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Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

Global Risk Watch Newsletter

Are we better to focus on the impacts of re-emergence of “left” rather than “far-right” in Europe?, etc.

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

The prospects of the global financial regulation (Yuri Nakano, Senior Manager, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

At the end of February and early March, important international conferences, a Basel Committee meeting and an FSB (Financial Stability Board) plenary meeting took place. At the Basel Committee, despite some progress toward finalization of output floor of credit risk and leverage ratio framework were expected, the only information made public was the comments from the Chairman Stefan Ingves stating, “The Basel Committee has made further progress towards the finalisation of the Basel III reforms. While the finalization of Basel III will take longer than originally expected, the Committee remains determined to reach agreement on the remaining elements, and recognizes the importance of providing clarity and certainty to all market participants.” In Europe, European Council has been discussing the capital requirements and resolution framework amendments announced by the European Commission in November 2016, but the opinions seem to differ among countries such as Germany, the U.K., and France, and thus reaching an agreement is likely to require more time. Certain contents of the proposed amendments, including a three-year phase-in period for the fundamental review of the trading book (FRTB), diverge from the internationally agreed Basel standards, and Germany and the U.K. are reportedly advocating for a more rigid regulation. Since the Global Financial Crisis, the global community has worked collectively to achieve the common goal on strengthening the global regulations, but at this final stage, the unity is beginning to fall apart.

On February 28th and 29th, the FSB plenary meeting discussed the progress and future plans of their focused projects. Since the financial crisis, FSB has driven forward a number of regulatory reforms including extensive

enhancement of capital requirements for the banking sector. The prudential regulation has been strengthened considerably, and now FSB is moving to a new phase to review and analyze the implementation, and effectiveness of the post-crisis reforms, and to focus on issues such as misconduct as well as emerging risks including FinTech, and climate change. Currently FSB is in the process of establishing a framework to evaluate the effects of G20 financial regulatory reforms and their unintended negative effects. With the new U.S. administration claiming for financial deregulation, in case any significant unintended implication should be identified by this framework, global trend of deregulation could take place.

Additionally at the plenary, Norman Chan of the Hong Kong Monetary Authority succeeded FRB Governor Tarullo as the Chair of the Standing Committee on Supervisory and Regulatory Cooperation (SRC), which is responsible for formulation of regulatory and supervisory policy measures. Lesetja Kganyago of the South African Reserve Bank was also newly appointed as the Chair of the Standing Committee on Standards Implementation (SCSI). With these appointments, all three key standing committees of FSB, including the Standing Committee on Assessment of Vulnerabilities (SCAV), are headed by emerging nations. FSB has been committed to strengthening the global regulation, in particular the prudential regulation led by advanced countries since the global financial crisis, but going forward, its role appears to change.

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