

Glenford Ysaguirre: From the global financial crisis to more robust regulatory frameworks and resilient financial systems

Feature address by Mr Glenford Ysaguirre, Governor of the Central Bank of Belize, at the Caribbean Group of Banking Supervisors XXIX Annual Conference, San Pedro Town, 16 June 2011.

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A pleasant good morning to Mr. Cleviston Haynes – CGBS Chair; representatives from the Association of Supervisors of Banks of the Americas (ASBA), the Office of the Supervisor of the Currency (OCC), the US Department of the Treasury, the Federal Deposit Insurance Corporation (FDIC); members of CGBS; participants of this, the twenty-ninth annual CGBS conference. Ladies and gentlemen, let me join my staff in welcoming you to Belize and to the, warm, friendly and scenic location of San Pedro, Ambergris Caye. It is indeed my pleasure to have this opportunity to address this gathering today.

I understand that you have a very heavy agenda so my intent is to be very brief and not to stray from the script as is often my wont. As leading entities charged with the supervision of the financial sector, we all carry an enormous responsibility and one that ought not to be taken lightly. Today, I see the work of the CGBS as one of the few shining examples of a regional institution that does not seem to be afflicted with that, oh so common and familiar malady I call the CARICOM MALAISE. This is that common condition where we meet a lot, talk a lot, agree on a lot, debate a lot, and then we resolve not to do a damn lot. Let me give you an example: Take our attempt to get members to adopt a single draft model Banking Act across the region. While unanimously agreed to almost six years ago, it languishes in suspension as formal acceptance by a few jurisdictions is as yet forthcoming with no explanations for the protraction.

But, my purpose here today is not to dwell on the negative, but rather to plant an idea whose time I think has come. I hope it will pique your interest sufficiently for you to forgive my departure from the normal feature address format.

The theme for today's conference is very fitting and timely:

“From the global financial crisis to more robust regulatory frameworks and resilient financial systems”

I like this theme because it is forward looking and is in perfect consonance with the idea I am about to propose. This theme is saying to me that we must not be too engrossed in the business of analyzing the past lest we forget to look ahead toward uncharted waters we must yet traverse. I think that after three and one half years of meetings and conferences we are all fatigued with an overload of hind-sight wisdom that offers perfect explanations for the 2008 global financial crisis that none or very few saw coming. The irony is that very few of us saw the coming of the 2008 crisis because we were too busy analyzing the crisis before that one. Now, the fact that the Caribbean went relatively unscathed from the global financial crisis, except for the CLICO and BAICO experiences, is by no means an indication that we were any better prepared; in my view it was mere lucky happenstance and this is what we need to address in the future.

I am sure Caricom Heads of Government at their June 2009 meeting in Georgetown, Guyana had this near miss catastrophe squarely in their rearview mirrors when they agreed on the urgency of putting in place a strong framework for regional financial stability. Citing, among other things, the CLICO and BAICO experiences, they tasked the Committee of Central Bank Governors to prepare a proposal for the creation of a regional architecture for financial stability for final consideration by the Council for Finance and Planning (COFAP). The mandate was to accelerate the construction of a robust regional financial stability framework.

The Committee of Central Bank Governors set about this task diligently. First, they secured funding from the Inter-American Development Bank for a Regional Financial Risk Assessment Project under the aegis of the Caribbean Centre for Money and Finance (the CCMF). Then, a three-day workshop for regional regulatory stakeholders was held in Port of Spain, Trinidad on 3 to 5 March 2011 to discuss the requirements and actions needed to develop the framework and to agree on the outline of the terms of reference for the planning and implementation of a financial architecture that supports regional financial stability.

From all accounts, the workshop was well attended and yielded several recommendations on governance and operational structure of a regional financial stability board. However, progress on this project recently stalled as governors remain fundamentally at odds over a few of the major recommendations, in particular:

- The recommendation for the CCMF to become the central reporting body for financial stability;
- The legality of regional regulators sharing sensitive confidential information with a non-regulatory body outside of members' jurisdictions; and
- The methodology and approach for the Regional Financial Risk Assessment Project.

On the matter of the CCMF serving as the central reporting facility, there were questions as to its appropriateness, ability and capacity to manage such a task:

- Does it have the necessary financial and human resources?
- Do they have the required expertise, bearing in mind that this is a research institution?
- How will the issue of legality and confidentiality be resolved?

From recent discussion and exchanges between governors at and after the 27 May 2011 Governors' caucus held in Bridgetown, Barbados it does not appear that we are anywhere near to resolving these issues and a sub-committee of Governors was appointed specifically to look into these issues, among others. So, when I was tasked by my supervision department to make this feature address, these were some of the issues that governors were still hotly debating and I became fearful that this very important project may also fall victim to the dreaded CARICOM MALAISE.

It then dawned on me that the CGBS and not the CCMF may be the only salvation and the ideal rescue vehicle for this project. In 1983, CARICOM Central Bank Governors envisaged the need for an entity to spearhead the enhancement of regional banking supervision practices in line with internationally accepted standards. Hence, the birth of CGBS, an institution charged with charting the way forward for supervisors to maintain above-board practices and equilibrium in regulating financial sectors across the CARICOM region. Since then the CGBS has grown and accomplished much, and as I mentioned earlier, is one of the few CARICOM institutions that actually produces real work in the true spirit and meaning of regional integration. It is the obvious choice to be the central reporting facility and should be the home of the financial stability project; financial stability review falls naturally within its bailiwick.

What I am saying is that the time has come to legally establish the CGBS as CARICOM's supranational financial regulatory authority. Such a structured CGBS would eliminate all the concerns Governors now have about the appropriateness of the CCMF for this role in particular the concerns on the legality of regional information sharing. Presently, the conduct of CGBS members towards each other has been guided by a protocol based on mutual respect and trust. There is a Members' Handbook and a recently signed Memorandum of Understanding for regional cooperation though none of these are legally binding. In the absence of proper legal authority, there is no real enforcement or disciplinary mechanism

and we must rely solely on peer pressure or moral suasion for compliance with the rules of engagement.

While this structure may have been adequate in more prosperous and disciplined times, indications already are that it will be severely tested in today's crisis prone environment. The time has thus come for the CGBS to take on an even more substantive role. It must be given the authoritative muscle in order to fulfill its mandate of establishing regional conformity to international principles and best practices. The truth is that some of us already recognized this need when we recently requested that the CGBS establish some form of mechanism to resolve conflicts and disputes that may arise between members.

Accordingly, I would like to propose that the CGBS consider, among other things:

1. Establishing itself as a formal legal entity with bylaws, a Memorandum and Articles of Association to which members must legally and financially subscribe. This would provide substantial financing since almost every jurisdiction in the Caribbean is a member of the CGBS.
2. Establishing a permanent secretariat with a dedicated staff. This can be accomplished by us either agreeing to merge with or subsuming the financially embattled CCMF. This move would reduce the need for regional Central Banks to finance two separate institutions and provide the CGBS with a permanent staff capable of handling the macro-prudential requirements of a financial stability review. Currently, all CARICOM members participate in CGBS whereas only a dwindling handful subscribe to the CCMF.
3. Establishing conditions for the entry and exit of countries as members of this body. This would promote more disciplined behavior throughout the region and facilitate orderly progress in adopting international best practices.
4. Establishing a mechanism to impose sanctions on members for non-compliance with agreed standards.
5. Establishing an implementation plan for BASEL II across the region and the establishment of financial stability boards by members, and
6. Establishing a Council to deliberate on disputes between members.

While this venture would require much acuity, it is the uncharted waters that we must traverse. I am confident that it is doable; it is the natural progression for the CGBS and an idea whose time has come. Having made my pitch, ladies and gentlemen, I must now respectfully take my leave and allow you to get on with the business of the day. But before I go I would welcome your thoughts and feedback on the proposed new role for the CGBS as I intend to present this suggestion to the Committee of Governors for consideration.

Lastly, please allow me to thank you for your time and patience and wish you a productive and successful conference.

Enjoy the rest of your stay in Belize and may God bless you.