



Post-crisis reforms: Have we done enough?

HKIB Annual Banking Conference 2017

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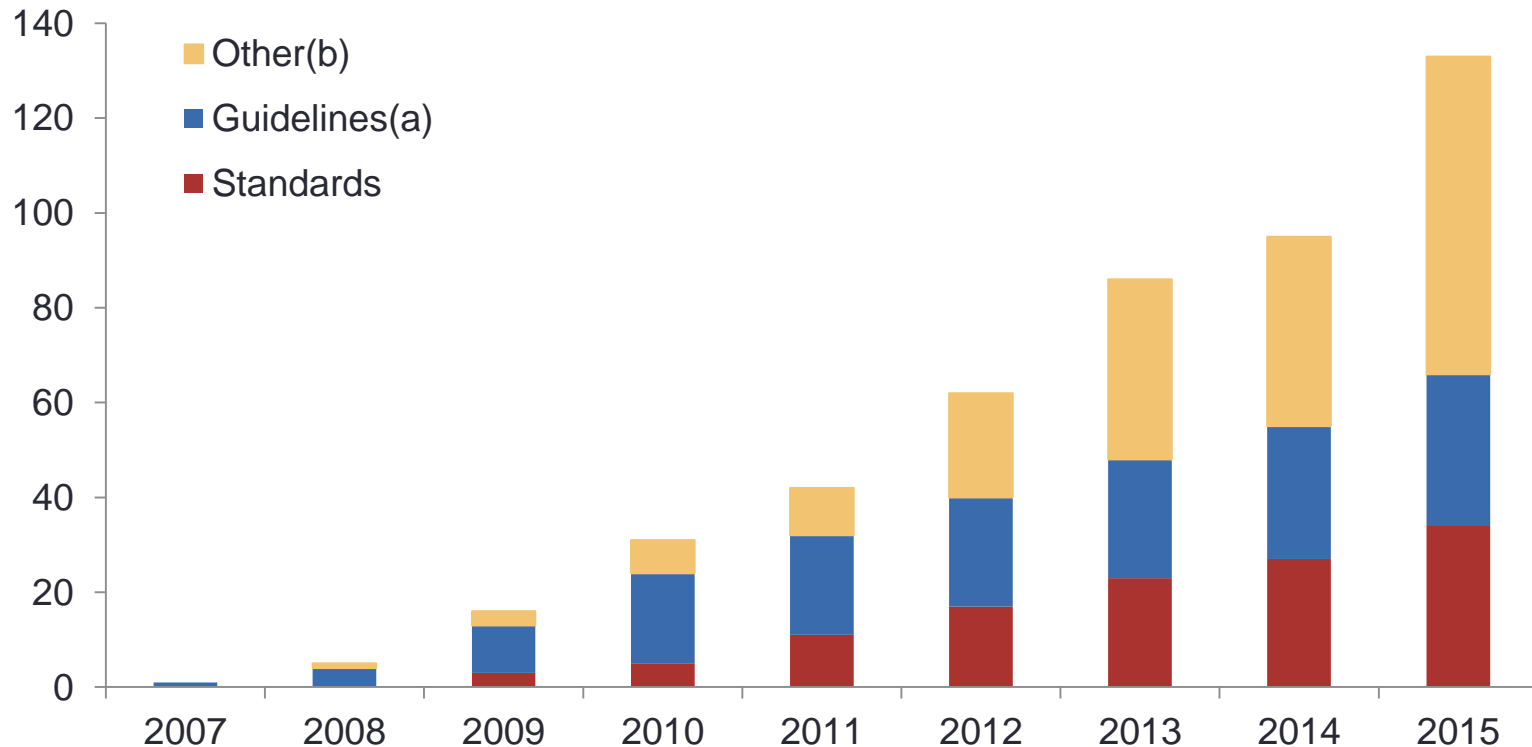
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Three key questions

- What has been achieved?
- Do we need more regulation?
- A changing role for banking supervisors?

A plethora of bank regulations introduced in response to the GFC...

Chart: Cumulative number of finalised publications by the Basel Committee



Source: Basel Committee on Banking Supervision

(a) Includes principles, sound practices and guidance.

(b) Includes implementation-related reports and ad-hoc publications.

...which have greatly strengthened banking system resilience

Higher and better quality capital

More robust liquidity regime

Reduced procyclicality

Framework for dealing with D-SIBs

Reduced counterparty risk in OTC derivatives activities

Resolution regime to resolve failing banks in orderly manner

Local implementation remains underway

- Capital standards
 - Revised securitisation framework
 - Leverage ratio
 - Exposure limits
- Liquidity standards
 - Net Stable Funding Ratio

Post-crisis reforms nearing completion

- Delayed implementation of or outstanding Basel III reform elements
 - Revised market risk framework
 - SA-CCR
 - IRRBB
 - Revised SA and IRB approaches for credit risk
 - Capital floors

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Shifting focus towards supervision

- Assessing compliance with post-crisis banking regulation while taking a more forward-looking approach to prudential supervision

Increased supervisory efforts on
areas of greater risk

Liquidity risk

Credit risk

Technology
risk

Conduct issues continue to surface

- Cases of improper practices gone on unnoticed by bank management for a long period of time
- Ineffective internal whistle-blowing mechanism

No. of banking complaints related to conduct issues received by HKMA	
2014	151
2015	252
2016	247
2017 (until Aug)	174

Source: HKMA

Regulation is only part of the solution

- Rapidly changing markets and products mean regulators will always be playing catch-up

“ More fundamentally, I worry that overuse of regulation leads to the equation “Legal = Right.”
– *Onora O’Neill** ”

* Baroness Onora O’Neill, “What is banking for?”, Remarks at the FRBNY Conference on “Reforming Culture and Behavior in the Financial Services Industry: Expanding the Dialogue,” 20 October 2016

Culture as a driver of behaviour

- Ultimately the industry's responsibility to drive behavioural change towards
 - Prudent risk taking
 - High ethical standards
 - Treating customers fairly

Promoting sound culture

Sound Culture

Governance
(dedicated
board-level
culture
committee)

**Incentive
system**
(aligned with
longer-term
interests)

**Assessment &
feedback
mechanisms**
(monitor
outcomes)

Three key questions

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Keeping up with the times

- A structured framework to guide development of supervisory policies and practices

Balanced and Responsive Supervisory Programme

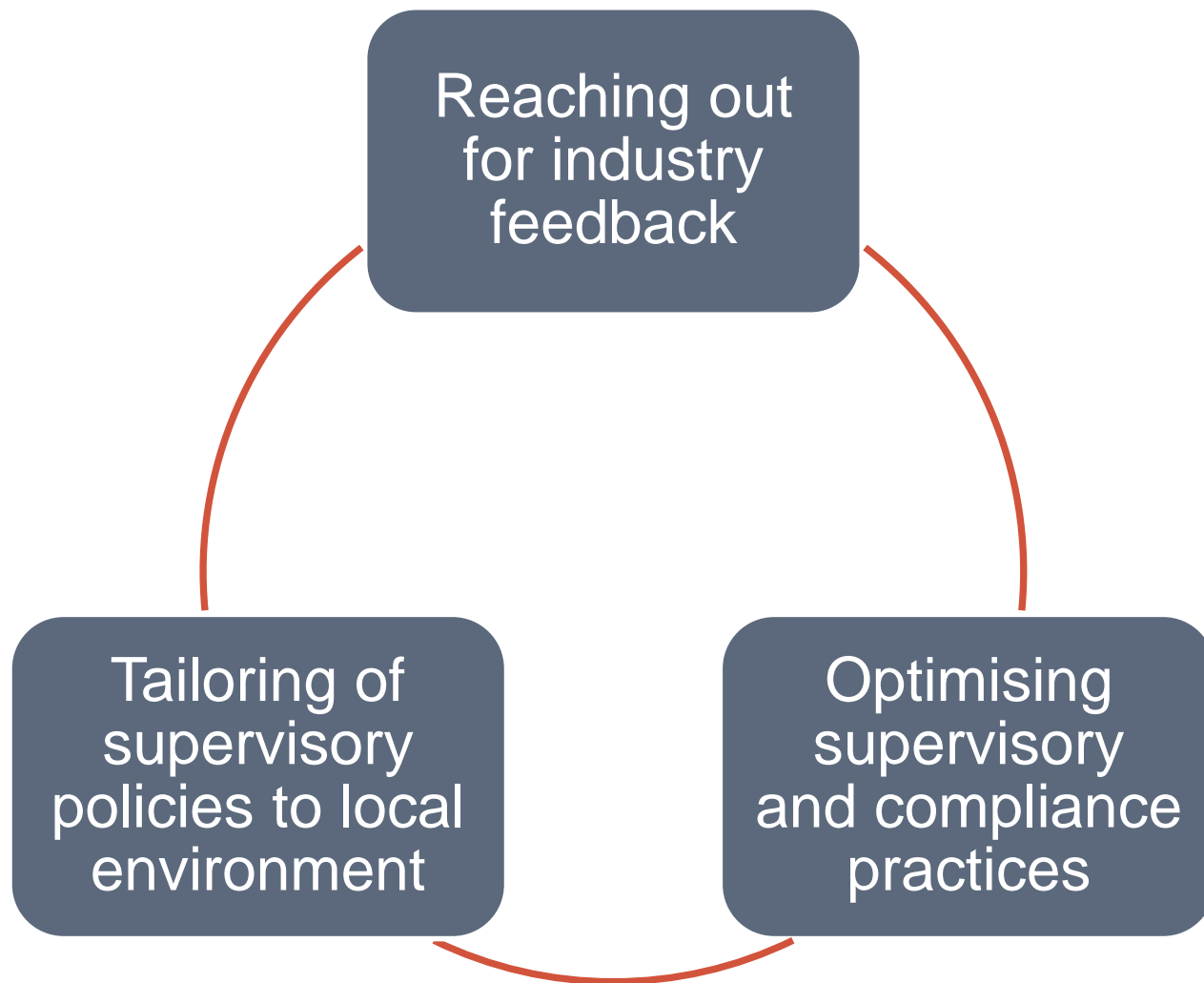


Effective supervision vis-à-vis market development



Timely response to changes and challenges

Key components



Multiple feedback channels

Industry
consultation

Regulatory
roundtable

Bilateral
engagement

New
regulations
and guidance

Supervisory
requirements
and
processes

Institution-
specific
issues

Pilot cases of BRS Programme

- AML/CFT
 - Enhancement of guidelines
 - Greater use of technology for managing risks and improving customer experience
- Private wealth management
 - Engagement with PWMA to clarify risk-based supervisory approach

Conclusion

- Need for change in mindset to outcome-driven approach
 - For banks:
 - Putting customers at the centre
 - For supervisor:
 - Achieving effective and sustainable supervision