

## Inspiring global alignment through value creation The IIRC's Global Conference 2019

### Reporting trends: Global regulation and reporting



Jane Diplock AO  
Director  
Singapore Exchange Limited



Matthew Ekberg  
Senior Policy Advisor for  
Regulatory Affairs  
The Institute of International  
Finance



Paul Druckman  
Chair  
Future of Corporate Reporting  
Advisory Group



Adrian Fleming  
CEO  
Accuvio



Siobhan Cleary  
Head of Research and Public  
Policy  
World Federation of Exchanges  
(WFE)

# Regulatory Risk and Reporting

London, May 2019

Matthew L. Ekberg  
Senior Advisor and Head of IIF London Office  
Regulatory Affairs Department



# Agenda: The Evolving Global Regulatory Environment

1. Basel III Framework Finalization and Implementation
2. Market Fragmentation
3. Operational Resilience
4. AML/CFT and Cyber Crime Risks
5. Climate Risks

# The Evolving Global Regulatory Environment

- Implementation phase: from “global” to “local” and proportionality
- New Focus on Market Fragmentation (FSB, Japanese G20)
- New challenges as the industry transforms:
  - ❑ Business models;
  - ❑ New dimensions of operational risk;
  - ❑ Technology transformation;
  - ❑ Data collection and management.

# Basel III Framework – Finalization and Implementation

- BCBS issued “finalized” Basel III reforms in 2017 with FRTB Completed in 2018
- Objective of “no significant increase” of overall capital requirements:
  - Impacts still vary between jurisdictions and between banks.
- Regulatory priorities: implementation, evaluation & monitoring
- Timely and consistent implementation in all jurisdictions

# Global Regulatory Agenda: The Road Ahead

- As Basel III focus will move from regulation to implementation:
  - ❑ This move from global to local will crystallize risks of diversion and fragmentation.
  - ❑ Adopting an approach of ‘dynamic regulation’ is challenging; Balance of simplicity, risk-sensitivity and comparability under review.
  - ❑ Assessing evaluation of appropriateness of regulation: Impact assessments & Data quality are key.
- The monitoring of implementation has several dimensions:
  - ❑ Consistency, comprehensiveness, timeliness of existing regulation.
  - ❑ Identification of emerging risks.
  - ❑ Impact on business areas and entire markets – effect on EM economies.
- Another key challenge is cooperation and coordination:
  - ❑ Efficient coordination & cooperation ensure striking an appropriate and agreed balance between consistency and appropriate local discretion and regional allowances (EMs)

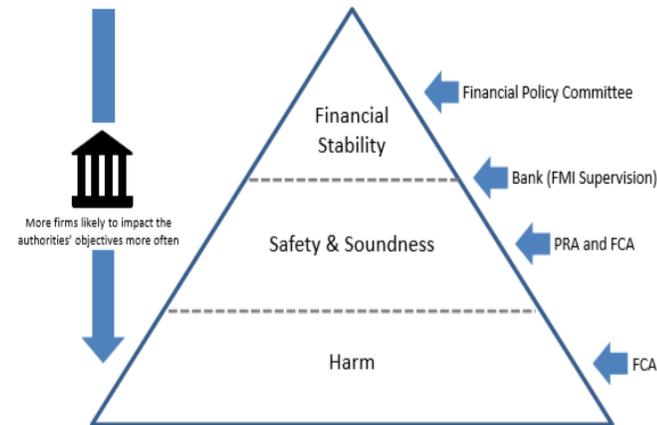
# Focus on Market Fragmentation

- Financial markets are experiencing increasing levels of fragmentation, which undermine the progress that has been made in re-building resilience of the global financial system since the financial crisis and result in negative consequences for economic growth and job creation
- Fragmentation resulting from excessive regulatory and supervisory divergence can trap capital, liquidity, and risk in local markets, create significant financial and operational inefficiencies resulting in additional unnecessary costs to end-users, and reduce customer-serving capacity
- New FSB initiative to explore ways to address the risk of market fragmentation, exploring what market fragmentation is, under what conditions it can emerge and what its potential impacts are
- FSB report due to June G20 Summit in Osaka
- IIF released new report, with 14 examples of market fragmentation, and 13 policy recommendations

# Operational Resilience: The Emerging Challenge

- *Operational Resilience*: The capacity of firms and financial market infrastructures to maintain the provision of products and services when operational disruptions occur.
- Operational disruptions are those that:
  - Harm consumers and market participants,
  - Threaten the viability of firms and FMI's
  - Cause instability of the financial system.

Figure 2: Impact of operational resilience on the objectives of the authorities



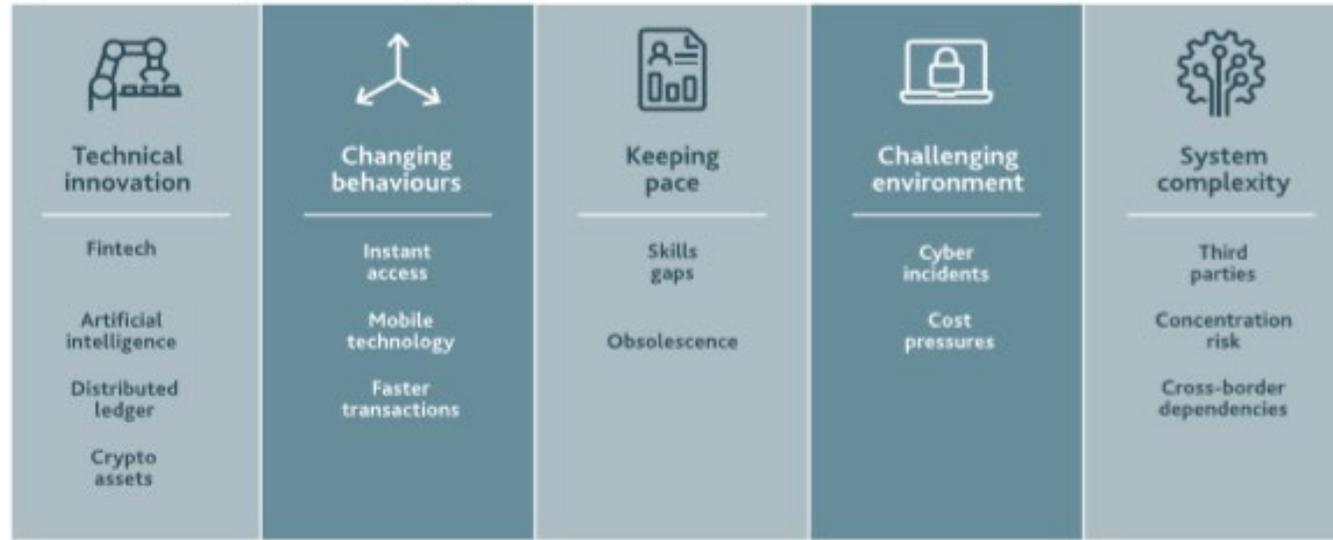
Source: BoE DP “Building the UK financial sector’s operational resilience”

- It is an increasing concern for the Regulatory Community:
  - BoE DP: “Building the UK financial sector’s operational resilience”.
  - BCBS has established a new working group: “Operational Resilience Group”.
  - US Agencies have conducted resilience exercises within the financial sector.

# Operational Resilience: The Debate

- Challenges to enhancing operational resilience:

Figure 1: Challenges to building operational resilience



Source: BoE DP “Building the UK financial sector’s operational resilience”

- The pace of technological change is a central element of the challenge.
- Developments in technology have also increased global interconnectedness, increasing the risk to systemic stability.

# Operational Resilience: Addressing the risk

- Focus on the continuity of business services provided by firms and FMIs:
  - Assume disruptions will occur
  - Increase focus on back-up plans, response and recovery options
  - Prioritize business services
- Set impact tolerances:
  - Efficient way for Boards & senior management to set their own standards of resilience
  - Analysis: Assessing those tolerances under severe but plausible scenarios
  - Use the assessment to identify vulnerabilities and take mitigating actions
- Response to operational disruptions is key to maintaining confidence

Proposal of the BoE in their DP “Building the UK financial sector’s operational resilience”

# AML/CFT and Cyber Crime Risk

The Risks from Money Laundering and Terrorist Financing in the Financial System have always been high, but there is an increased focus on mitigating those risks, both from a public and private sector perspective:

- Increased Information Sharing (domestic and cross border)
- Public Private Partnerships
- Intelligence Led Solutions
- The Use of Technology

The response to Cyber Crime requires global coordination and a holistic approach by the industry and regulators.

# Climate Risk

Background

Standard-setting

As it is widely acknowledged now, the global warming, 2 degrees above pre-industrial level, will cause devastate impacts on both climates and economics.

## Climate-related risks are a source of financial risk:

**Physical risks** - Physical risks results from climate change such as hurricanes, flooding, wildfire, etc. and may have financial implications such as direct damage to assets and indirect impacts from supply chain disruption.

- **Transition risks** - Transitioning to a lower-carbon economy occurs a lot of changes in policy, legal, technology, and market, and may have financial implications (i.e. changes in valuation) via increased sales of environment-friendly products, divesting coal-related companies, etc.

- Both international and national standard-setters are actively discussing and setting ambitious expectations, but no mandatory rules at this moment. The followings are just some examples:

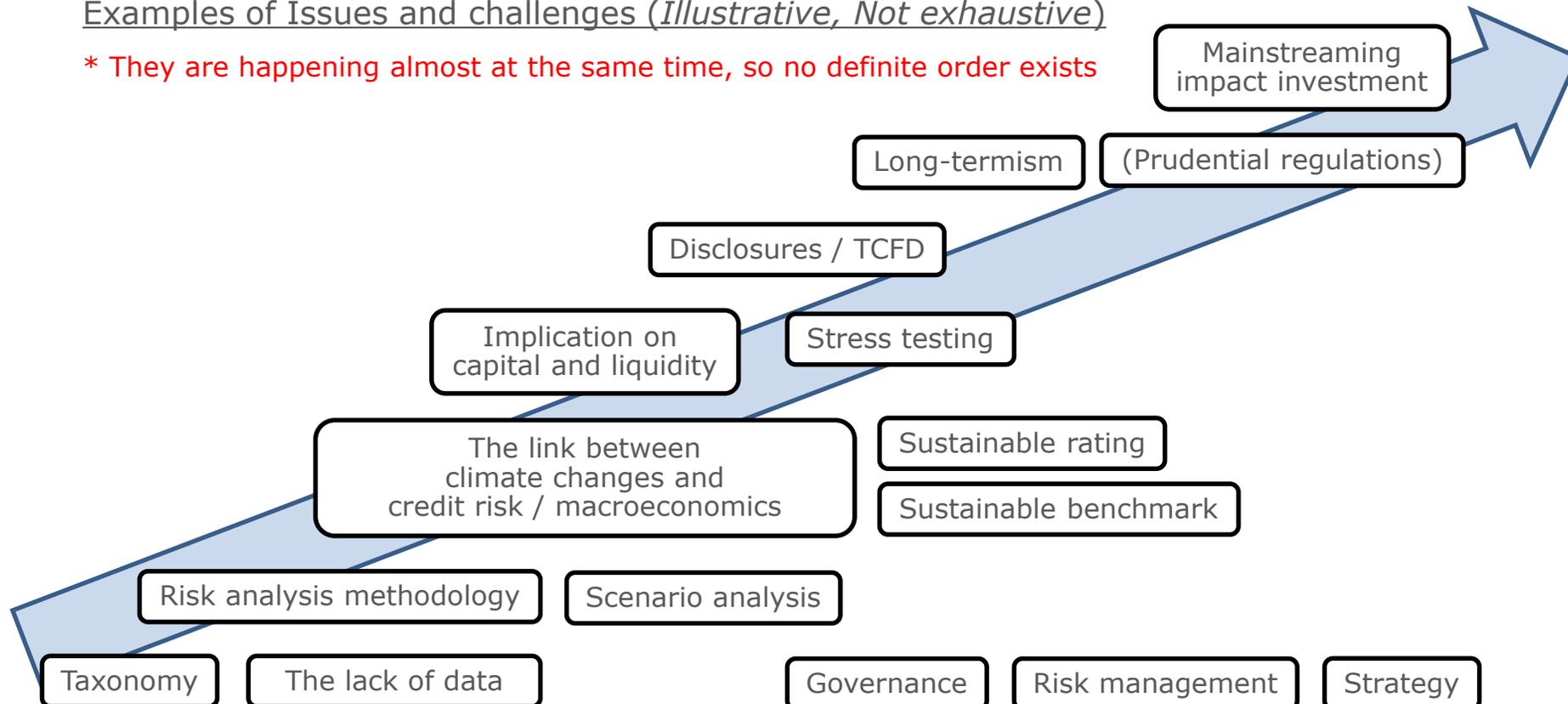
- **TCFD** (the Task Force on Climate-related Financial Disclosures) – TCFD is an industry-led task force established under leadership by the FSB in December 2015. The TCFD recommends voluntary disclosures of Governance, Strategy, Risk management and Metrics/Target regarding climate-related risks and opportunities.
- **NGFS** (Network for Greening the Financial System) - NGFS is a group of 18 Central Banks and Supervisors and 5 international organizations, launched in December 2017, having 3 technical workstreams - 1) supervisory/micro prudential, 2) macro-financial, 3) scaling up green finance.
- **PRA** (UK' Prudential Regulation Authority) published its consultation in October 2019 regarding its supervisory expectation on banks' and insurers' approaches to managing the financial risks from climate change.

# Climate Risk (Continued)

- Many financial institutions are having 5 year timeframe in their minds to implement TCFD disclosures.
- However, to achieve it, there are many issues to be solved, as illustrated below.
- To tackle the challenges, the IIF has formulated Sustainable Finance WG and 3 subgroups – 1) TCFD/Data, 2) Regulation/Policy, 3) Taxonomy/Impact Investments.

Examples of Issues and challenges (*Illustrative, Not exhaustive*)

\* They are happening almost at the same time, so no definite order exists



# Regulatory Risk and Reporting

London, May 2019

*Matthew L. Ekberg*

*Senior Advisor and Head of IIF London Office*

*Regulatory Affairs Department*

