

Global Risk Watch Newsletter

Global Financial Market is in a “lull” before facing a possible “super typhoon”, etc.

Global Risk Watch Vol.18
29 September 2016

=====
<<index>>

- [1. # Global Financial Market is in a “lull” before facing a possible “super typhoon” \(Tsuyoshi Oyama\)](#)
- 2. # Signs of Conversion from Capital Oriented Regulations to Best Practice Oriented (Koichi Iwai)
- [3. # Change in the Shape of the Yield Curve \(Yasuhiro Sobue\)](#)
- [4. Seminars, Conference & Publications](#)

=====
2. Overview of Development in Financial Regulations (Trends & Topics)

Signs of Conversion from Capital Oriented Regulations to Best Practice Oriented (Koichi Iwai, Senior Manager, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

While some differences in implementing the post-crisis regulatory reforms have been acknowledged, some jurisdictions show concern that the reforms have gone too far, especially in bank capital regulations, so-called Basel IV reform.

Towards the G20 held in China in September, several reports were published by Financial Stability Board (FRB) and the Basel Committee on Banking Supervision (BCBS) with respect to the progress of regulatory reform in the past few years. Among the reports, concerns are raised on a possibility that internationally agreed implementation deadline cannot be met in several areas, including the ones shown below:

- (1) Margin requirements for non-centrally cleared derivatives
- (2) Capital requirements for bank exposures to central counterparties
- (3) The standardised approach for measuring counterparty credit risk exposures

- (4) Capital requirements relating to equity investments in funds
- (5) Revised Pillar 3 framework
- (6) Requirements that mandate platform trading

For the first reform above, in particular, it is confirmed that nearly half of FSB member states do not have a solid timeframe on the implementation by March 2017 while only 3 member states can meet the globally agreed due date. If the timing of the implementation differs amongst member states, the member states and banks in those countries that comply with the regulation beforehand are likely to raise an argument that they are suffering competitive disadvantage. As a result, there is a likelihood that the implementation of those regulations will delay as whole. Currently, Japan and the United States are committed to introduce the regulation in accordance with the international agreement. In Asian financial centers such as Hong Kong, Singapore and Australia, the development of margin requirements are being delayed, and we shall keep close eye on their future actions.

In addition to such delays in certain areas, European countries are concerned on greater impact on their banks and real economy with respect to the standard method of credit risk and operational risk, claiming that “relaxation is necessary”. Under these circumstances, the GHOS (The Group of Governors and Heads of Supervision), which overlooks BCBS, announced that “the Committee (BCBS) should focus on not significantly increasing overall capital requirements.” This policy statement has been confirmed couple of times by GHOS previously, but by re-emphasizing this policy statement, not only will it affect the discussion on capital buffer requirements but, it will lead to a possible revision of capital requirements on credit risk and operational risk which will be a significant issue for the Japanese banks.

With the timing of regulatory compliance and review of capital regulations in mind, so where is financial regulation heading? One possibility could be the “importance of financial supervision” or “best practice and good practice”. For example, FSB indicated to publicize an additional guidance on the misconduct measures by the end of 2017, with focusing on financial institutions’ “good practice” on governance and compensation tools. In addition, FSB has intentions to conduct peer review of OECD Corporate Governance Principles and verify effective practice, which will be incorporated in the guidance. Thus, rather than implementing “additional rules”, FSB’s policy could be to encourage each country’s supervisors and financial institutions to share good practices.

This perhaps suggests that attitude towards financial regulations seems to have changed as the global economy struggles to reach a sufficient growth. Moreover, the trend of moving from tightening of regulations to best-practice focused is somewhat in line with what the Japanese Financial Services Agency advocates. Consequently, the time is approaching to see the change of tide in the global financial regulatory reforms.

Deloitte Tohmatsu Group (Deloitte Japan) is the name of the Japan member firm group of Deloitte Touche Tohmatsu Limited (DTTL), a UK private company limited by guarantee, which includes Deloitte Touche Tohmatsu LLC, Deloitte Tohmatsu Consulting LLC, Deloitte Tohmatsu Financial Advisory LLC, Deloitte Tohmatsu Tax Co., DT Legal Japan, and all of their respective subsidiaries and affiliates. Deloitte Tohmatsu Group (Deloitte Japan) is among the nation's leading professional services firms and each entity in Deloitte Tohmatsu Group (Deloitte Japan) provides services in accordance with applicable laws and regulations. The services include audit, tax, legal, consulting, and financial advisory services which are delivered to many clients including multinational enterprises and major Japanese business entities through over 8,700 professionals in nearly 40 cities throughout Japan. For more information, please visit the Deloitte Tohmatsu Group (Deloitte Japan)'s website at www.deloitte.com/jp/en

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 225,000 professionals make an impact that matters, please connect with us on [Facebook](#), [LinkedIn](#), or [Twitter](#).

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2016. For information, contact Deloitte Touche Tohmatsu LLC.

**Member of
Deloitte Touche Tohmatsu Limited**