cutting through complexity

FINANCIAL SERVICES

Evolving Banking Regulation

ASPAC Edition

The journey continues…

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About this report

This report is part of a regional series developed by KPMG's network of regulatory experts. The insights are based on discussion with our firms' clients, our professionals' assessment of key regulatory developments and through our links with policy bodies in each region.

For other regional reports, please contact fsregulation@kpmg.co.uk or see www.kpmg.com/regulatorychallenges

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This publication highlights the status of banking reform implementation in Asia, based on information provided by the KPMG regulatory teams in:

Member countries of the Basel Committee on Banking Supervision (BCBS): Australia, China, Hong Kong, Indonesia, Japan, Republic of Korea and Singapore.

Non-member countries of the BCBS: Malaysia, New Zealand, Philippines, Taiwan, Thailand and Vietnam.

The information is valid as at December 2012, based on our professionals' assessment of various sources.

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Executive Summary

Simon Topping
Head of Financial Services Regulatory Center of Excellence, ASPAC region

Increasingly, the focus within financial services is on five key issues: regulation, cost, growth, technology and data, and change.

Regulation, the focus of this publication, is continuing to be a major preoccupation of bank management and we are starting to see banks' business models being impacted to a significant extent. While the impact is being felt more in Europe and the US at present, increasingly it is becoming an issue in Asia, not just in relation to the Asian operations of the major global banks, but also increasingly for Asian domestic institutions.

While many of the trends in regulation are global, there are important differences compared with Europe and the US in the relative priority being given in Asia to the various aspects of regulatory reform – and indeed jurisdiction-by-jurisdiction differences. There are some issues on which there is a clear commonality of approach – for example, on capital – and others where there is more diversity, such as liquidity reforms.

On the 'big question' – whether to implement Basel 3 at all – there appears little dissent, with jurisdictions in the region among the early-movers, even while Europe and the US delay somewhat.

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It is not going to be straightforward for those doing business in the region to meet all these new requirements, particularly when one considers that many of the economies and of course financial markets in the region are still developing.

But there are two issues in relation to implementation in the region that are being increasingly voiced. First, should Asian jurisdictions have more discretion to tailor the global requirements to local circumstances? Are the new requirements too focused on the particular issues faced by banks in Europe and the US, rather than in Asia? Second, even if banks in the region can meet the new requirements at this particular point in time, might it be more of a challenge in a few years' time, when bank balance sheets have grown significantly, on the back of strong economic growth? Could the new capital and liquidity requirements impair banks' ability to provide the necessary finance to support the growth of the economy?

Certainly, the possible negative effect of regulatory reform on banks' ability to lend is an increasing concern to regulators and politicians globally, as evidenced by the moves to phase implementation of the new requirements not just on capital but also now on liquidity over an extended period. In Asia, however, the story is different: banks can largely meet the new requirements now – but will they be able to do so two or three years down the line?

Looking ahead, difficulties in meeting the new requirements could be exacerbated if the Basel Committee's review of the trading book results in higher capital requirements. Similarly, there is a suggestion that regulators may implement floors on banks' IRB capital calculations relative to the standardized approach, which again could raise capital requirements.

On the issue of adapting the Basel standards to Asian characteristics, regulators in the region clearly have less discretion than in the past, as many are now members of the Basel Committee and subject to the peer review process. In practice this means that they cannot go below the Basel standards – but of course they can still go above them. And in a number of cases we have seen regulators in the region – in China and Singapore, for example – setting requirements above the Basel minimums in areas such as capital adequacy and leverage, in order to reflect the characteristics of the local market.

It seems likely that we will see similar actions from some regulators in respect of liquidity. While the Liquidity Coverage Ratio (LCR) will certainly be adopted, regulators will be looking at whether it needs to be supplemented with alternative measures to reflect the liquidity characteristics of Asian markets, including catering for additional types of scenarios and employing alternative run-off rates. They will also be considering whether the LCR need be adopted by all institutions, or perhaps only by the larger ones.

We are also likely to see variety in the way that Asian regulators apply requirements on Recovery and Resolution Plans (RRPs), and in the designation of domestic Systemically Important Financial Institutions (SIFIs).

So, although we may be moving towards something more like a level playing field in terms of the minimum standards on capital, liquidity, leverage, RRPs and so on, it is clear that there will remain considerable differences in requirements (such as the timing of implementation and the scope of application) from jurisdiction to jurisdiction. This will pose a major challenge for banks operating in the region, be they foreign or domestic, big or small, in terms of understanding local requirements and timelines, appreciating the differences compared to the Basel 'central approach', and identifying the actions necessary for both regulatory and business purposes.

Clearly, it is not going to be straightforward for those doing business in the region to meet all these new requirements, particularly when one considers that many of the economies and of course financial markets in the region are still developing.

Moreover, there remain major unresolved questions, such as the ability of banks in the region to supplement their equity capital with the new-style subordinated debt under Basel 3, the subject of a separate section of this report. The issue of instruments such as 'CoCos' is untested in Asia at present.

Another section of this report looks at the challenges facing foreign banks in Asia, which look particularly daunting as they juggle home and host country requirements and face issues on funding and suggestions of pressure to subsidiarize.

Future publications in this series will provide further insight into how the regulatory regime in Asia is developing and the issues as they affect foreign and domestic institutions operating in the region.

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01

Regulatory Pressure Index

The regulatory pressure index indicates, from client feedback and KPMG regulatory experts' assessment, the current 'hottest' regulatory issues facing financial institutions and how they differ from region to region over time. In Asia the three 'hottest' issues are currently capital, liquidity and FATCA. There is less focus on certain other key aspects of reform, which are high up on the agenda in Europe and the US. Indeed, while the level of regulatory pressure in Asia remains strong with a total score of 29 out of 50, it remains considerably below the levels – as one would expect, given the greater recent problems requiring regulatory reform – in Europe (38 out of 50) and the US (41 out of 50).

Regulatory Pressure Index

Regulatory Reform, Policies and Objectives	Year	ASPAC	EMA	US	Impacts for Banks
Reform: Capital	2010	2	4	4	• In Asia, capital has become the key focus as it is the aspect of Basel 3 with the most imminent implementation date of 1 January 2013 or soon thereafter. Although banks in Asia can generally meet the new requirements with little difficulty at present, there is an emerging concern that the requirements could potentially act as a constraint on balance sheet growth in the years ahead. • Basel 3 requirements continue to prove a considerable challenge for all banks globally, with many in the West struggling to raise capital in a time of deep uncertainty, and banks continuing to deleverage. The shortfall against Basel 3 requirements in Europe is significant. • In addition, the Basel Committee is also reviewing the trading book and model-based Risk Weighted Assets (RWAs). • In the US, there is continuing regulatory scrutiny of capital quality and plans. Stress testing efforts remain an important element of these assessments, with 30 US institutions with over US$50 billion in consolidated assets subject to either the Comprehensive Capital Analysis and Review (CCAR) or the Capital Plan Review (CapPR). In addition, the proposed intermediary holding company construct for foreign banks in the US will require adherence to US capital requirements and has strategic implications.
Objectives: • Increase both the quantity and quality of capital buffers in order to reduce the possibility of a bank failure	2011	3	5	4	
Policies: • Basel 3 (Global) • CRR/ CRD 4 (Europe) • Dodd-Frank (US) • Capital Surcharges (FSB)	**2012**	**4**	**5**	**5**	

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Regulatory Pressure Index

Regulatory Reform, Policies and Objectives	Year	ASPAC	EMA	US	Impacts for Banks
Reform: Liquidity **Objectives:** • Ensure that banks have enough liquid assets to meet a potential run on funds **Policies:** • Basel 3 (Global) • CRR (Europe)	2010 2011 **2012**	4 5 **5**	5 5 **4**	4 4 **4**	• Most banks identify liquidity/funding as the issue that is of greatest importance to them. At the same time, supervisors are struggling to determine how best to implement the new requirements in Asia, where funding markets may be less developed than in other regions. • The recent changes to the calculation of the liquidity coverage ratio, and to the assets qualifying as high quality liquid assets (HQLAs), may ease concerns somewhat. However, this remains a difficult issue in Asia. • While the Federal Reserve is still expected to implement the liquidity coverage ratio (LCR) in the US, the scope and timing remains unclear. More broadly, liquidity risk assessments remain less robust than supervisory efforts around capital. As the regulators begin to analyze the significant data that is being captured from institutions through new reporting mechanisms, greater scrutiny and emphasis on liquidity is likely. In the interim, regulators continue to carefully review liquidity, with emphasis on interagency guidance issued in 2010, as well as a greater emphasis on horizontal (cross-institutional) examinations.
Reform: Systemic Risk **Objectives:** • Reduce risks to financial stability, from the structure of the financial services sector or the failure of a systemically important financial institution **Policies:** • Capital Surcharges (FSB) • Recovery and Resolution Planning • Dodd-Frank (US) • Crisis Management Proposals(US, EU) • Structural Change (US, UK,France and possibly the EU) • Federal Reserve Bank (FRB) proposals (US)	2010 2011 **2012**	1 2 **3**	5 5 **5**	5 5 **5**	• We are not seeing a major push from supervisors in Asia Pacific region on systemic risk at present. Clearly, with further progress in the development of Recovery and Resolution Plans, this will change. • Europe will be affected by a significant number of proposals: the UK's Independent Commission on Banking (ICB), the EU Liikanen proposals (and additional national measures, eg. France), particularly regarding separation of trading activities. We also await the outcomes of the EU Recovery and Resolution Directive and Banking Union. • The US Volcker Rule will affect firms across the globe, while the US has also proposed tougher treatment of foreign banks operating in the region. The FRB proposals on the foreign banks, with a possible requirement for an intermediary holding company structure, is a significant shift from the virtual holding company structure and represents a material increase in regulatory requirements.
Reform: Supervision **Objectives:** • Ensure that banks are properly supervised, proportionately to the nature, size and complexity of their business **Policies:** • New supervisory structures, eg. in the US, UK, and Europe • More intrusive and challenging supervision • Dodd-Frank (US)	2010 2011 **2012**	2 3 **2**	4 5 **4**	5 5 **4**	• Supervisors in Asia are generally comfortable that they have appropriate structure and powers, and it seems unlikely we will see a major shift in supervisory approach or focus. However, supervisors will have to consider whether changes are required in the supervision of (domestic) systemically important institutions. • Large global banks have to meet increased capital requirements, prepare RRPs and are subject to enhanced supervision. • In Europe, the supervisory authorities (including the EBA) are playing a key role in developing a single rule book and a more consistent supervisory approach. Meanwhile, the ECB will begin to take responsibility for banking supervision in the eurozone from 2014. • The regulatory environment remains challenging for financial institutions in the US, as new requirements are being established and non-traditional institutions become subject to a more intensive and intrusive supervisory regime. Tolerance levels remain low and examiners are taking stronger actions, including enforcement actions, against a range of institutions. In addition, consumer protection issues remain a key area of emphasis as the CFPB continues to build out its program.

Key: **5** = significant pressure **3** = moderate pressure **1** = low pressure

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Regulatory Pressure Index *continued*

Regulatory Reform, Policies and Objectives	Year	ASPAC	EMA	US	Impacts for Banks
Reform: Governance **Objectives:** • Ensure that Boards have sufficient skills, experience and availability to assume full accountability for the decisions taken by the organization **Policies:** • CRD 4 (Europe) • MiFID 2 (Europe) • EBA Governance Guidelines (Europe)	2010 2011 **2012**	4 4 **3**	4 4 **4**	4 4 **5**	• While enhancing governance and Board oversight remains an important policy objective in Asia, we have not seen many supervisors prioritizing this at present. This likely reflects that supervisors in the region do not feel that the need for cultural change is as great in Asian institutions. The focus in Asia is generally more on risk management and oversight through implementation of Basel 2 advanced approaches. • In Europe, banks will need to meet the corporate governance requirements in CRD 4 and MiFID 2, while systemically important banks will be subject to the FSB's conclusions on risk governance and the Basel Committee's Principles on risk data aggregation and reporting. The FSB review of risk governance will maintain – and in some cases increase – the pressure on banks to improve their governance. • The rulemaking around governance requirements in Dodd-Frank Act (DFA) suggests that requirements are being tightened even further. For example, regulators are looking to significantly increase the expectations around directors' knowledge and prior experience with risk management issues. In addition, other governance changes suggest a potential blurring of the line between oversight and direct management of an institution. While the emerging standards apply in particular to directors on the risk committee, there is the risk that examiners will apply similar expectations to other directors, with potential consequences for the composition of boards.
Reform: Remuneration **Objectives:** • Regulate excessive remuneration practices **Policies:** • FSB principles on remuneration (Global) • Dodd-Frank (US)	2010 2011 **2012**	1 1 **1**	4 3 **4**	3 3 **3**	• This is not attracting much attention in Asia, where excessive remuneration has not been an issue in local institutions. • In Europe, amendments to CRD 4 tabled by the European Parliament may result in limits on bonuses as a proportion of base salary. • In the US, regulators continue to expect enhancements to compensation processes, driven in part by the results of the 2011 horizontal examination report.
Reform: Customer Treatment **Objectives:** • Protect the customer, help the customer make informed investment decisions and ensure that the products sold to the customers suit his/her investment profile **Policies:** • MiFID (Europe) • Dodd-Frank (US) • CASS Directive (Europe) • RDR (UK) • PRIPs (Europe)	2010 2011 **2012**	1 2 **2**	3 4 **4**	4 4 **4**	• Although still not a major focus in Asia, we are starting to see more jurisdictions launch enhancement initiatives in this area, typically more in relation to investment products than general banking products. • Given that this is a key focus of regulatory reform in the US and Europe, it is likely that we will see increased interest in this area in Asia imminently. • In Europe, a flood of rules including the review of the Markets in Financial Instruments Directive (MiFID 2), Packaged Retail Investment Products (PRIPS) and the UK Retail Distribution Review (RDR) are evolving to protect the customer. • In the US, regulators continue their focus on protecting the consumer as evidenced by recent CFPB enforcement actions. Recent focus has moved beyond the banks themselves to their vendors in order to determine their ability to manage compliance and consumer protection.

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Regulatory Reform, Policies and Objectives	Year	ASPAC	EMA	US	Impacts for Banks
Reform: Traded Markets **Objectives:** • Reduce risk in the wholesale markets and regulate the Over the Counter (OTC) derivatives market **Policies:** • G20 (Global) • Dodd-Frank (US) • MiFID (Europe) • EMIR (Europe)	2010 2011 **2012**	1 2 **3**	4 4 **4**	4 4 **4**	• Key ASPAC markets are continuing to formulate policies in response to the G20 agenda on derivatives. • There has been a lot of activity in traded markets regulation throughout 2012. The DFA in the US, EMIR and aspects of MiFID 2 in Europe all impact the structure of wholesale markets and in particular how derivatives are cleared, settled and reported. As these reforms move into the implementation phase, they pose significant challenges for all market participants.
Reform: Accounting and Disclosure **Objectives:** • Consider whether accounting policies need to be revised and the additional disclosures that may be required • Move to expected loss provisioning **Policies:** • IFRS 9 • CoREP • EDTF recommendations endorsed by the G20 and FSB	2010 2011 **2012**	3 3 **2**	3 3 **3**	3 3 **3**	• Not an area currently receiving a lot of attention in Asia. Several supervisors are focusing on provisioning and requiring banks to top up provisions above the level suggested by accounting requirements. • Still awaiting resolution of the debate on whether banks should move to an expected loss, rather than impairment, approach to provisioning. • The IASB and FASB have proposed new financial instrument impairment models that are likely to accelerate recognition of loan losses and reduce capital for accounting purposes. Although initially a joint proposal between the Boards, the FASB has recently proposed a separate current expected credit loss (CECL) model requiring upfront recognition of credit losses expected over the life of loans and investment securities. • EDTF recommendations on improving disclosure by banks, including the justification for internal model based risk weightings that are substantially below both industry averages and standardized risk weightings. • Disclosure requirements to reconcile the US GAAP and IFRS accounts may create an additional reporting burden. As Dodd-Frank is implemented, Title VII will have an impact on accounting for OTC derivatives.
Reform: Financial Crime and Tax **Objectives:** • Ensure that investors comply with the relevant tax authorities • Use tax as a means of paying for some of the costs of the crisis **Policies:** • FATCA (US) • FTT (Europe) • MAD/MAR (Europe) • Anti-Money Laundering (AML)	2010 **2011** **2012**	n/a 3 **4**	n/a 4 **3**	n/a 4 **4**	• FATCA introduces a new withholding tax regime and will place a significant burden on many global financial services firms affecting operations, IT, front office and a number of areas of their business. • As elsewhere, FATCA is a significant issue for firms in ASPAC with notable challenges being the effective and timely development of compliant systems/data/policies. As institutions become aware of the complexities involved, this is now becoming more urgent. • In Europe, the LIBOR rate-fixing scandal has led to large fines. The Market Abuse Regulation (MAR) is being amended to outlaw manipulation of benchmarks such as LIBOR, boosting minimum fines for insider trading and proposing criminal sanctions on anybody found to have manipulated benchmarks. • The introduction of a Financial Transactions Tax (FTT) by 11 EU member states will have implications for European firms' compliance and will be a significant challenge and costly exercise for banks. • Another area of increasing focus is Anti-Money Laundering (AML) compliance and associated Know Your Customer (KYC) regulations.

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02

Multiple markets at different stages of development

As we enter 2013, regulatory policy reforms fall into three broad categories.

First, there are policies that have already been announced and have moved into the implementation stage. These include the Basel 3 capital and liquidity requirements, and the broad shape of moves to transform OTC derivatives into more standardized, exchange traded and centrally cleared transactions. Even here there are still many details to be resolved, while the pace and intensity of implementation varies considerably across countries.

Second, there are policies that are taking shape but will not 'bite' until later in 2013 or even well into the future. These include resolution (both resolution planning for systemically important firms, and the introduction of a consistent and wide-ranging set of resolution powers for national authorities), and capital surcharges for global and national systemically important banks.

Third, some policies remain at an early stage of development at both international and national levels, with considerable uncertainty over their final shape. These include improvements in corporate governance (and risk governance more specifically), enhanced disclosure, the application of capital surcharges and recovery and resolution planning to systemically important non-banks, changes to provisioning

Beyond capital, however, on which there is general agreement, there are a number of areas which are more contentious and less easily implementable in Asia.

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requirements, and moves to regulate shadow banking more intensively.

In Asia we clearly have multiple markets at different stages of development. While all markets in Asia are moving to introduce the new Basel 3 capital requirements, there is far less commonality of approach in other areas such as liquidity and OTC derivatives reform. In some cases this is because some of the more esoteric issues are not relevant to the less developed markets. In others the challenge is how to balance increased regulatory demands against the priority to ensure the financial sector remains able to play its key role in financing growth and developing markets.

ASPAC countries are more closely involved in Basel Committee discussions

In the past, the adoption of the international standards agreed by the Basel Committee on Banking Supervision (BCBS) was optional for all Asian economies except Japan, which was Asia's lone representative on the Committee. In practice, most economies still chose to adopt Basel reforms on a voluntary basis, but not being members gave them a certain amount of flexibility on the details.

Now, however, Australia, China, Hong Kong, Indonesia, Japan, the Republic of Korea and Singapore are all members, and are consequently under an obligation to implement these standards in full and in accordance with the Basel timetable. Indeed, most of these jurisdictions have already put in place regulations to phase in the Basel 3 requirements from the beginning of 2013, with just a few minor deviations from this timetable, in some cases (notably China and Singapore) with higher minimum capital requirements than are set out in Basel 3. This adherence to BCBS standards will be reinforced by the much increased use by the Committee of its own peer review procedures, which have already highlighted differences in the implementation of standards across its members.

Many other Asian jurisdictions – Malaysia, Indonesia, New Zealand, the Philippines, Taiwan and Thailand – are also implementing Basel 3, albeit some are doing so earlier or later than the BCBS suggested start date of 1 January 2013. Of these, Thailand intends to set higher minimum capital requirements than prescribed in Basel 3.

While it is welcome that many Asian economies are represented on the BCBS, it is not entirely clear how much influence they have been able to bring to bear in the policy-making sphere to date. Basel 3 and related agreements do tend to look rather like a prescription for addressing the specific issues identified in the US and Europe during the global financial crisis, with both the focus and calibration of the BCBS proposals appearing to be aimed more at US and European banks than Asian banks.

Nevertheless, applying international standards (such as the BCBS standards) to banks in Asia should certainly be beneficial, as this should both promote the adoption of more advanced risk management techniques and enhance the stability and resilience of banks in Asia. In particular, the focus of Basel 3 on liquidity, and on consideration of stress scenarios, should be welcomed as a means of helping prepare banks for whatever crisis next arises.

Basel 2 still not fully implemented

The 'Basel' story in Asia is not just about Basel 3, it is still also very much about Basel 2. Only Australia, Hong Kong, Japan, Korea, New Zealand and Singapore have already implemented Basel 2 in full, including allowing banks to apply for the use of their own internal ratings based (IRB) models to calculate capital requirements for credit risk. Consequently many banks in Asia (even major ones) have not implemented Basel 2 at all. Among those that have, many are on the standardized approach to credit risk, rather than the IRB approach. Banks in countries where Basel 2 is not implemented, or where only the standardized approach to credit risk is used, are placed in a potentially difficult position. This is because the standardized approach to credit risk imposes conservative and broad-brush risk-weightings for some key components of banks' portfolios, such as trade finance, SME lending and infrastructure finance. It has been suggested that these higher risk weights may discourage banks from lending to these sectors; the cost of borrowing may be higher to borrowers than necessarily justified by the loan loss experience; and the availability of such finance may be limited, since lending will eat up banks' capital more quickly.

This is not an issue for most of the (major) banks in other BCBS member countries, because those banks use the IRB model approach and therefore benefit from more finely tailored risk weightings based on each bank's own loan loss experience for specific lending portfolios.

Capital

The majority of Asian banks have traditionally held higher capital buffers than banks in the US and Europe, dating back to their experience of the Asian financial crisis. Moreover, a high proportion of this capital has always been in equity, and banks are far less reliant than elsewhere on debt capital or on hybrid capital. Consequently, Asian

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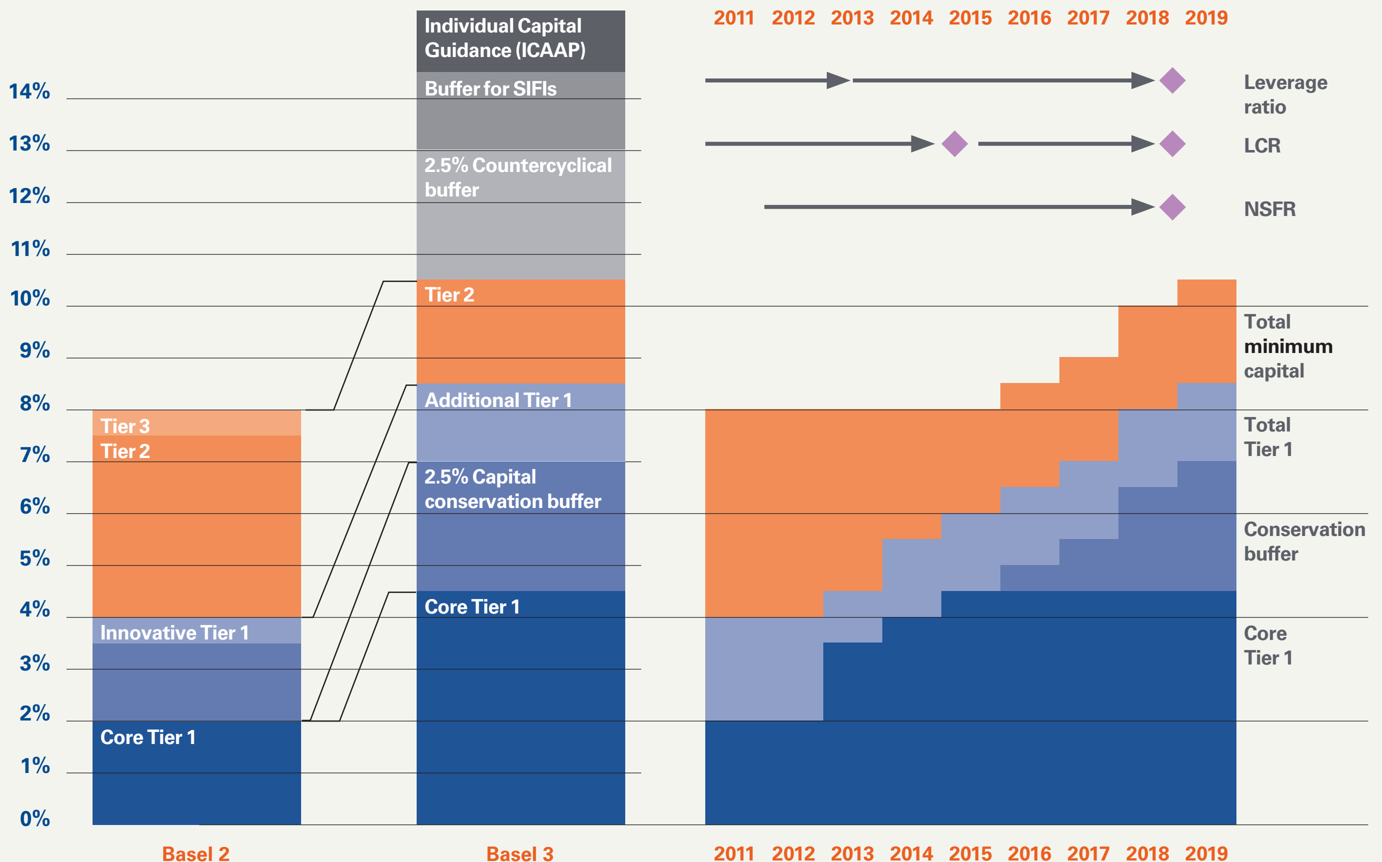
banks generally do not have a big adjustment (if any) to make to meet the new requirements at the outset. However, looking ahead, growth in Asia is likely to continue to be strong, necessitating on-going growth in banks' balance sheets. It seems very unlikely this could be supported entirely by growth in retained earnings. This is in part because retained earnings are likely to be adversely impacted as a result of falling margins. Moreover, existing subordinated debt will need to be replaced. Banks will therefore need to put more focus on capital planning and consider other eligible regulatory capital requirements to supplement retained earnings (see *Supplementing capital through issues of subordinated debt* on page 19).

SIFI requirements – additional to Basel 3

In addition to the minimum Basel 3 capital requirements, the BCBS has also reached agreement on the application of capital surcharges on global systemically important banks (G-SIBs), currently ranging from 1 to 2.5 percentage points. G-SIBs are required to develop recovery and resolution plans, and to be subject to higher standards of risk governance and more intensive supervision.

Capital reform: changing the quality, mix, and level of capital (Phase-in of Basel 3 elements)



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The Financial Stability Board (FSB) published an updated list of 28 G-SIBs, together with the capital surcharge that would apply to each, in November 2012.

These capital surcharges remain illustrative at this stage. The actual surcharges will be phased in from January 2016, with full implementation by January 2019. The G-SIBs to which the surcharges will apply will only be confirmed in November 2014.

In Asia, the identified G-SIBs include three Japanese banks (Mitsubishi UFJ FG, with a prospective capital surcharge of 1.5 percent, and Mizuho FG and Sumitomo Mitsui FG, with a surcharge of 1 percent) and one Chinese bank (Bank of China, with a surcharge of 1 percent). But in addition to these Asian-domiciled G-SIBs, many of the non Asian-domiciled SIBs also have significant operations in Asia. These include HSBC, Citi, JP Morgan Chase, Bank of America, Goldman Sachs, Morgan Stanley, Bank of New York Mellon, State Street, Wells Fargo, Royal Bank of Scotland, Barclays, BNP Paribas, Deutsche Bank, Credit Suisse, UBS and Societe Generale.

In addition to these requirements for G-SIBs, the BCBS has agreed that national supervisors should be required to identify domestic systemically important banks (D-SIBs), and to consider applying capital surcharges and other requirements to these institutions. Most jurisdictions – in Asia and the rest of the world – are yet to implement such an approach to D-SIBs: Singapore has introduced additional capital requirements to its locally incorporated banks, which it deems to all be systemic, China has announced a 1 percent capital surcharge; and Australia and Hong Kong may enhance their existing Pillar 2 capital add-on regimes to accommodate capital surcharges for D-SIBs.

An important additional requirement for D-SIBs (which is likely to encompass both the larger domestic banks and foreign banks' operations, where they are significant) will be to prepare a recovery and resolution plan.

Recovery and resolution planning

The FSB published in November 2011 a set of 'Key Attributes' for the recovery and resolution of systemically important financial institutions (SIFIs). National authorities are expected to implement these key attributes.

Aside from the Asian-domiciled G-SIBs (the three Japanese and one Chinese banks), we have to date seen limited action on recovery and resolution planning in most Asian jurisdictions. However, there are a growing number of initiatives in this area. In Australia, a pilot programme has been undertaken for some larger banks, to be rolled out more widely in 2013. Hong Kong is consulting on a proposal that all banks should, over time, develop a recovery

Capital reform: countries with requirements higher than Basel 3

	CET1	CET1 + CCB	T1 + CCB	Total + CCB
Basel 3	4.5%	7.0%	8.5%	10.5%
China D-SIBs	6.5%	8.0%		11.5%
China other	5.5%	8.0%		10.5%
Singapore D-SIBs	6.0%	9.0%	10.5%	12.5%
Thailand	4.5%	7.0%	8.5%	11.0%

An important additional requirement for domestic systemically important banks will be to prepare a recovery and resolution plan.

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and resolution plan, in proportion to their systemic importance. New Zealand has developed a detailed resolution policy for banks which will be implemented in 2013. And Singapore has commenced discussions with its systemically important banks.

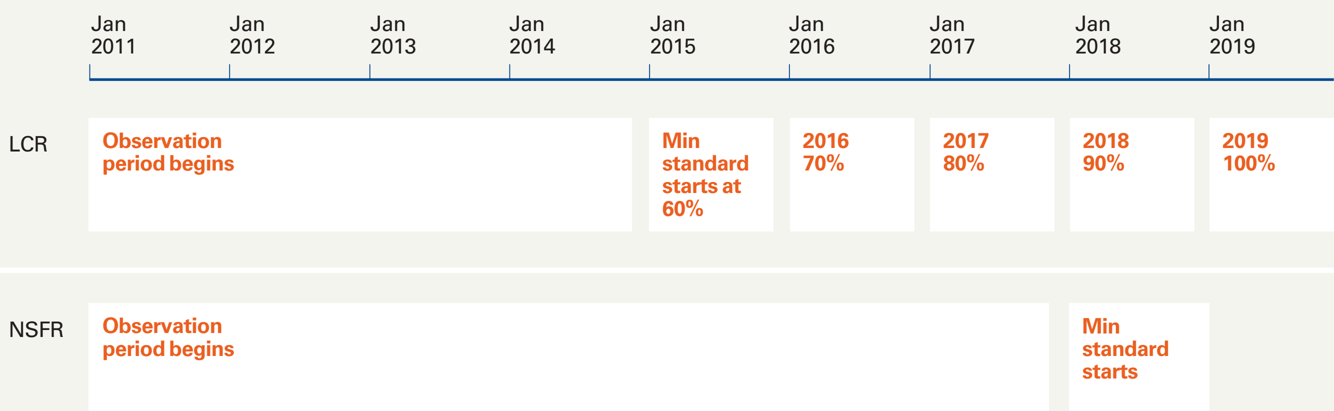
Recovery and resolution planning is a very sensitive subject – not just as far as banks are concerned, but also between home and host supervisors. Asian supervisors will be hoping they receive full cooperation from and sharing of information with the home country authorities overseeing the recovery and resolution plans for G-SIBs headquartered outside Asia. Meanwhile, there has been little focus in most Asian jurisdictions on the imposition of higher standards of corporate and risk governance (although Australia and the Philippines have introduced revised standards on corporate governance), or the enhanced supervision of systemically important banks.

Leverage

In response to concerns that a risk-weighted capital ratio can allow excessive build-up of leverage (ie. if a high proportion of assets are of a low risk weighting), Basel 3 adds from 2018 a new 'minimum leverage ratio'. This ratio will require banks to hold at least 3 percent Tier 1 capital against their total assets, irrespective of the risk-weighting of those assets. Most Asian jurisdictions will either follow this approach or are yet to make any announcement. China is introducing a higher 4 percent minimum leverage ratio.

And then there is liquidity

In addition to the new capital requirements, the Basel 3 standards include for the first time two quantitative minimum requirements on banks' liquidity and funding. The Liquidity Coverage Ratio (LCR) is designed to strengthen the ability of banks to withstand adverse shocks. It will require banks to hold sufficient high quality liquid assets (cash, government bonds and other liquid securities) to meet a severe cash outflow for at least 30 days. The stressed cash outflow includes the withdrawal of a proportion of retail deposits and the withdrawal of all wholesale funding maturing in the next 30 days – although banks can offset a part of this outflow of wholesale funding by an assumed inflow of funds they have placed with other banks that mature in the next 30 days. The Net Stable Funding Ratio (NSFR) is a more structural measure. It is intended to ensure that banks have a degree of matching between their stable funding (capital and long-term debt instruments, retail deposits and more than one year maturity wholesale funding) and their medium and long-term lending.
The LCR is planned to take effect, on a graduated basis, from January 2015, and the NSFR from January 2018.
In early January 2013 the Basel Committee announced some major revisions to the LCR which are likely



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to smooth its adoption in Asia and elsewhere. The NSFR is also now under review and it is anticipated that, as with the LCR, there could be major changes in the calculation as well as the implementation schedule – assuming it survives at all.[1]

Most Asian members of the BCBS and many other Asian jurisdictions have already announced – or are expected to announce – that they intend to implement the LCR and the NSFR, albeit with some modifications to reflect national characteristics.

These new requirements will create a strong incentive for banks to secure 'stable' deposits (retail deposits, deposits from corporates with money management accounts at the bank, and long-term wholesale deposits) to match the growth of their lending. Some far-sighted banks are already looking to secure an early mover advantage by locking in as far as possible their existing sources of stable funding.

The issue of availability of sufficient stable deposits remains a question, however, given that stable deposits tend to grow in line with GDP, whereas the growth of lending may be significantly higher.

As banks compete more aggressively for deposits to meet the Basel 3 liquidity requirements, this source of funding may become increasingly price-sensitive and consequently less stable. Banks are also now improving their systems and processes to underpin the reporting, monitoring and analysis of their liquidity positions.

There will also be competition for high quality liquid assets (HQLA), as there is a shortage in some countries which have a limited government bond market. The recently announced expansion of assets allowable as HQLA will certainly help with this, but some markets may still not have enough HQLA, even under the expanded definition. In Australia, it was announced in 2011 that banks would be able to count a funding commitment from the central bank as HQLA. In Hong Kong the answer appears likely to be to allow certain foreign-currency assets to count as HQLA.

There remain, however, two major issues in relation to implementation of the LCR. First is that the BCBS has indicated that the LCR constitutes only the minimum level of liquidity required, and supervisors need to consider whether a higher minimum might be appropriate in their particular market. This might include specifying additional scenarios banks need to consider, and alternative run-off rates more appropriate to the local market.

This opens the possibility that we will see supervisors in Asia 'gold-plating' the liquidity requirements and requiring more than the amount calculated under LCR.

Second is the question of scope of application. Regulators have considerable discretion on whether to apply the liquidity rules to all institutions (which historically has been the case in respect of capital requirements) or to only a

Intention to implement Basel 3 liquidity ratios (LCR and NSFR)

	Basel Committee members	Non-Basel Committee members
Yes	Australia China Hong Kong Indonesia Japan Korea Singapore	Malaysia Philippines Taiwan Thailand
No		New Zealand Vietnam

The issue of availability of sufficient stable deposits remains a question, however, given that stable deposits tend to grow in line with GDP, whereas the growth of lending may be significantly higher.

1. See 'Liquidity: A bigger challenge than capital', KPMG International, May 2012. http://www.kpmg.com/global/en/issuesandinsights/articlespublications/pages/liquidity-bigger-challenge-than-capital.aspx, but note there have been further developments since this publication.

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sub-set of institutions. Indications to date, from Hong Kong for example, are that the latter approach may be favoured, with the LCR being applied only to the largest institutions, with smaller institutions continuing with simpler measures.

Impact of tougher regulatory requirements

The Basel 3 requirements generally increase the amount of capital and liquidity that all banks will need to hold, compared to the previous regulatory requirements. This would tend to act as a constraint on the banks' ability to grow their balance sheet, which could in turn have a knock-on effect on economic growth, if bank customers cannot get the necessary finance to support the growth of their business. An explicit objective of capital surcharges for G-SIBs and D-SIBs is to constrain the growth of the larger banks.

While recognizing the importance of strengthening the resilience of banks and reducing risks to financial stability, there is a trade-off here: financial stability for growth. But is this trade-off worth it in Asia, given that there is not really any concern about the financial stability at present? Anything that affects bank lending could have a serious impact on the economy, given the greater role in intermediation played by banks in Asia, compared with the US and Europe. Asia's economic growth remains financed to a very large extent by the banking sector. Absent a more active capital/bond/equity market from which borrowers could draw funds directly, or an active securitization market where banks could offload assets and manage their balance sheet size, economic growth in Asia requires, quite clearly, that banks continue to expand their balance sheets.

As an example, economic growth in Asia in the region of 8–10 percent would tend to require banks' balance sheets to grow by an estimated 15–20 percent. However, under Basel 3 these banks

Some banks could well become 'funding constrained' three or four years down the line, in a situation of rapid balance sheet growth.

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will have to increase their capital ratios to at least 10.5 percent, and to even higher levels if they are systemically important. This increase puts considerable pressure on the ability of banks to support the expected growth.

A further consideration is the effect of the change in behavior by some foreign banks in Asia, where we are seeing an element of deleveraging and pulling back from Asian operations. This makes it even more important for local banks to have the lending capacity to account for a greater share of lending than would otherwise have been the case.

Our analysis suggests that banks and regulators in Asia have perhaps been a little too relaxed about this, as they have focused largely on banks' current positions rather than looking forward. Our findings indicate that some banks may hit a wall (that is, become capital constrained) three or four years ahead assuming the projected continued growth indeed takes place. The reasons for this include higher capital requirements; a tighter definition of capital with more emphasis on common equity Tier 1 capital; and reduced 'retained reserves', as profitability is adversely impacted by reduced net interest margin (due to a rise in interest rates, as well as a result of interest rate deregulation).

The combined effect could be a potential sizeable capital shortfall which could be addressed only by substantial capital injections from shareholders (in some cases, of course, the government) or by cutting back on lending – particularly those types of lending which are 'expensive' in terms of risk weighted assets. Trade finance, SME lending and infrastructure finance could be affected, particularly if the risk weightings are more conservative than necessary.

Macro-prudential oversight

The use of macro-prudential tools will also have an impact on banks, be it through the imposition of the Basel 3 counter-cyclical capital buffer; higher capital requirements on exposures to specific sectors of the economy; various forms of reserve requirements; or maximum loan-to-value ratios on property lending.

However, banks in Asia already have more experience than their US and European peers in the use of such tools, because many Asian countries have been using such tools dating back at least as far as the Asian financial crisis in the late 1990s. Other jurisdictions are following this lead – for example, New Zealand is looking at the possibility of adjusting the risk weightings on sector-specific and product-specific loans and to impose maximum loan-to-value ratios on residential mortgages.

Limitations on bank structures

There seems to be little or no appetite in Asia to follow the structural restrictions on bank groups that are being introduced in the US (the Volcker rule that prohibits banks from taking proprietary trading positions) and in the UK (the Vickers recommendations for the ring-fencing of major retail banks within a banking group), and are being considered in Europe (the Liikanen recommendations for the ring-fencing of major trading activities within a banking group). It seems that Asian jurisdictions generally intend to continue with their existing banking models, which in many cases – with the rare exception of Japan, where it is prohibited – support the universal banking model.

There are, however, continuing moves towards the 'localization'

There are continuing moves towards the 'localization' of the operations of foreign banks in some Asian jurisdictions.

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of the operations of foreign banks in some Asian jurisdictions. Many Asian supervisors are increasingly pursuing the issue of foreign banks operating in their countries through subsidiaries rather than branches, at least for retail business. Indeed, this trend has been reinforced by developments elsewhere, including: (i) the perception that the ring-fencing of retail banks in the UK – based on their European retail and SME deposits – will imply less protection and support for the non-European retail operations of global banking groups that include a UK ring-fenced retail bank; (ii) Asian jurisdictions' concerns over recovery and resolution plans for G-SIBs headquartered in the US and Europe, and the potentially uncertain outcomes in Asia if such a G-SIB were subject to recovery or resolution; and (iii) the recent FRB proposals in the US, with the potential to require foreign banks operating in this jurisdiction to introduce an intermediary holding company structure.

Financial crime

Many Asian jurisdictions seem to be heading towards reaching an inter-governmental agreement with the US to facilitate FATCA reporting to the US authorities. But even with this in prospect, many banks still need to introduce enhanced internal systems and procedures allowing them to generate information enabling accurate and prompt reporting. The larger banks in Australia and Japan have made progress here, but experience is at best 'mixed' in many jurisdictions.

Customer treatment

The G20 regulatory reform initiatives include an intention to enhance consumer protection, and as part of this the G20 endorsed in November 2011 a set of principles from the Organisation of Economic Development and Cooperation (OECD). These principles cover the equitable and fair treatment of consumers; disclosure and transparency; financial education and awareness; responsible business conduct of financial services providers and intermediaries; the protection of consumer assets against fraud and misuse; the protection of consumer data and privacy; and complaints handling and redress.

Responses to this initiative in Asia have so far been patchy. Singapore has already introduced mis-selling regulations, and there are specific proposals to improve consumer protection in Hong Kong, Indonesia, Korea and Thailand.

It is clear, however, that this issue is going to become more important in Asia. In Europe and the US, customer treatment is a major part of regulatory reform, and 'treating customers fairly' has become an important underlying principle. In Asia the focus has so far been largely on mis-selling, on customer suitability and on investment products, but it seems inevitable that this agenda will be broadened over time.

OTC derivatives

The G20 and the FSB have made clear their determination to introduce greater standardization of derivatives; harmonizing exchange trading and central clearing of derivatives; and reporting of trades to data repositories.

The G20 and the FSB have made clear their determination to introduce greater standardization of derivatives.

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Jurisdictions with significant derivatives trading activity have made considerable progress in delivering these objectives, although many of the details still need to be determined, and there remain significant concerns over differences in implementation across countries and in the extra-territorial reach of the US rules in particular.

In Asia, significant progress has been made by Australia, Hong Kong, Indonesia, Japan, Korea and Singapore. These countries have either already adopted new rules for derivatives trading, or expect to do so during 2013. These rules cover the four main areas on which the G20 and the FSB have focused – standardization, reporting, exchange trading and central clearing. In addition, it is interesting that some banks report that some of their Asian clients are actively seeking a more explicit local or regional provision of trading services from financial institutions, with less emphasis than in the past on access to the depth and liquidity of markets in the US and Europe.

Cumulative impact

There seems little doubt that the cumulative effect of all this regulatory change could be to reduce the availability and increase the cost of finance, thereby dampening economic growth.

More comprehensive impact assessments (by banks and regulators) would help give comfort that this need not be a matter of concern. Not all banks and regulators in the region appear to be systematically modeling the effects of introduction of the Basel 3 capital and liquidity requirements over a suitably long enough time period (3–5 years) to pick up fully on what could be some fundamental issues – namely banks becoming capital and/or funding constrained, and this impacting on the cost and availability of finance, and ultimately on growth. This would better enable them to assess their approach to implementation, including the need for a phased introduction of the requirements.

Major (non-banking) clients in Asia already complain of feeling the pinch, with banks starting to take a more

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cautious approach, for example, to long term lending. To some extent this is masked by the liquidity resulting from quantitative easing, and the consequent artificially low interest rates, but this will not continue indefinitely.

Suggestions for Asia? This could include:

- Asian regulators to have more flexibility on the introduction of and timetable for Basel 3
- The applicability of generic risk weightings (for capital) and run-off rates (for liquidity) to be reconsidered and possibly recalibrated for Asia
- A study to be undertaken of the potential cumulative effect of these regulatory changes on growth in Asia
- The development of the bond/capital markets in Asia as an alternative to bank finance
- An investigation into re-energizing the securitization market in Asia (in a safe and sound manner) to enable assets to be taken off banks' balance sheets
- Encouragement of the medium size and smaller banks to take up more of the slack on bank lending if the largest banks are constrained
- Possibly encouraging the shadow banking market as an alternative source of financing, particularly for SMEs

In conclusion

To date, we have seen a strong level of commitment in Asia – among members of the Basel Committee and non-members alike – to implementation of Basel 3 and associated regulatory reforms. Indeed, at this point of time, many Asian jurisdictions are ahead of the US and Europe in formalizing these requirements. Beyond capital, however, on which there is general agreement, there are a number of areas which are more contentious and less easily implementable in Asia – such as the liquidity and OTC derivatives reforms – and it is likely that we will see less commonality of approaches to these areas. There are also ongoing issues relating to the response to extra-territorial requirements.

Will we see certain jurisdictions 'breaking ranks' on such issues? Or will the BCBS be successful in enforcing compliance, at least by its member jurisdictions?

For certain, there are likely to be continued significant differences from jurisdiction to jurisdiction, which the KPMG regulatory network will continue to bring to clients' attention, providing insight into the challenges – and opportunities – these present.

We have seen a strong level of commitment in Asia – among members of the Basel Committee and non-members alike – to implementation of Basel 3 and associated regulatory reforms.

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Supplementing capital through issues of subordinated debt

Non-equity capital under Basel 3

Under Basel 2 it was possible for a bank's capital base to comprise only a small amount of core equity, supplemented by large amounts of lower quality instruments such as asset valuation reserves and subordinated debt. In some cases this subordinated debt was of a 'hybrid' kind, and special features such as step-ups and issues upstreamed from special purpose vehicles had become common.

The global financial crisis, however, raised major concerns over the loss absorbing capability of non-core capital instruments. Under Basel 3, not only must a much greater proportion of total capital be in the form of equity, but any debt issues intended to count as capital must include a clause providing for them to be written off or converted into equity upon a pre-defined trigger event.

HKMA requirements

Using the Hong Kong Monetary Authority (HKMA) requirements as an example, it is still possible for perpetual subordinated debt to count as Tier 1 and dated subordinated debt as Tier 2. However, any such instruments must now have a 'point of non-viability trigger' providing for writing down or conversion into equity if the HKMA deems that the issuer would otherwise become non-viable, or if there is to be an injection of public money into the issuer.

Additionally, to count as Tier 1, there must be a clause providing for writing down or conversion to equity upon the trigger of core equity falling below 5.125 percent (or a higher figure set by the issuer).

There has been modest issuance of such contingent convertible capital instruments ('CoCos') by a number of European banks, including Bank of Cyprus, Barclays, Credit Suisse, Lloyds Banking Group, Rabobank and UBS. Some of these have counted as capital, while others did not – for example, because they were not subordinated or were of too short a maturity. The structures of the CoCos issuances vary considerably and no 'model' has yet emerged. In Asia, it is unclear what structures will emerge; how they will be priced; and what the investor appetite will be.

Why should Asian banks look into such issues?

Although many banks in Asia feel their capital position under Basel 2 is strong, it is likely over time that they are going to need alternative sources of capital to rights issues and retained earnings to build their capital base. Moreover, existing capital issues included in the capital base will run off, or will be gradually disqualified, necessitating their replacement.

Both banks and regulators are going to need to consider other forms of eligible Additional Tier 1 and Tier 2 capital. So far, there have been limited discussion and precedents for issuing such instruments in Asia. It was notable, however, that European issues have apparently attracted sizeable orders from investors in Asia.

What are the issues for Asian banks to consider?

- Seeking Additional Tier 1 or Tier 2 treatment?
- Type of clause (write down or convert to equity)
- Type of trigger (going concern or gone concern)
- Trigger rate
- Link to Recovery and Resolution Plan
- Attitude of shareholders (eg. to equity conversion, which would dilute RoE)
- Pricing/presentation to investors

In this low yield environment, such instruments offering a higher yield than straight debt could be highly attractive. Recent issues were oversubscribed particularly among Asian investors, providing encouragement that this might well be an appropriate medium for supplementing regulatory capital. It is however important to remember that as of today, the possibility of sizeable issues in Asia is largely untested.

How such issues would behave in a crisis and how investors would behave when a bank is perceived to be getting into trouble would also need to be considered.

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Particular issues for foreign banks in Asia

Foreign banks face a multitude of issues in Asia, both as a result of requirements emanating from the international supervisory bodies and their own national/regional supervisory bodies, as well as due to consequent actions by host supervisors in Asia.

We have not yet seen the full extent of the restructuring of global banking groups that will be required if Vickers and Liikanen proposals are fully implemented, and if supervisors require substantial restructuring, pursuant to Recovery and Resolution Plans (RRPs), to make major banking groups more 'resolvable'.

Host supervisors in Asia are anticipating that such restructuring will tend to place the priority and support given to Asian operations further down the pecking order. The response of host supervisors in such circumstances is likely to be to consider placing ring-fencing requirements on the local operations of foreign banks, including subsidiarization (or locked-up branch

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capital), particularly when the activities in the local market are substantial and/or of a retail nature.

To date we have seen several supervisors in Asia pondering subsidiarization. Clearly, they need to protect the local market, but equally they generally wish to see continuing involvement by foreign banks.

Several have also been tightening up on outsourcing, particularly cross-border, and including intra-group, which may present something of an obstacle to foreign banks seeking to enhance the cost-efficiency of their operations in Asia.

Interestingly, however, the idea of splitting core banking and trading activities, currently the subject of much debate in Europe and the US has not been taken up by supervisors in Asia, where trading activities are generally modest and not seen as a concern.

Where this leaves the foreign banks is that the shape of their trading activities in Asia, and their legal entity structure for trading, are likely to be influenced more by home country requirements than local requirements.

Liquidity, however, is an issue where local requirements come very much into play. Several Asian supervisors are indicating that, notwithstanding whatever requirements home supervisors may place on the group, they will also be subject to local requirements, ie. they will need to fund their local operations on a largely stand-alone basis, with limited reliance on intra-group funding. There is also the possibility (as in Hong Kong) of these requirements applying to foreign banks that operate in branch form, as well as to subsidiaries.

In addition to this issue of scope of application of the liquidity requirements, there is also the issue in many Asian markets of the shortage of assets

Is subsidiarization of foreign bank branches required or planned to be required by country regulator?

Country	
Australia	Branch structure is still acceptable for non-retail operations. However, banks wishing to conduct retail operations are required to incorporate locally.
China	There is a presumption that all foreign banks will subsidiarize once they are well established.
Hong Kong	It is already effectively mandatory for banks with retail banking operations. Branch structure is still acceptable for non-retail activities.
Indonesia	Presently foreign banks are allowed to operate in Indonesia as branches. However, in December 2012, Central Bank of Indonesia (BI) introduced Capital Equivalency Maintained Assets (CEMA). CEMA is a compulsory capital allocation fund of foreign bank branches which must be placed in financial assets (mainly in form of Indonesian Government Bond) at certain amount and must meet requirements stipulated by BI.
Japan	Both a branch structure as well as a subsidiary are acceptable, however strengthening the regulation on the scope of business as well as the regulatory requirements for foreign banks is under debate.
Korea	No changes requiring subsidiarization of foreign bank branches have been announced by the FSC to date.
Singapore	Subsidiarization is not mandatory. However, Qualifying Full Banks are encouraged to subsidiarize their retail operations, with additional benefits for the bank.
Malaysia	All foreign banks have to be subsidiaries.
New Zealand	RBNZ has made no statement, but is known to have an informal opinion on the issue of NZ sovereignty in the banking sector.
Philippines	No subsidiarization requirements for foreign bank branches have been announced by the regulators to date.
Taiwan	Subsidiarization is already effectively mandatory for banks with substantial retail banking operations. Branch structure is still acceptable for non-retail activities.
Thailand	Subsidiarization is not mandatory. However, banks are encouraged to subsidiarize their retail operations, with additional benefits for the bank.
Vietnam	Branch structure is still acceptable for both retail and non-retail activities.

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meeting the definition of HQLA, although this may have been ameliorated somewhat by the recent extension of the scope of qualifying assets.

This issue of funding is a key issue for foreign banks that have largely relied hitherto on global (intra-group) or local wholesale (interbank) funding and lack retail funding penetration. On the other hand, those foreign banks with a strong retail presence in the region are quite well-placed.

Given all these considerations – possible subsidiarization (requiring, of course, local capitalization), local funding, localization of key functions and systems, all of which would tend to raise cost and possibly change the cost/benefit equation significantly – it is not surprising that some foreign banks are evaluating their geographical footprint in Asia and considering which markets they want to operate in.

We have already seen a deal of deleveraging and drawing back from lending by European (and other foreign) banks. The possible scaling back of the operations in Asia of some does however, of course, present opportunities for 'stayers' to acquire business (on both the asset and liability side) and add to scale.

That is not to say that foreign banks' commitment to their Asian operations has lessened. Indeed, for many, Asia is where they anticipate the growth necessary to help them rebuild their profitability.

It is in fact quite possible that we will see a substantial increase in the business booked in Asia, as a number of investment banks are understood to be looking at their (global) booking models, and in particular considering booking their Asian over-the-counter (OTC) derivatives business in Asia rather than offshore.

Implementation of Basel 3 in Asia is far from straightforward for the international banks. While they will tend to be most familiar with the Basel standards and the home country requirements, the requirements in each Asian jurisdiction may differ in important respects (there is no central coordinating body in Asia promoting a consistent regional approach). And, unlike Basel 2, which international banks were generally able to implement first in their home market and then roll out subsequently to other geographies, banks may well need to implement Basel 3 in multiple geographies concurrently, now that many Asian countries are Basel committee members and implementing to the same timeline. Indeed, as noted elsewhere, several – including Australia, China, Hong Kong and Singapore – look like they will be implementing ahead of Europe and the US.

Currently, it is the funding issue that is causing the greatest amount of soul-searching, and will be the number one factor in shaping the foreign banks' operations in Asia.

Looking ahead, there are two other major factors likely to influence the shape and nature of banks' overseas operations. First are the D-SIFI requirements. These may well apply to some local operations of foreign banks, and are likely to require local RRPs. Second, many Asian regulators are implementing or considering implementing changes to their subsidiarization requirements.

There are many factors for the foreign banks to have at the front of mind when planning their strategy and assessing their regulatory compliance requirements in Asia. And it is important that decisions being made by global institutions at the head office level take full account of the particular issues relating to their operations in Asia.

But that is not to say that foreign banks' commitment to their Asian operations has lessened. Indeed, for many, Asia is where they anticipate the growth necessary to help them rebuild their profitability.

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Abbreviations

ALM	Asset Liability Management
AMA	Advanced Measurement Approach
AML	Anti Money Laundering
APRA	Australian Prudential Regulation Authority
BCBS	Basel Committee on Banking Supervision
BI	Bank Indonesia
BIA	Basic Indicator Approach
BNM	Bank Negara Malaysia
BOJ	Bank of Japan
BOT	Bank of Thailand
BSP	Bangko Sentral ng Pilipinas
CapPR	Capital Plan Review
CBRC	China Banking Regulatory Commission
CCAR	Comprehensive Capital Analysis and Review
CCB	Capital Conservation Buffer
CCPs	Central Counterparties
CECL	Current Expected Credit Loss (model)
CEMA	Capital Equivalence Maintained Assets
CET1	Common Equity Tier 1 (capital)
CFPB	Consumer Financial Protection Bureau
CLF	Committed Liquidity Facility
CoCos	Contingent Convertible Capital
CRD 4	Capital Requirements Directive
DFA	Dodd-Frank Act
D-SIBs	Domestic Systemically Important Banks
DTAs	Deferred Tax Assets
DTLs	Deferred Tax Liabilities
EBA	European Banking Authority
ECB	European Central Bank
EMA	Europe, Middle East and Africa
EMIR	European Market Infrastructure Regulation
ESAs	European Supervisory Authorities
ESMA	European Securities and Markets Authority
FATCA	Foreign Account Tax Compliance Act
FCA	Financial Conduct Authority
FG	Financial Group
FPC	Financial Policy Committee
FRB	Federal Reserve Bank
FSA	Financial Services Authority (UK)
FSB	Financial Stability Board
FSC	Financial Supervisory Commission
FSOC	Financial Stability Oversight Council
FTT	Financial Transaction Tax
GFS	Global Financial Crisis
G-SIBs	Global Systemically Important Banks
G-SIFI	Global Systemically Important Financial Institutions
HKMA	Hong Kong Monetary Authority
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
ICB	Independent Commission on Banking
IFRS	International Financial Reporting Standards
IHC	Intermediate Holding Company
IIF	Institute of International Finance
IMF	International Monetary Fund
IRB	Internal Ratings Based (approach)
JFSA	Japan Financial Services Agency
KFSS	Korea Financial Supervisory Service
LCR	Liquidity Coverage Ratio
LTV	Loan-To-Value Ratio
LIBOR	London Interbank Offered Rate
MAS	Monetary Authority of Singapore
MiFID	Markets in Financial Instruments Directive
NSFR	Net Stable Funding Ratio
OTC	Over the Counter
RBA	Reserve Bank of Australia
RBNZ	Reserve Bank of New Zealand
RRD	Recovery and Resolution Directive
RRP	Recovery and Resolution Planning
RWA	Risk Weighted Assets
SBV	State Bank of Vietnam
SD	Swaps Dealer
SIBs	Systemically Important Banks
SIFIs	Systemically Important Financial Institutions
T1	Tier 1 (capital)
TFSC	Taiwan Financial Supervisory Commission

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