory capital ratios of the large internationally active banks are increasing and shortfalls declining (Basel Committee, 2013b). The Basel Committee started a Regulatory Consistency Assessment Programme (RCAP) to monitor, assess and evaluate the implementation of the new Basel Standards. The RCAP has an impressive schedule of jurisdictional assessments covering all Basel Committee member jurisdictions for the period 2012-15, with formal publication of the reports (on the Basel Committee's website) and, if necessary, request for rectification of material gaps. For the four jurisdictions covered so far, Japan, Australia, Singapore and China, the Committee requested rectifications in all cases, and up to 90 in the case of China. Preliminary assessments were also carried out for the EU and the US in October 2012. It concluded that the EU was materially non-compliant on two items, the definition of capital and the approach to credit risk in the internal ratings-based approach. The US was materially non-compliant on one item, the securitisation framework.

A key weakness in the Basel III framework, however, is the maintenance of the risk-weighting of assets, above all under the internal ratings-based approach, in the measurement of the regulatory capital. This allows large banks, mostly from the US and Europe, to maintain an important competitive regulatory edge over mid-sized and smaller banks, mostly in developing countries. To correct for this shortcoming, Basel III foresees a capital conservation buffer, and a surcharge for globally systemically important banks (G-SIBs), but this only marginally restores the level playing field. A minimum leverage ratio would be better, but this will only be binding from 2018 onwards, and is set at a very low level, i.e. 3% (of non-risk-weighted assets).[8] The effective calculation of the leverage ratio was agreed upon by the Basel Committee in early 2014, after some quite some controversy regarding the accounting for derivatives exposures and off-balance sheet items. Bankers associations also reacted that the ratio would lead to much higher capital for banks' least-risky assets, such as government bonds, and reduce the demand for such assets.[9]

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[8] The agreement on the leverage ratio calculation provoked quite some controversy, especially with regard to the off-balance sheet items and the measurement of derivatives exposures. The Basel Committee published a final version in January 2014.

[9] Global Financial Markets Association (GFMA), Comments in Response to the Consultative Document on the Revised Basel III Leverage Ratio Framework and Disclosure Requirements, 20 September 2013.

A major problem for supervisors is the erosion of risk-weighted assets under the internal ratings-based approach, and the differences applied by large banks in the risk weights for assets. For large banks, the EU average risk-weighting of assets is 33%; in the US it is about 58%. This means for these EU banks that assets are risk-weighted at one third of the standard rule of 8% capital to total assets. A review by the Basel Committee found that internal risk weights for credit risk in the banking book vary significantly across banks, variations that are not necessarily supported by differences in underlying assets. Capital ratios vary by as much as 1.5 to 2 percentage points in either direction around the 10% benchmark as a result of different practices (Basel Committee, 2013). The culprits of this situation are EU-based banks, accounting for 41.6% of global bank assets, which can continue to be more or less 'compliant' with the Basel framework, while on average being highly leveraged. The average leverage ratio for large euro-area banks is about 3.2%, or 1 percentage point below large US-based banks, even on a comparable IFRS basis (ECB, 2013, p. 39).

A second important element of the London G-20 was the obligation for **central clearing and trading of OTC derivatives transactions**. In addition, it was decided that OTC derivatives contracts should be reported to trade repositories. Before the crisis, the OTC derivatives market was subject to self-regulation, and considered to be non-transparent and open to huge counterparty risks, as was exemplified in the exposures to AIG in September 2008. The global market for OTC derivatives is much more highly concentrated than the exchange-traded side of the market, and controlled for 85-90% by five financial institutions in the US and six in the EU (Valiante, 2010, p. 6).

Legislation implementing these commitments has been adopted (or is near adoption) in most jurisdictions, but it is too early to make an assessment whether it is working. The rules have been operational since October 2013 in the US, while primary legislation for clearing has been adopted in the EU, but not yet the secondary legislation. For trading, the EU rules still need to be adopted. Other jurisdictions have also implemented provisions, but none are as liberal as those in the EU and US.

The US rules are called Swap Execution Facility (often abbreviated as "SEF"), a regulated platform for swap-trading that provides pre-trade information (bids and offers) and an execution mechanism for swap transactions among eligible participants. SEF trading has become mandatory (subject to certain exceptions) with respect to "swaps" that are both subject to centralised clearing. As far as clearing is concerned, the EU rules are part of EMIR (European Market Infrastructure Regulation) and as far as trading is concerned, they are embedded in the amendments to the Markets in Financial Instruments Directive (MiFID II), which is close to adoption, but will need another two years or more before full implementation. This time lag in EU implementation has according to the industry already led to a clear shift in derivatives trading from the US to the EU, and is raising tensions between both blocs.[10]

A problem issue with central clearing remains the governance and control of central counterparties (CCPs). If inadequately managed, CCPs could become the 'Fukushima's' of global finance. As they will centralise and net exposures between participants in OTC markets, they may become incapable of meeting liquidity needs of members in periods of financial stress.

[10] ISDA (2014) demonstrates a clear shift of trades in euro interest rate swaps between international traders from the US to the EU. The implementation of the derivatives rules has led to several exchange of letters between the authorities on both sides.

It is crucial for CCPs to establish adequate levels of capital, effective rules governing exposure management and margining as well as clear governance and conduct requirements for all members. But the question remains: what if it explodes? This issue has been addressed under the general heading resolution, discussed below.

The regulation of **rating agencies** is in place in all jurisdictions. It should be recalled that ratings agencies were in most G-20 countries not regulated before the crisis, notwithstanding their central role in capital markets. Even the International Organisation of Securities Commissions (IOSCO) had until mid-2008 called for a self-regulatory code, rather than for statutory regulation. Considering the degree of abuse of ratings, and the fact that the industry is highly concentrated, with two US-based firms controlling more than 80% of the market, and three firms 96% (according to Roland Berger, 2012), transparency, regulation and oversight were seen to be essential. This should also allow that new competitors could enter the ratings business, and break the oligopoly.

Preliminary data indicated that policy makers were successful in opening-up the market. Recent reports on the EU and the US indicated that competition in the sector increased, albeit very early to judge. In the US, new entrants have joined the market bringing the number of Nationally Recognized Statistical Rating Organizations (NRSRO) to 10, and the degree of concentration decreased for financial institutions and asset-backed securities (although it increased for corporate and sovereign issuers) (SEC, 2013). In the EU, 22 rating agencies got a licence from the European Securities Market Authority (ESMA, 2013), and the market share of the big three based upon turnover, stood at 87%.

Policy-makers also decided to **reduce the regulatory reliance on ratings**, but progress in this direction is more difficult to achieve, as also the FSB has recognised.[11] Many pieces of regulation carry explicit or implicit references to ratings, and created a captive market for the industry. The most important example is the Basel II external ratings-based approach, which uses ratings of rating agencies to determine the risk weights. This has not been modified in the Basel III framework, or in the EU's CRDIV. So far, the EU measures have tackled the reference to rating agents in the rules on investment funds (UCITS), alternative investment fund managers (AIFMD) and institutions for retirement provision (IORPD), while the US is more advanced further to a clear mandate of Dodd-Frank, and the fact that it never implemented Basel II.

Alternatives to the reliance on ratings is for firms to develop their own independent credit assessment, but the functioning of the internal ratings based approach used under the Basel framework and discussed above, does not provide a good benchmark.

Hedge funds are now regulated in all G-20 countries, with the exception of Brazil. Before the crisis, hedge funds were dealt with in different ways across countries, and no EU regulation existed, for example. The consensus emerged rapidly that the sector needed proper oversight, even if the alternative fund sector claimed not to be the cause of the crisis. Work on this subject is now part of the broader ambition to properly regulate and supervise the 'shadow banking' sector, where much remains to be done.

Shadow banking is defined as 'credit intermediation involving entities and activities (fully or partially) outside the regular banking system', or non-bank credit intermediation, and covers a

[11] FSB, Credit Rating Agencies, Reducing reliance and strengthening oversight, 29 August 2013, see www.financialstabilityboard.org/publications/r_130829d.pdf

variety of items on the G-20 agenda. Action items include the monitoring of the links between the unregulated shadow banking side and the regular banking system, common standards to ensure money market funds are not considered as bank deposits, or mismatches and risks caused by the use of certain financial instruments.

The installation of effective **resolution regimes** for the banking sector is another important part of the G-20 agenda, where much progress has been achieved. The key objective is to allow the global financial and trading system to continue to function in the context of bank crisis, and to avoid national fragmentation and ring-fencing. This implies that supervisory authorities need to share information and coordinate actions, but also recognise resolution actions by the home country of a foreign bank or remove barriers for this to happen. This subject is especially relevant for large cross-border banks, which are difficult to unravel, and thus again most important for the US and the EU. Indeed, of the 29 globally Systemically Important Financial Institutions (G-SIFI), as determined by the FSB, 24 are of US (8) or European (14) parentage (including two Swiss banks). The US has a proper structure in place with the Dodd-Frank Act, while the EU is still finalising its approach, although it is well advanced. But the debate is far from over, given the proposal in the US Congress to reintroduce the Glass-Steagall Act, or the proposals in the EU and in several member states to separate the different functions in banking (see for example the Vickers and Liikanen proposals).

The most important issue for resolution regimes is to have a clear operational structure to stabilise the bank and separate critical functions, and a clear legislative framework to allow for exceptional powers of resolution authorities or for the bail-in of creditors. It is evident that these issues are easier to achieve in a single country, such as the US, than in a federation of states, as in the EU. The US has a clear authority in charge, the FDIC, which acts as the single point of entry with an Orderly Liquidation Authority (OLA) to take control of the parent company of large financial groups, and to keep the operations, also abroad, open. The OLA can have access to an Orderly Liquidation Fund (OLF), administered by the US Treasury, to finance a 'bridge' bank.

The EU is half-way towards an more integrated structure, with an agreement on the procedure to resolve a bank, with a mandatory bail-in, and requirement to member states to create a resolution authority and constitute a fund, funded by the banking sector for up to 1% of covered deposits, but a more single authority (the SRM) and fund is still some way off. The SRM should come into force in 2015, almost at the same time as the ECB takes over banking supervision, but it pre-requires the agreement on a single fund, which still poses political and legal problems. The proposed fund of €55bn remains small for the size of the EU banking market. This implies that a future large cross-border bank failure may continue to resort to a mixture of EU and national funding, and maintain the distortions in European financial markets because of the differences in the quality of the sovereign, what the EU with Banking Union wanted to eradicate. It is also unclear which countries will participate in the fund, which raises questions how unified the future authority, the SRM, will be.

Also the home countries of the other G-SIFI's, China, Japan and Switzerland, have progressed with resolution regimes, the last two also with mandatory bail-in.

The remaining task is to make these resolution regimes function at international level, and have mutual recognition between jurisdictions of resolution tools. Work remains on information sharing, the powers of resolution authorities across borders and the functioning of resolution tools internationally. The deadline set by the FSB for this to be in place is end 2015, hence no reason yet to relax.

Outstanding and forthcoming issues

The completion of the core G-20 issues in the financial regulatory domain will thus remain work in progress for some time to come, which allows for no complacency. In the meantime, new but related financial regulatory items have emerged on the agenda. It concerns the extension of the agenda to the non-bank financial sector, with the designation of non-bank-SIFIs, this includes insurance, other finance and asset management companies, and the supervision and resolution of critical financial infrastructures, such as CCPs.

International standards for the non-bank financial sector are much less developed than in banking. In July 2013, the FSB published a list of 9 global systemically important insurance companies, of which 5 are of European, 3 of US and 1 of Chinese parentage, and it will soon publish a similar list for other finance and asset management companies. Although the size of total assets of insurers is far below the banking sector, and systemic risks are much lower, work remains to ensure proper supervision in the sector with regard to business models, risk diversification and the impact of low interest rate environment. For asset management, as assets are managed for third parties, the main risk may be of an operational nature.

For CCPs, the main question is the governance of these bodies and their capacity to react to market stress. Risk concentration in a few regional CCPs, as central clearing of derivatives will grow, requires a very hands-on attitude of CCP boards and supervisors to insulate risks towards a failing institution and continue netting with other members.

Other more recent items in the financial area are long term financing, and the protection of corporate tax bases. On the latter issue, although the work is relying on valuable work undertaken by the OECD, progress will be extremely difficult to achieve, given the difficulty the EU has experienced in this domain. Despite many declarations in favour of further corporate tax harmonisation, the only two EU harmonising directives in this field date back to the 90s. And the recent experience with an EU version of the Tobin tax, the draft Financial Transaction Tax (FTT), which might be adopted by 11 member states under a special procedure, is no reference either. It should be added that the EU failed to put the FTT on G-20 agenda in Toronto in June 2010.

For long term financing, an issue figuring high on the Brisbane summit's agenda, the most important actions which could be undertaken by the G-20 is to tackle the causes of lack of it, which is the non- existence in many states of long term savings instruments for households, and the need to channel short term deposits into stable and well structured long term investments. Where these instruments exists, such as in second pillar pension plans, performance indicators demonstrate that much remains to be done to make such funds work better in the interest of the benefit holders.[12]

A priority on the macro-economic front is the coordination of exit policies from unconventional monetary policy as we have seen in the developed countries since the start of the crisis. The

[12] Management fees for funded pension schemes vary widely across the OECD countries, and their disclosure leaves much to be desired. For an overview, see CEPS, 2013, p. 77 and following.

prospect of the end of such policies has already led to capital outflows from emerging markets, and given the economic perspectives in the developed countries, it looks as if such policies will start to be implemented soon. Whether central banks will take the global dimension into account remains an open question.

Another difficult target is the maintenance of a strong multilateral trading system in the context of the flourishing regional trade deals. Special regional trade deals may create tensions with other trading partners, and reduce the strength of the multilateral trading system, despite declarations to the opposite. Reducing agricultural tariffs for a rich trading partner, for example, but not doing the same for developing countries cannot be justified.

So far it this thus seems that the G-20 has functioned well, and even very well, in perspective. Even without an international authority, the G-20 has managed to enforce its agenda through conviction and peer pressure. Two essential elements hereby have been the personalities ultimately in charge and the cooperation between international organisations. The past and current chairs of the FSB, Mario Draghi and Mark Carney, both have an enormous experience and authority to drive the process forward. The cooperation with other international organisations is also essential, as the FSB only has a tiny secretariat. The evidence provided above indicates that this seems to be working, although also on that level, peer pressure is important.

Conclusion

The G-20 has taken a big step forward towards instituting better global governance and a more aligned regulatory framework for financial markets. It has been a success also in view of the fact that the problem essentially emanated from Europe and the US, and continues to be of most relevance for both blocs. Five years on, the G-20 countries have largely delivered on the commitments taken at the London G-20. (Better) rules are in place on bank capital, OTC derivatives, ratings agents, hedge funds and bank liquidation. It is now the enforcement of rules that will matter, but a compliance structure has been put in place. Initial data on the implementation of the new Basel III rules, which are key to the entire framework, are promising.

Some caveats need to be kept in mind, however. The rules on regulatory capital in banking still favour large banks with internal risk models, notwithstanding the capital add-ons. The very low level of risk-weighting of assets in European banking is a reason for concern and grounds for action. It also means that the RW capital ratios have debatable value, in case they function as triggers for early intervention by supervisory authorities. And the leverage ratios will only fully come in force in 2018. The rules on OTC derivatives trading and clearing are only on the verge of implementation, but the time lag in implementation between the EU and the US rules already demonstrates how rapidly trades can shift. Timely and coordinated implementation is therefore essential as a basis for mutual trust.

On the long term, it will be essential for the continuing success of the G-20 to maintain the process of peer pressure, as in the ongoing with Basel III Regulatory Capital Assessment Programme, for example. This may be more difficult in the other areas discussed above, such as central clearing of OTC derivatives, as commonly agreed standards are more recent and still being developed, as well as the institutions in charge of international coordination.

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Annex
Follow-up to London G-20 commitments re financial regulation

Credit Rating Agencies (CRAs)

- In all jurisdictions, stricter registration and supervision regimes for credit rating agencies (CRAs) are in place. In addition, regulatory technical standards, guidelines on disclosure and codes of conduct have been issued by the relevant authorities.

Hedge Funds

- In all jurisdictions, except Brazil, stricter authorisation and licensing regimes for hedge funds and their managers are in place. In addition, operational, prudential and reporting requirements have been issued by the relevant authorities.

OTC Derivatives Market Reform

- Central clearing. Subject to adoption of further mandatory regulation and phase-in implementation, future market assessments, conditions such as achieving a critical mass of trades and adequate liquidity in certain instruments, voluntary clearing, or capital incentives.
- Exchange/platform trading. Few concrete steps have been announced (consultations).
- Reporting to trade repositories. Seven jurisdictions have some form of specific reporting obligations in force by end-2013: Australia, Brazil, China, Hong Kong, India, Japan and Singapore. In Canada, market participants are expected to comply as from Q2 2014.

Basel III

- Risk-based capital. All eight member jurisdictions have adopted final rules that are legally in force, subject to transitional and phase-in arrangements, except for Canada, which has required banks to meet the capital adequacy requirements (10.5% of their total RWA) on an all-in basis well before the 2019 deadline. Rules on capital buffers are expected to be issued in 2014 by Hong Kong. Rules on capital conservation buffer and countercyclical buffer expected to be issued in 2014-15 by Japan.
- G-SIB and D-SIB requirements. In Canada, D-SIBs (the six largest Canadian banks) will be subject to a 1% risk-weighted capital surcharge starting 1 January 2016. Additional supervisory expectations and disclosure obligations are in effect. The specific D-SIB supervisory framework is reviewed in China, where a 1% D-SIB surcharge has been applied to the five largest Chinese banks since 2010. Rules are expected to be issued in 2014 in Hong Kong.
- Liquidity Coverage Ratio (LCR). In May 2013, Australia revised its previous draft on liquidity standards. Public consultations began in November in Canada. In Hong Kong, the authorities are undertaking industry consultations on implementation of LCR, with the rules expected in 2014. In India, draft guidelines were issued in February 2012 and final rules are being formulated.
- Leverage ratio. Rules on disclosure of leverage ratio are expected to be issued in 2014 in Hong Kong. Guidelines were issued in May 2012 in India and leverage ratio monitoring

started from Q3 2013. Rules on disclosure of leverage ratio are expected to be issued in 2014. Canada is considering alignment of the current assets-to-capital multiple to Basel III leverage requirements. In China, a domestic leverage ratio requirement of 4% has been in effect since 2012.

Resolution Regimes

- Resolution regimes across the member jurisdictions exhibit a broad range of practices in terms of scope, mandates and powers of authorities, treatment of financial contracts in resolution, safeguarding of creditors, funding arrangements, resolvability assessments, recovery and resolution planning (RRP).
- All jurisdictions have designated resolution authorities for both banks and insurers, except for India which has designated a resolution authority only for banks. Only China and Brazil have designated authorities for securities or investment firms. There are no resolution regimes for FMIs (financial market infrastructures).
- The powers assigned to authorities can be exercised without shareholders' consent in Australia, Canada, China, and India and with court approval in Japan. Tools such as establishing and operating a bridge institution or an asset management company are not in place in China or India. A bail-in regime has not been designed yet. A temporary stay on early termination rights can be imposed only in Canada. Both departure from equal treatment of creditors and compensation if losses under resolution are higher than in ordinary insolvency procedure are possible in Australia and Canada. Only Japan has both a resolution fund and a formal mechanism for recovery of public funds in place. The rules on submission of recovery and resolution plans for review/approval vary across all jurisdictions.
- Australia, Brazil and Singapore are in the process of developing further legislation following public consultations. Internal policy discussions are taking place in Canada, Hong Kong and India. In Japan, a report with recommendations on the establishment of an orderly resolution regime for financial institutions has been released. No reform is envisaged in China.

Sources

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