

Session 10.1

Workshop Comprising Small Groups

Respond To The Following Question:

You are a regulator supervising domestic banks, some with operations in other jurisdictions, and internationally operating banks in your jurisdiction, and you are concerned at the spread of risk arising from market turbulence. Analyse what you think are:

- i) the most effective governance structures in your agency to handle risk impacting on your responsibilities (TEAM 1)**
- ii) what are the key measures you need to have in place with the various groups of banks you supervise (TEAM 2)**
- iii) what do you consider are the critical aspects of your agency's relationship with foreign supervisors and with other groups (TEAM 3)**
- iv) what do you consider are the current major problems a supervisory agency would confront in supervising banks – domestic and foreign – to ameliorate risk arising from market turbulence (TEAM 4)**

Recommended references:

- Basel II - Home host information sharing for effective Basel II implementation – June 2006
- Report of the Financial Stability Forum on enhancing market and institutional resilience – 7 April 2008 – Chapter V; sections 2 and 3.
- Report of the Financial Stability Forum on enhancing market and Institutional resilience – Follow-up on implementation - 10 October 2008 – Chapter 4; sections 4.2 and 4.3.

Logistics:

- teams may meet at anytime to discuss approach to issues in workshop
- teams to meet with facilitator for 10 minutes immediately after introduction to Session 10.1 to
 - i) discuss approach to their presentation at the facilitated discussion
 - ii) agree form of presentation
 - iii) agree presenter/s for team
- presentation for each team should be no more than 8 minutes.

TEAM 1

Facilitator – Paul McCarthy

Nguyen Huu Nghia	- Vietnam
Hamim Syahrur Ahmad Mokhtar	- Malaysia
Fabrizio Lopez Gallo Dey	- Mexico
Mirza Yuniar Isnaeni Mara	- Indonesia
Irina Yakimova	- Russia
Jose Recon S. Tano	- Philippines
Yang Jun	- China

The most effective governance structures in your agency to handle risk impacting on your responsibilities

Governance framework needs:

- Mission
- Strategy
- Coordination between regulators and supervisors within the country and between the countries

Home-Host Relationships –

- Close home/host relationship. So people know what subsidiaries are doing
- Share information with home country.
- Complete information about whatever outside the country could affect the internal situations (systemic problems)
- Trust is important

Financial Instability Committee and Task Force should not change - but a high level unit should make sure that home/host relationships work well.

Guiding principles of exchanges of information

- Balanced relationship between the two agencies
- Risk focused
- Access to information in both directions
- Should be aware of what other supervisory agencies are thinking – if they are taking certain actions, should be aware of what the impact might be on banks
- Avoid redundancies between home and host supervisors (this is difficult to do)

Questions:

If you think about the Basel Accord and the way it classifies risk – would you feel that one way of structuring the regulatory agency would be to have teams that specialize in dealing with those particular risks? Also, a separate area that would analyse statistical returns

- o I would say no. Should look at the financial intermediary as a whole because even though we might try to separate risk based on its characteristics, you need

to know the interactions between the risks – such as market/banking book. If you separate these operations, you may get a different picture than what the bank is really doing, which could be different.

- We have a special task force that is composed of different individuals that have knowledge of different areas of risk, to gain a fuller understanding of the overall picture

If you had a banking regulatory separate from the central bank, would the structure look the same as the one you have put together?

- It is our view that it is important for the regulatory agency to be the same as the central bank. We do not believe that the regulator should be separate from the Central Bank. We have considered the pros and cons. It is difficult to implement when you have two different structures, based on our experience, there are problems with coordination and timely responses.
- A banking regulator, if in the Central Bank or separately, has to be able to take action decisively and quickly. But if you're a banking regulator and you see a crisis, I don't know if the first reaction is to have a memorandum with different regulators
- This structure, regardless of whether regulator is separate or in one agency, is flexible enough for them to work together. Task force is composed of different regulators and supervisors. Accountability and responsibility would be high.
- In Indonesia, a regulation was made that formed the financial stability committee composed of MOF and banking supervisor, this forum could be effective for coordination and the Chairman is the Central Bank's governor (in this case is the same as the banking regulator)
- You have looked at what the Financial Stability Forum is suggestion and taken their perspectives when determining your response and it is good to see that you respect their opinions in this time.
- In APRA, the way things are structured, specialist risk areas cover the various categories of risk covered under the Accord and those teams go on-site and you review the risks under that heading. Separate for credit, operational and interest rate risk, etc. In response to the recent turbulence, there has been a formation to handle liquidity risk. This allows you to do cross-bank analysis. You also have groups dealing with individual banks that look at statistical information. There are also channels for handling perceived or actual problems in a particular institution.
 - There are regulator meetings between APRA and regulators in other jurisdictions to formulate a group perspective

As I oversaw the group's issues as they relate to governance structures and market turbulence (we're assuming this is not institution specific but could be systemic). Despite of how regulators are organized there needs to be some governance structures to coordinate central bank and prudential regulators. You need a process to liaise with other countries bank supervisors. This led the Group to deal with the question as they did and did a good job in articulating a framework.

TEAM 2

Facilitator – Bruce LeBransky

Bui Thi Phuong Hoa	- Vietnam
Sarimah Mohamed	- Malaysia
Elizabeth N. Sanchez	- Philippines
Didik Madiyono	- Indonesia
Ye Xiaolu	- China
Prasat Somchitnug	- Thailand

What are the key measures you need to have in place with the various groups of banks you supervise?

Key measures in supervision of cross-border banks. As a home supervisor, banks with interactions overseas impacts local banks.

As a regulator you need to understand overseas procedures – activities / mission / vision / contribution to the group as a whole as terms of asset size

What is the country/regulatory risk in that particular operation?

Need to look at risk profile of overseas operation.

- Look at risk management process/compliance with laws and regulations
- Head office needs to give oversight of overall liquidity management/stress testing/contingency finding
- Most important thing in a crisis – what is the impact of subsidiaries and branches due to adverse economic conditions. If branch has overseas branches in NY after sub-prime crisis. What is the impact on overall risk?
- Currency issues. When there is devaluation, profit that they would get would be much lower.
- Impact on capital/profitability
- Division of responsibility between home and host supervisors. Intensify communication with host supervisors. Do supervisory visits more frequently to understand the condition of overseas operation
- For information sharing with host supervisor, should exchange findings
- Important to prioritise issues

Questions:

For monitoring procedures, what is the best way to ensure sustainability?

- To ensure sustainability you need to assess the business. And for home and host, discuss further the issues
- What is your capacity to handle foreign entities in your country?
- Frequently collaboration with regulators from other countries.

Process you've described is comprehensive, is this taking place in all of the economies present here. Do you have relationships as described with home supervisors? In your capacity to deal with the large foreign owed banks, are you getting enough dialogue information so that you as supervisors in your home economy feel comfortable?

- In Malaysia we are doing this and continuing to do this. We have overseas presence in several other countries. We are trying to further enhance our framework to make it effective.

Do you feel of equal strength as a home regulator, dealing with host regulators whose banks are significant in your economy and may come from a well developed market, do you discuss on equal terms, do you have the capacity to do that?

- In Malaysia, we visit FSA because of there are foreign banks present. We went to a visit to Federal Reserve due to Citibank in Malaysia. We do have a supervisory visit to them to discuss issues of concern.

One of the issues that arises is the question of contagion risk – when one jurisdiction gets into trouble, what policies you have in place to avoid one country's problems affecting the rest of the group.

- Two broad policy approaches to this that APRA has approached is a clear regulatory restriction on intra-group lending. No overseas subsidiary can be funded over a certain level of capital.

TEAM 3

Facilitator – Wei Benhua

Norhidaya Johari	- Malaysia
Yulia Trubinova	- Russia
Pornwasa Sirinupongs	- Thailand
Sofia Yelitsa Calderon Quispe	- Peru
Xu Mingdong	- China
K.M. Abdul Wadood	- Bangladesh
Oum Sivanno	- Camdodia

Relationship with foreign supervisors and with other groups

For domestic and foreign bank regulators. Have an MOU between banking supervisors, which is in line with the Basel Committee Working Group on Cross-Border Banking

MOU should show division of responsibilities.

- Demonstrate inspection responsibilities/capital requirement.
- Sharing of information (application result and if denial, why)

Foreign bank should demonstrate how it complies with local requirements.

Joint forum on financial conglomerates – a forum for bank regulators and securities and insurance supervisors to strengthen supervision of financial conglomerates

Can have a task force of the joint forum to enhance the understanding in the way such groups are managed and organization

Cooperation with AML and CFT units. In Thailand, we have separate agencies to deal with this.

Question:

If you're a regulator, why do you have to join the MOU?

Different countries have different price. The MOU assures each other that the regulatory system is acceptable to your country and that the information exchange between the two regulators will be as predictable as possible and that you can trust the information

- After the Asian crisis, home and host supervisors have a view.

The team suggests you have a committee of supervisors with regulators from different country, we don't have that.

TEAM 4

Facilitator – Ken Waller

Usaluk Jesdathavornwong	- Thailand
Andres Abel Zacarias Camac	- Peru
Qu Haichang	- China
Chhin Dina	- Cambodia
Li Xiaohua	- China
Somyot Meepetchdee	- Thailand

What do you consider are the current major problems a supervisory agency would confront in supervising banks – domestic and foreign – to ameliorate risk arising from market turbulence?

Different regulatory standards.

Different account practices and products. In Cambodia, there are different banks. The authorities in Cambodia have different ways to assess local and foreign banks. For underdeveloped market systems, this could represent an increased cost in the way they supervise different kinds of frameworks. In Cambodia, the operations for banks have different parameters.

Systemic risk – degree of correlation of assets. There is a challenge for supervisory agents – how to measure correlation of assets in different countries. Since banks can invest in local and foreign assets, they need to be completely aware and measure the degree of correlation because of systemic risk happens it can affect the stability of a country.

Communication Problems.

Questions:

Do you have the skills and quality of information you need to be able to see the issues that may arise.

- Peru needs clear ways to qualify and measure the things that come from the financial crisis. The supervisor in Peru is the Superintendencia. This authority has a close relationship with the Ministry of Economy and Central Bank and the authority of this agency
- For emerging countries, the challenges are external so it's difficult to measure the impact in this jurisdiction. A lot of uncertainty than in the Asian financial crisis and we were able to have a direct supervisory response to this. In this crisis, there is a huge amount of uncertainty to what will happen over the next few months and we'd have a better response if we had a better understanding. The department of economics research in the Philippines, the crisis is not limited to the financial sector itself and as it trickles down to the economy you can have a more proactive supervisory response.
- Ken Waller- Financial turbulence can come domestically or externally – from regulatory failure or from a bank not having the liquidity to meet its requirements. The question is as a supervisor/regulator, what are the skills you need to do the things you need to do. You might find this expertise outside your own agencies. You need to gather input from reliable places that may not be in the financial system or in your agency, but your relationship with a range of bodies (research, academic) and having those at your disposal when doing your job is very important to have.

How do we pass on this experience in financial turbulence to the next generation?

- Mistakes that Mexico made pre-1994 are the same mistakes that US banks were making. So international experience is important. The opportunity to relate to colleagues from other parts of the world is valuable. These things are harder to offer to people in the private sector.



Enhancing Risk Management and Governance in the Region's Banking
System to Implement Basel II and to Meet Contemporary Risks and
Challenges Arising from the Global Banking System

Training Program ~ 8 – 12 December 2008
SHANGHAI, CHINA

Session 10.1

Team 1

Hamim Syahrums Ahmad Mokhtar - Malaysia
Fabrizio Lopez Gallo Dey - Mexico
Mirza Yuniar Isnaeni Mara - Indonesia
Irina Yakimova - Russia
Jose Recon S. Tano - Philippines

Workshop on most effective governance structures in your agency
to handle risk impacting your on your responsibilities

TEAM FANTASTIC 1

Fabrizio Lopez Gallo Dey	- Mexico
Hamim Syahrur Ahmad Mokhtar	- Malaysia
Mirza Yuniar Isnaeni Mara	- Indonesia
Irina Yakimova	- Russia
Jose Recon S. Tano	- Philippines

"You are regulator supervising domestic banks, some with operations in other jurisdictions, and internationally operating banks in your jurisdictions, and you are concerned at the spread of risk arising from market turbulence"



1

Outline of Governance Structure

- Coordination between regulators and/or supervisors **within the country**
- Coordination between regulators and/or supervisors **between the countries**
 - ✓ As Home-country supervisors and/or regulators
 - ✓ As Host-country supervisors and/or regulators



* ROR II - Rate of Return Framework II

2

Framework that provide coordination between regulators and/or supervisors within the country & set-up of Financial Stability Committee...



OVERRIDING PRINCIPLES

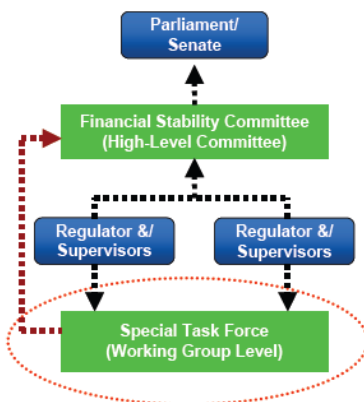
- Effective communication & close collaboration between regulators
- Accountability linked to authorities
- Fast action - Speed & swift response is vital as 'delay destroys value'

GOVERNANCE STRUCTURE I

- Legal Framework
- **MOU** between regulators & supervisors
 - ✓ Arrangement on **information sharing**
 - ✓ **Responsibility** defined
- Set-up **Financial Stability Committee** as platform for discussion & decision making
 - ✓ Agenda focused on right priorities
 - ✓ Frequency of the meetings
 - ✓ Report to Parliament/ Senate
 - ✓ Code of conduct & ethical standard

3

The need for special task force (technical level) to ensure close collaboration and quality of proposals & recommendation...



GOVERNANCE STRUCTURE II

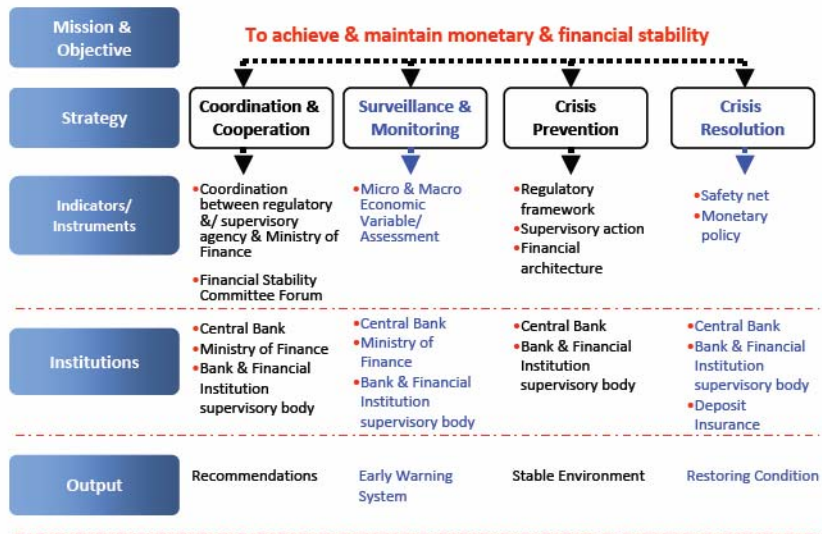
- Special task force as working group level
 - ✓ **Liaison function** to ensure i. good relationship between regulators & supervisors; ii. No regulatory arbitrage
 - ✓ Team members comprise of **expert** from different regulators & supervisors
 - ✓ To come-up with **high quality recommendations & report** to Financial Stability Committee

SUMMARY

- Many emerging market have separate regulatory agencies to supervise banking, insurance, capital market & deposit insurance
- Require good co-operation, coordination & communication
- Form high level financial stability committee consist of regulators & ministry of finance head
- Form technical working group on technical & detail matters

4

Overall Governance Framework...



5

Outline of Governance Structure

- Coordination between regulators and/or supervisors **within** the country

- Coordination between regulators and/or supervisors **between** the countries

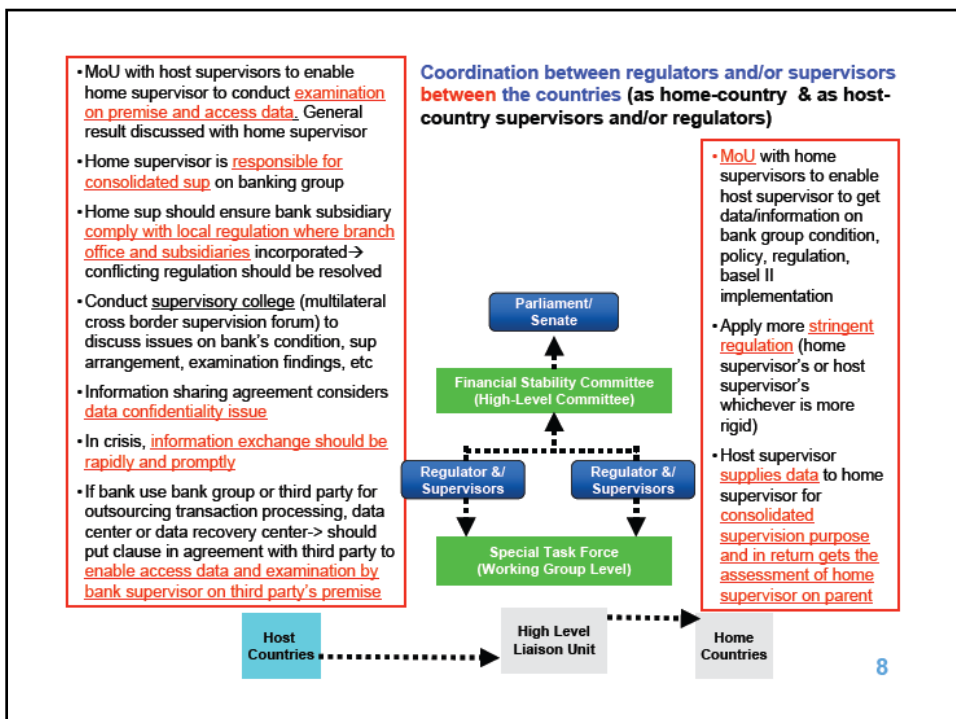
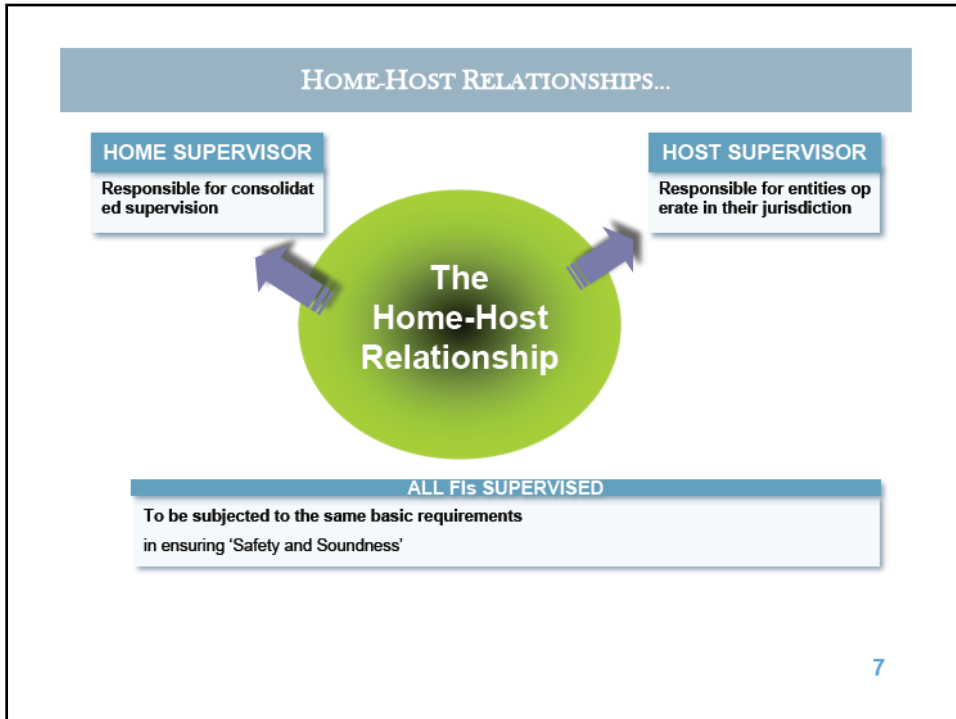
✓ As Home-country supervisors and/or regulators

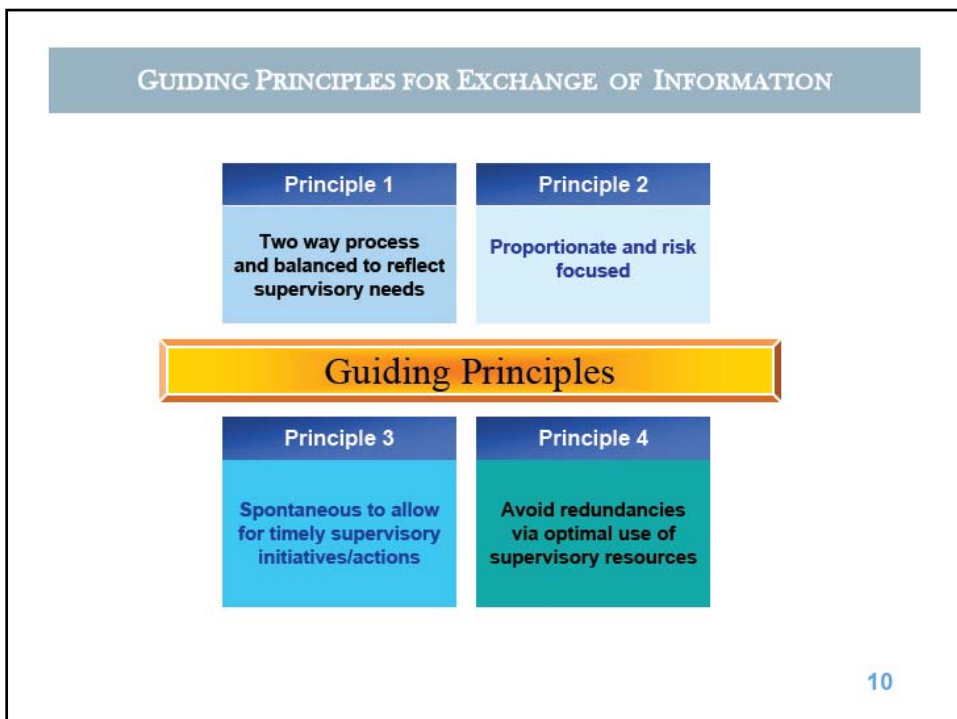
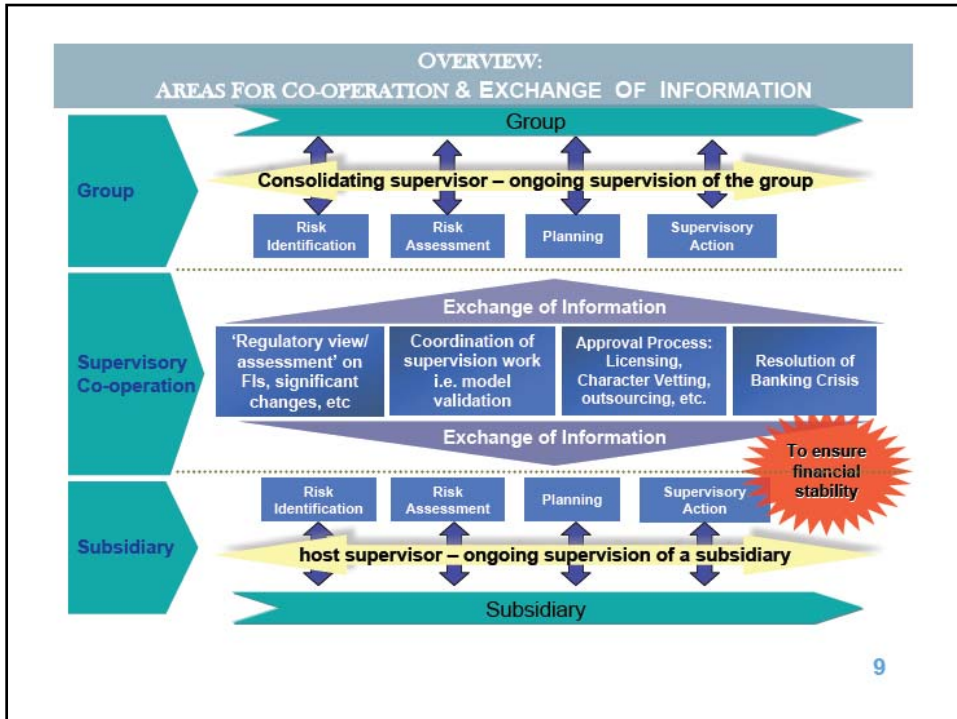
✓ As Host-country supervisors and/or regulators



* ROR II - Rate of Return Framework II

6







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Prasat Somchitnug - Thailand

Supervision of cross border banks

Key Measures in supervision of group of banks

Home-host responsibilities:

- home country authorities to supervise banks' worldwide consolidated activities
- host country responsibility to supervise foreign bank establishments in their territories as individual institutions.

Objective:

- To promote financial stability
- To foster a sound & progressive banking by ensuring safety & soundness of financial institution

Key Measures in Supervision of Cross Border Banks

Home Supervisor: part of consolidated supervision

Emerging issues

- Impact to subsidiaries/branches due to adverse economic condition (eg: supprime crisis, recession, devaluation of currencies)
 - Impact on capital, profitability
 - Any capital injection required
 - Liquidity contingency plan

Head office oversight

- Governance/ Internal reporting
- Global Liquidity Risk Management (Group ALCO) – Monitor, stress test, contingency funding plan.
- Global Risk Management (Reporting structure&monitoring), Policy&Procedure, Limit, Internal Control

Know the Overseas Business

- Overview of overseas business operations
 - strategy, vision, governance structure
 - significant activities
- Contribution (size & profit to the group)
- Country & Regulatory Risk

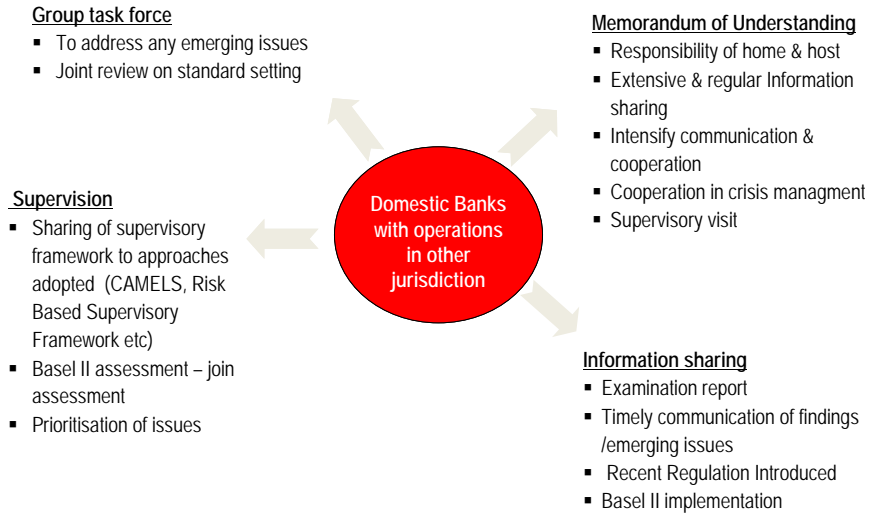
Evaluation:

- Risk Profile – firm wide risk management
 - Credit Risk
 - Market Risk
 - Operational Risk
- Financial Condition
- Risk Management Process
- Compliance with laws & regulations
- Anti Money Laundering

Domestic Banks with operations in other jurisdiction

Key Measures in Supervision of Cross Border Banks

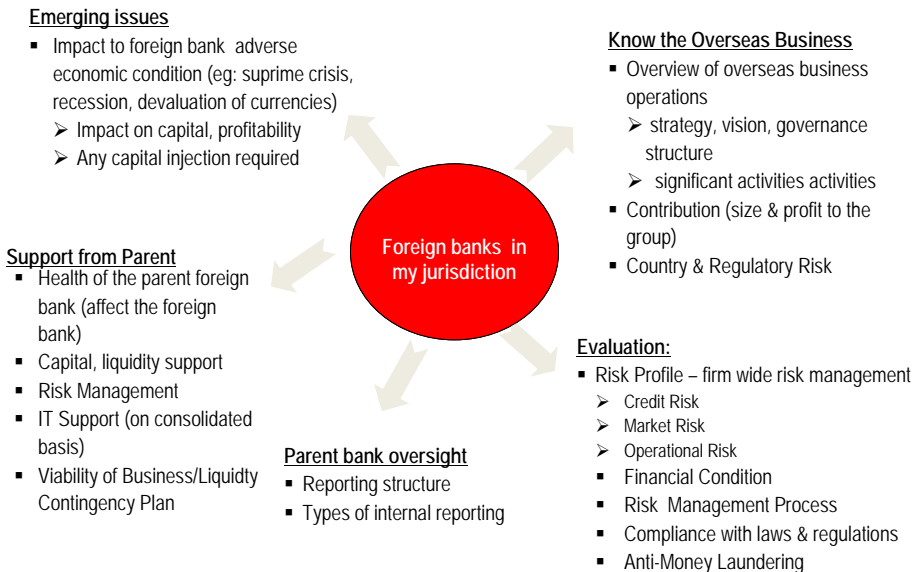
Relationship with Host Supervisor



3

Key Measures in Supervision of Cross Border Banks

Acting as Host Supervisor



4

Key Measures in Supervision of Cross Border Banks

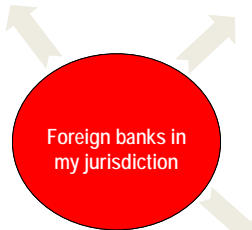
Relationship with Home Supervisor

Group task force

- To address any emerging issues
- Joint review on standard setting

Supervision

- Sharing of supervisory framework to approaches adopted (CAMELS)
- Basel II
 - Join assessment for implementation
- Prioritisation of issues



Memorandum of Understanding

- Responsibility of home & host
- Extensive & regular information sharing
- Intensify communication & cooperation
- Cooperation in crisis management
- Supervisory visit

Information sharing

- Examination report
- Timely communication of findings /emerging issues
- Recent Regulation Introduced
- Basel II implementation

5

THANK YOU

Bui Thi Phuong Hoa
Sarimah Mohamed
Elizabeth N. Sanchez
Didik Madiyono
Ye Xiaolu
Prasat Somchitnug



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Team 3

Norhidaya Johari - Malaysia
Yulia Trubanova - Russia
Pornwasa Sirinupongs - Thailand
Sofia Yelitsa Calderon Quispe - Peru
Xu Mingdong - China
K.M. Abdul Wadood - Bangladesh
Oum Sivanno - Camdodia



You are a regulator supervising domestic banks, some with operations in other jurisdictions, and internationally operating banks in your jurisdiction, and you are concerned at the spread of risk arising from market turbulence.

“What do you consider are the critical aspects of your agency's relationship with foreign supervisors and with other groups”.



Critical Aspects of Relationship Between

1. Domestic – Foreign Bank Regulators
2. Bank Regulator – Other Agencies





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1. Domestic – Foreign Bank Regulators

MOU between Banking Supervisors

(in line with Basel Committee Working Group on Cross-Border Banking)

Division of Responsibilities

Clearly identify the authority and responsibility of both Parties eg. inspection, liquidity management, capital requirement, deposit insurance, etc.

Sharing of Information

- application result,
- bank's compliance with domestic regulations,
- nature of regulatory system,
- ring-fencing arrangement
- other relevant information for example; outcome of the stress-test, OTC transactions





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1. Domestic – Foreign Bank Regulators

MOU between Banking Supervisors

(in line with Basel Committee Working Group on Cross-Border Banking)

Coordinating Committee: combination of home-host supervisory authorities

On-site Inspection

- identify plans and purposes to examine
- the host supervisor should allow the home supervisor or its delegated agent to conduct on-site inspections
- examinations may be carried out by the home supervisor alone or accompanied by the host supervisor
- An exchange of views between the examination team and the host supervisor

On-site Visits

Consolidated Supervision

Protection of Information

mutual trust between supervisory authorities – confidentiality during exchanges of information

On-going Coordination

- Exchange of staff*
- Assigned contact persons for host and home countries*



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1. Domestic – Foreign Bank Regulators

Financial Crisis

- Cross-border crisis management committee
- Extra information sharing
 - + liquidity contingency plans
 - + emerging risks exposure
- Enhance the speed and setting priorities of coordinations



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2. Bank Regulators – Other Agencies

Joint Forum on Financial Conglomerates

to enhance cooperation with securities and insurance supervisors so as to strengthen the supervision of financial conglomerates

Task Force of the Joint Forum

to enhance the understanding of the ways in which such groups are managed and organized.

Cooperation with AML/CFT units

MAFC
Melbourne APEC Finance Centre



**Asia-Pacific
Economic Cooperation**



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THANK YOU

**NORHIDAYAH JOHARI
YULIA TRUBINOVA
WASA SIRINUPONGS
SOFIA CALDERON
XU MINGDONG
K.M. ABDUL WADOOD
OUM SIVANNO**



11 December, 2008



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Team 4

Usaluk Jesdathavornwong - Thailand
Andres Abel Zacarias Camac - Peru
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Chhin Dina - Cambodia
Li Xiaohua - China
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SESSION 10.1 WORKSHOP

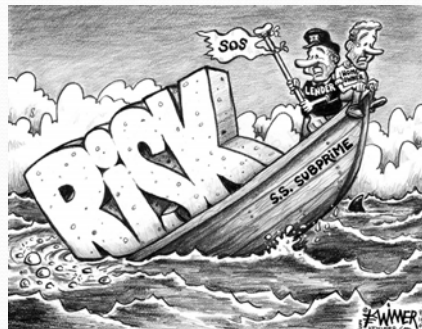
TEAM 4

Usaluk Jesdathavornwong
Andres Zacarias
Qu Haichang
Chhin Dina
Li Xiaohua
Somyot Meepetchdee

Thailand
Peru
China
Cambodia
China
Thailand

The Question ..

What do we consider are the current major problems a supervisory agency would confront in supervising banks – domestic and foreign – to ameliorate risk arising from market turbulence?



Team's answers

- Different regulatory standards
- Different accounting practices and products
- Systemic risk: The degree of correlation
- Communication problems
- Deposits guarantees

Different regulatory standards

- Different regulatory standards
- Different accounting practices and products
- Systemic risk: The degree of correlation
- Communication problems
- Deposits guarantees

Different accounting practices and products

Different regulatory standards

Different accounting practices and products

Systemic risk: The degree of correlation

Communication problems

Deposits guarantees

Systemic risk: The degree of correlation

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Systemic risk: The degree of correlation

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Deposits guarantees

Deposits guarantees

Different regulatory standards

Different accounting practices and products

Systemic risk: The degree of correlation

Communication problems

Deposits guarantees

Thank you!



APPENDIX

As the presence of foreign-owned banks grows, the complexity of the tasks facing supervisory authorities increases. The challenges for emerging market supervisors include:

- (i) choosing of licensing policy and fitness and propriety test for management and owners of a complex holding company or investment funds;
- (ii) effectively monitoring the local establishment of large international banks or complex financial institutions;
- (iii) upgrading their supervisory capacity to oversee complicated financial products of foreign banks;
- (iv) dealing with the issue of the parent bank support in case of difficulties of a branch or subsidiary in normal as well as systemic crisis situations;
- (v) handling consolidated supervision in the event the market is heavily dependent on foreign banks;
- (vi) effectively exchanging information with the home supervisors in the case of bank holding companies or other complex financial institutions;
- (vii) dealing with increasing concentration in the banking system by foreign banks;
- (viii) improving the governance structure of complex international banking groups while, among other things enhancing the integrity standards in the financial markets.

These challenges should be resolved through more enhanced cooperation between home-and host-country supervisory authorities, as well as development of additional international best practices.

Thank you