Non-Bank SIFIs

Capetown

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**Any views expressed in this presentation are those of the author, and are not necessarily the official views of the JFSA.*

Overview of International Financial Regulatory Reform Progress made at the G20 summits and FSB

Sep 08 Collapse of Lehman Brothers

Nov 08 Washington Summit

Apr 09 London Summit

Discussion focusing on **<u>how to stabilize the global financial system</u>**

Sep 09 Pittsburgh Summit

Jun 10 Toronto Summit

Nov 10 Seoul Summit

(Nov 11 Cannes Summit**)**

Discussion focusing on **<u>how to reconstruct the financial regulatory framework</u>**

- Regulation on bank's capital and liquidity
- Regulation and supervision of systemically important financial regulation

FSB SIFIs Project

- Focus on SIBs (Systemically Important Banks)
- Work processes and timelines established for completion in 2011 and beyond
- No consensus yet for detailed processes and timelines for work on non-bank SIFIs

FSB Report (Recommendations)

(1) Identifying G-SIFIs

(2) Higher loss absorbency

(3) Making effective resolution regimes

(4) Strengthening SIFI supervision

(5) Strengthening core financial infrastructures

(6) Peer-reviewing national policies for G-SIFIs

→ A *multi-pronged* framework

Systemic Importance of Non-Banks

Example: CCPs (Central Counterparties)

- **The failure of CCPs has the potential not only to disrupt the normal functioning of markets but also to immediately transmit and amplify systemic risk, resulting in broad financial crises across national borders.**
- **The move towards centralized clearing of OTC derivatives could actually result in further concentrating systemic risk, unless the CCPs (and the applicable regulatory regime) are properly designed and well-managed.**

Which non-banks are systemically important?

Possible candidates

- Investment Banks and Globally Important Securities Firms
- CCPs
- Other FMIs such as Securities Settlement Systems (SSSs), Central Securities Depositories (CSDs), and Trade Repositories (TRs)
- Securities Exchanges
- Hedge Funds
- MMFs
- CRAs
- Audit Firms

How to contain systemic risks of non-bank SIFIs?

- What can capital market regulators do to contain systemic risks of non-banks? -

<u>Measures being implemented or considered</u>

- ✓ **Centralized clearing of OTC derivatives**
- ✓ **Intensive supervision**
- ✓ **Access to central bank liquidity**
- ✓ **Use of investor protection funds etc.**

→ **But, are non-bank SIFIs truly resolvable?**

Elements of policies to contain systemic risks of non-bank SIFIs

- **Policy measures may differ according to type of non-bank SIFI**
- **FMIs cannot be allowed to fail without properly ensuring continuity of essential clearing and settlement functions, or trading facilities**

→There may be even question marks over whether they should not be rescued with taxpayer money

- **Financial market players may be dealt with in a manner broadly following the regulatory and supervisory framework of SIBs**

Thank you !

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