BANK FOR INTERNATIONAL SETTLEMENTS

The policy life cycle and capacity-building needs of financial sector authorities

Keynote address by Agustín Carstens
General Manager, Bank for International Settlements

BIS-IMF Symposium on "Capacity-building in financial sector regulation and supervision"

Basel, 8 February 2018

Introduction

Madame Lagarde, distinguished guests, ladies and gentlemen, good morning. Let me join in welcoming all of you to the BIS and to this joint BIS-IMF symposium on capacity-building in financial sector regulation and supervision.

It is my pleasure to speak in front of a group of senior officials from institutions representing training and technical assistance recipients, donors and providers. I think it is not so often that a diverse group such as this comes together. There is growing demand for capacity-building; but at the same time, resources are limited. It would be useful to find ways to coordinate, to prioritise the different demands and to optimise the resources that we do have.

Since this symposium is in Basel, one could be forgiven for thinking that my remarks might focus on the regulatory reforms, particularly the recently finalised Basel III package.[1] While indeed I will use the reform process as a background, I will not go into the details of the various elements of the reforms. Instead, I would like to focus on how the policy life cycle influences the capacity-building needs of financial sector authorities. I would also like to share with you what the BIS is doing in the area of capacity-building for financial sector regulators and supervisors.

Different stages, different needs

As I already alluded to, we have just been through a huge regulatory reform effort that was triggered by the Great Financial Crisis. This effort involved a number of standard-setting bodies, financial sector authorities and other international organisations. The result is a comprehensive set of reforms that touch on almost all aspects of the financial system.

Reaching agreement on the reforms, however, does not mean that the job is now complete. Policy follows a life cycle, or a sequence of stages. Allow me to outline these in the context of international regulatory standard setting. The first stage is to reach consensus at the international level over the design of the new standards. This is followed by formal adoption at the national level through the legislative

---

1 Basel Committee on Banking Supervision, *Basel III: Finalising post-crisis reforms*, December 2017.

process or directly through incorporation into national rules. This is then followed by actual implementation of the new rules. Next comes evaluation and, finally, if deemed necessary, adjustment.

With the designing of new international standards completed, national authorities now have their hands full formalising the rules in their jurisdictions and implementing them in the timelines agreed. Indeed, having the relevant regulatory and supervisory capacity at this stage is essential for achieving a full, timely and consistent implementation of the internationally agreed rules.

But financial sector authorities should not stop at implementation if they wish to achieve the reforms' stated long-term objective, namely global financial stability. Just as critical are the stages that follow: evaluation and, if necessary, adjustment. To this end, the Financial Stability Board (FSB) has come up with a framework to guide the post-implementation evaluation work.[2] Among the key questions to answer here are whether the reforms are achieving the intended outcomes and whether there are material unintended consequences. This evaluation work is meant to provide a sound basis on which to judge whether any adjustments to the design of the reforms would be needed.

The evaluation of the post-crisis reforms is quite challenging for two reasons. One is that the length of the policy cycle differs across reform areas. Another reason, perhaps a more critical one, is that the implementation of reforms does not happen in a vacuum. The financial system continues to evolve because of factors other than the reforms themselves. The changing macroeconomic environment, for example, elicits changes in financial institutions' strategies. In addition, technological developments and their application to finance are making way for new players and new business models, which in turn could dramatically alter the financial system landscape.

So over time, new priorities, new concerns and new constraints emerge. All these must be taken into account in the evaluation work in order to assess the effects of the reforms. And I believe we can all agree that the kind of capacity authorities need for the evaluation stage is quite different from what is needed for the implementation stage.

While waiting for the impact of the reforms to manifest and lend itself to evaluation, "maintenance" of the reformed rules is essential. While it is pretty clear what the international standards are designed to do, the outcomes of the adoption process at the national level cannot always guarantee the same. Some maintenance or fine-tuning at the implementation stage may therefore be required – so as to uphold not just the letter but the spirit of the reforms.

The maintenance of the existing regulations falls squarely on the shoulders of supervisors, as well as regulators. Supervisors work within the parameters set by the existing rules, but at the same time they need to be able to respond to the changes in the financial system while making sure that they are able to prioritise the many tasks at hand. Supervisors need to develop flexible, forward-looking and proactive approaches and tools in order to cope with rapid financial developments. They should be ready to identify unusual behaviour and patterns and communicate them to regulators. Here again, a different set of skills is necessary.

This leads me to my main point: since different stages in the policy life cycle require different capacity and skill sets, capacity-building and learning by financial sector authorities should be a continuous effort and should evolve over time. It is easier said than done, however, given that all institutions have resource constraints. This highlights the importance of developing smart capacity-building frameworks. One of the sessions today will discuss how to leverage technology for capacity-building. That is certainly one way to go about it.

---

2 Financial Stability Board, *Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms*, 3 July 2017.

Another key ingredient to fostering capacity-building is international cooperation and exchange of practices. This is especially helpful in cases where expertise just may not be available locally. Here too the work of international organisations – whether as a forum for information-sharing, as a provider of funding or as a supplier of capacity-building initiatives – is quite important.

Let me just note in passing one additional challenge we face with the foreseeable evolution of financial markets into more digitalisation and complex instruments. Supervisory authorities do not have sufficient expertise in this field. It would be desirable to start thinking about how we should go about tackling this gap that threatens to widen as time passes.

BIS contribution to capacity-building in financial sector regulation and supervision

At the BIS, we contribute directly to capacity-building in financial sector regulation and supervision through our own Financial Stability Institute (FSI). The FSI is mandated to assist central banks and supervisory authorities worldwide in strengthening their financial systems through the implementation of international regulatory standards and the adoption of sound supervisory practices.

The FSI carries out this mandate through its three main activities. First, it conducts outreach events that involve both member and non-member jurisdictions of the standard-setting bodies. This ensures that international standards and sound practices are widely disseminated around the world. Second, the FSI publishes *FSI Insights* papers on policy implementation that explore the regulatory and supervisory practices in different jurisdictions, and holds complementary discussions of the different practices at its policy implementation meetings. This way the FSI promotes the identification of sound practices that are appropriate to the circumstances of each jurisdiction. Finally, the FSI leverages technology in its capacity-building initiatives. Since 2003 it has been offering online tutorials on financial regulation and supervision through its e-learning tool called FSI Connect. In addition, for four years now the FSI has conducted a fundamental online course for insurance supervisors. This year, the FSI is working together with the IMF to offer a similar online course for banking supervisors.

The BIS also indirectly contributes to capacity-building by promoting international cooperation among monetary authorities and financial supervisory officials. We often refer to this interaction as the Basel Process. The BIS, as you may be aware, is home to a set of international groups engaged in prudential standard setting and the pursuit of financial stability. Individually, each group is a forum for its members to work on issues in their area of expertise and to share experiences and information. Collectively, the co-location of these different groups at the BIS facilitates communication, coordination and collaboration. The BIS itself also contributes to the work of these groups with its own expertise in economic research and statistics and its practical experience in banking.

The other organisations represented today are also doing their share in capacity-building for financial sector regulators and supervisors around the world. Madame Lagarde provided us a glimpse of what the IMF is doing in this area, and I am sure we will get to know more about other organisations' activities in the course of this meeting.

Conclusion

In conclusion, I would like to emphasise the importance for all stakeholders to continuously identify the changing capacity-building needs of financial sector authorities worldwide, and for the various organisations providing capacity-building initiatives to enhance coordination in order to more effectively and efficiently meet these needs. This symposium that is jointly organised by the BIS and the IMF has this objective in mind. I hope you will have productive discussions in the various sessions ahead, and I wish this meeting success.

Thank you very much.