FSB FINANCIAL STABILITY BOARD

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Monitoring the effects of agreed regulatory reforms on emerging market and developing economies (EMDEs)

1. Introduction

The FSB, in collaboration with the International Monetary Fund (IMF) and the World Bank, prepared a study in June 2012 to identify the extent to which the agreed regulatory reforms may have unintended consequences for EMDEs.[1] The G20 Leaders, in the Los Cabos Summit Declaration, welcomed the study and "*encourage[d] continued monitoring analysis and reporting by the FSB and dialogue among the FSB, standard-setters, international financial institutions and national authorities of EMDEs, to address material unintended consequences as appropriate without prejudice to our commitment to implement the agreed reforms*".[2]

In response to the G20 request, the FSB, in collaboration with standard-setting bodies (SSBs) and international financial institutions (IFIs), decided to embed the monitoring, analysis and reporting in this area into existing mechanisms and consultation channels where possible. This was done for three main reasons:

- many of the identified concerns have also been raised by advanced economies and are being addressed by relevant SSBs during policy development and implementation;
- using existing monitoring and assessment processes by the FSB, SSBs and IFIs will maximise synergies and avoid the duplication of efforts; and
- such an approach will enable monitoring and reporting in this area to be an ongoing rather than a stand-alone exercise.

This note provides an update of monitoring developments since the June 2012 study. The information included in the note draws upon discussions in FSB Regional Consultative Groups (RCGs) on the effects of internationally agreed reforms across different regions, input by SSBs and IFIs[3] from their own monitoring and assessment processes, as well as the findings of an FSB workshop, organised in May 2013, to share lessons and experiences among EMDEs on implementing financial reforms and on undertaking *ex ante* assessments of their impact.

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[1] See http://www.financialstabilityboard.org/publications/r_120619e.pdf.

[2] See http://www.g20.org/images/stories/docs/g20/conclu/G20_Leaders_Declaration_2012.pdf (para. 45).

[3] These comprise the IMF, World Bank, Basel Committee on Banking Supervision (BCBS), International Association of Insurance Supervisors (IAIS), and the International Organisation of Securities Commissions (IOSCO).

The starting point of the analysis is the areas of reform identified in the June 2012 FSB study (see Box 1), namely: the Basel III capital and liquidity framework; over-the-counter (OTC) derivatives market reforms; and policy measures for global systemically important financial institutions (G-SIFIs), including resolution regimes. The sections below provide an update on recent developments in each of these areas vis-à-vis EMDEs and the steps taken by SSBs and IFIs to identify material unintended consequences and to assist in the implementation of the reforms. They also describe some concerns identified by EMDEs stemming from the cross-border impact of banking structural reform initiatives in some advanced economies.

Box 1: Main findings and messages of June 2012 FSB study

The June 2012 FSB study focused primarily on internationally agreed financial regulatory reforms. Its intent was not to re-open those reforms but to better understand their possible effects on EMDEs in the context of broader post-crisis developments and to facilitate their timely, full and consistent implementation. The study found that there was widespread support among surveyed EMDEs for the objectives of the agreed reforms. At the same time, there was a range of views about the extent to which these reforms were having, or were expected to have, an impact on their financial systems. This range of views reflected the early stage of implementation of these reforms and the diversity of EMDE financial systems, which gave rise to different considerations and concerns. Most of the responses reflected expectations regarding potential future effects, rather than observed impacts.

While many EMDEs did not expect significant adverse effects from the implementation of the reforms, those that did identify potential unintended consequences focused on certain aspects of the Basel III capital and liquidity frameworks, policy measures for G-SIFIs, and OTC derivatives market reforms. Some EMDEs also identified specific regional or national regulatory reforms (e.g. banking structural reform proposals) as giving rise to spillovers and/or having extraterritorial effects that may lead to unintended consequences.

The study noted that many of the identified concerns were being addressed by relevant international bodies during policy development and implementation. Some of the concerns stemmed from the way that reforms were implemented in other jurisdictions rather than from the design of the reform itself. While it was too early to be able to assess fully the materiality and persistence of the effects of regulatory reforms on EMDEs, the study concluded that it would be useful to monitor them on an ongoing basis. The findings also underscored the importance of ongoing dialogue and cooperation among EMDE authorities, IFIs and SSBs.

2. Basel III capital and liquidity framework

There is broad support from EMDEs for the objectives of the Basel reform package to strengthen the resilience of the banking system following the financial crisis. In several EMDEs, particularly the larger and more advanced ones that are members of the BCBS/FSB, implementation of the Basel III (including Basel II and 2.5) framework is a priority and is proceeding according to the internationally agreed timeframes. While the adoption of the

Basel III rules is not a prior commitment by EMDEs that are not BCBS/FSB members, they are widely seen as best practices that should continue to be implemented globally.[4]

EMDEs continue to be concerned about deleveraging by some internationally active banks, although this is not uniform across regions and it is driven by different factors. In emerging Asia, and to some extent in Latin America, cross-border lending has increased since 2009 following the sharp decline experienced in 2008. On the other hand, the renewed deleveraging by euro area banks since mid-2011 has mostly affected Central and Eastern Europe. The retrenchment of European banks is also evident in some specialty finance lines characterised by long maturities, syndication and dependence on US dollar funding (e.g. aircraft or shipping) although regional banks, including from EMDEs, have replaced them in some cases, particularly in Asia. Reform initiatives such as Basel III may have affected global banks' lending behaviour, particularly given market pressures to adopt reforms ahead of the internationally agreed schedule. However, differences in macroeconomic conditions and the relative health of home country banking systems are reported to have been the main drivers of differences in foreign bank lending to EMDEs.[5] As short-term post-crisis conjunctural effects subside over time, it should be possible to more clearly distinguish longer-term structural changes to global financial intermediation, including as a result of regulatory reforms.

A. Basel III capital framework

Implementation of the Basel III capital framework is currently underway and will be completed by January 2019. As noted in the August 2013 BCBS progress report on Basel III implementation, large internationally active banks continue to build capital to meet the full set of fully phased-in minimum Basel III capital requirements by the 2019 deadline. Within EMDEs, the higher reported capital buffers (in terms of both quantity and quality) of many banking systems imply that they should be well-placed to meet these capital requirements, including the leverage ratio.[6] These capital buffers may, however, overstate the true resilience of financial systems in some EMDEs given weaknesses, identified in IMF-World Bank Financial Sector Assessment Program (FSAP) assessments, in areas such as loan classification and provisioning as well as consolidated supervision.

A number of issues previously identified concerning the Basel capital framework remain a concern for EMDEs. The effects on EMDEs arise both from national implementation of

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4 According to the August 2013 BCBS progress report on Basel III implementation (http://www.bis.org/publ/bcbs260.pdf), 8 out of the 10 FSB member jurisdictions that are EMDEs have now fully implemented Basel II (Argentina and Russia have initiated the process to complete implementation); 6 have fully implemented Basel 2.5 (Argentina, Indonesia, Mexico and Russia have either partially adopted it or have initiated steps to do so); and 8 have issued the final set of Basel III capital regulations (Indonesia and Turkey have draft rules in place and intend to finalise them shortly). The July 2013 Financial Stability Institute survey on Basel II/2.5/III implementation (http://www.bis.org/fsi/fsiop2013.pdf) indicates that many non-BCBS/FSB jurisdictions are also in the process of implementing the Basel framework.

5 See, for example, "The euro area crisis and cross-border bank lending to emerging markets" by Avdjiev et al (BIS Quarterly Review, December 2012, http://www.bis.org/publ/qtrpdf/r_qt1212f.pdf) and "Financing Future Growth: The Evolving Role of the Banking System inn CESEE" by staff from the IMF's European Department (April 2013, http://www.imf.org/external/pubs/ft/reo/2013/eur/eng/pdf/tn0413.pdf).

6 See, for example, the 2013 Global Financial Development Report by the World Bank (http://siteresources.worldbank.org/EXTGLOBALFINREPORT/Resources/8816096-1346865433023/8827078-1346865457422/GDF_2013_Report.pdf).

the Basel III framework and from cross-border effects. In addition to the complexity of the framework that complicates implementation efforts, these concerns include:

- the need for adequate coordination between home and host jurisdictions in the recognition of certain capital instruments across the parent bank and its subsidiary;
- differences in risk management practices and the risk weighting of assets between a parent bank located in an advanced economy and its subsidiary in an EMDE, which may result in differing risk weights applied to the same EMDE exposure (including sovereign debt), potentially penalising that exposure in terms of capital requirements;[7]
- potential reduction in trading book holdings of EMDEs' sovereign debt securities by internationally active banks as a result of the implementation of Basel 2.5; and
- reliance on a given credit-to-GDP ratio to activate the countercyclical capital buffer, which may be inappropriate for some EMDEs given their experience of generally larger swings in credit and growth cycles than in advanced economies.

These concerns remain qualitative in nature, reflecting the early stage of implementation and the lack of quantitative impact studies at national EMDE level. Quantitative impact studies can help in further assessment of the identified concerns. While such studies typically form only part of the overall impact assessment, they are useful means of conceptualising the main issues and considering the longer-term benefits and costs to the economy that, particularly in the case of EMDEs, include cross-border effects.

B. Basel III liquidity framework

The focus of attention by some EMDEs concerning the impact of Basel III reforms has shifted towards liquidity ratios. The BCBS revised the Liquidity Coverage Ratio (LCR) rules in January 2013 to amend the definition of high-quality liquid assets (HQLA) and assumed net cash outflow rates.[8] The revisions are intended to better reflect actual experience in times of stress and to address the concern by some jurisdictions that the structure of their domestic financial markets (e.g. a limited supply of government or highly-rated corporate bonds) would make it difficult to meet the previous HQLA requirement and may adversely affect the functioning of those markets and the lending capacity of banks. Related to this, the BCBS revised the timetable for phase-in of the LCR to ensure that it can be introduced without disruption to the orderly strengthening of banking systems or the ongoing financing of economic activity. The second main component of the Basel III liquidity framework, the Net Stable Funding Ratio (NSFR),[9] is currently under review by the BCBS and a finalised standard will be issued by end-2014.

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[7] The FSB RCG for the Americas has established a working group to study the impacts on host countries of the methodologies used by global banks to measure risks at the consolidated level, and will report its main findings to the FSB in early 2014.

[8] The LCR standard is designed to promote short-term resilience by requiring a bank to have HQLA to survive acute stress lasting for 30 calendar days. LCR = HQLA / (total net cash outflow over 30-day period); see http://www.bis.org/publ/bcbs238.pdf.

[9] The NSFR is a longer-term structural ratio to address liquidity mismatches and provide incentives for banks to use stable sources to fund their activities.

The introduction of the Basel III liquidity ratios is expected to lead to some implementation challenges for EMDEs. These include: limited availability of HQLA in certain markets and types of market participants, which may lead to the hoarding of such assets with adverse effects on domestic capital market development; the potential impact of those requirements on the availability and pricing of banks' long-term lending activities (e.g. infrastructure financing); and the intensified competition for deposits that may be prompted by the calibration of outflow rates for different types of liabilities and off-balance sheet commitments. The business practices and the reporting systems of banks also need to be aligned to meet the operational requirements of the liquidity standard. Finally, some EMDEs also point out that the wider policy implications of the LCR (e.g. with respect to monetary policy operations or the microprudential supervisory framework) have yet to be fully analysed and call for a flexible approach to national implementation by making full use of the observation period data.

C. Lessons in implementing Basel III and the work of IFIs and the BCBS

The implementation of the Basel III framework is hampered by a variety of factors in some EMDEs, particularly adequate resources and capacity. Evidence from IMF and World Bank diagnostic work, including findings from FSAP assessments, indicates that authorities in EMDEs are making significant efforts to align their supervisory and regulatory framework with the Basel standards. Important challenges remain in terms of the independence and powers of supervisors as well as the availability of adequate data, tools and methodologies. In that regard, the most important constraining factor cited by many of these authorities is the availability of adequate human resources in supervisors, both in terms of numbers and (more importantly) expertise. This concern has been a recurring issue and is becoming more critical as the Basel framework becomes more complex.

While the Basel III framework has been developed to be applicable in various national contexts, several non-G20/FSB EMDEs are adopting a phased approach to its implementation.[10] For these EMDEs, in the short term at least, implementing the Basel III framework competes with other priorities, such as enhancing loan classification systems, adopting consolidated supervision, or strengthening legal frameworks to undertake corrective and remedial measures. And since the Basel III framework is directed mainly at internationally active banks, not all of its elements are necessarily relevant for smaller domestic banks. As a result, a number of those EMDEs are adopting a phased approach that reflects their own national policy priorities and capacity constraints.

The IMF and World Bank are assisting EMDEs in this process via a variety of diagnostic, surveillance, policy guidance and capacity-building work. This involves identifying weaknesses in regulatory and supervisory frameworks via FSAP assessments; tailoring the strategy and sequencing of implementing internationally agreed reforms given country circumstances; improving compliance with international financial sector standards as the foundation for successful implementation of the Basel III framework; providing hands-on

[10] Those EMDEs that are members of the BCBS, FSB and G20 have committed to fully adopt the Basel III framework in accordance with the agreed timetable.

support to enhance supervisory capacity through technical assistance; mobilising financial resources to promote domestic finance, including by developing capital markets; and monitoring the effects of regulatory reforms on EMDEs. Some of the lessons cited from this work include the need to "deconstruct" the various elements of Basel III in order to help EMDEs prioritise areas that are most relevant (e.g. definition of regulatory capital or Pillar 2 risk assessments); integrate regulatory reform with enhancements to the supervisory framework; and engage with the industry to ensure effective implementation.[11]

The BCBS has increased its focus on implementation. In addition to monitoring the timely adoption of the Basel III standards and its quantitative impact on banks, the BCBS is assessing in detail the consistency of local implementing regulations among its members.[12] These assessments, together with the publication of supporting implementation guidance and provision of training, will contribute to greater consistency and comparability in national adoption of the Basel III framework.

The BCBS has also expanded its outreach activities and consultations on the impact of Basel III on EMDEs. In particular, the Basel Consultative Group (BCG) has established a work stream to identify the impact of Basel III implementation on emerging market and smaller economies.[13] The BCG will update the BCBS later in 2013 on its work in identifying major unintended consequences and possible guidance on how to address practical issues associated with implementation. The BCBS, including via the BCG, is also monitoring and reviewing elements of the framework that have yet to come into effect under the internationally-agreed timelines, so that it identifies issues that may pose a challenge across jurisdictions (including EMDEs) from an implementation perspective. These include the availability of HQLA under the LCR and the use of the credit-to-GDP ratio for activating the countercyclical capital buffer.

3. OTC derivatives market reforms

The impact of OTC derivatives market reforms in EMDEs varies widely given the differences in financial market characteristics and stage of financial development. Some large middle-income EMDEs have fairly liquid domestic OTC derivatives markets and are well-advanced in implementing the G20 commitments in this area. While their share of global OTC derivatives turnover may be small, a large part of it involves foreign counterparties (both dealers and other market participants). On the other hand, the large majority of EMDEs have very small OTC derivatives markets, so the impact of these reforms on their economy is more indirect and stems from cross-border spillover effects. The diversity of OTC derivatives markets is reflected in the way that non-G20/FSB EMDEs implement reforms in this area.

[11] The Financial Stability Institute (FSI, http://www.bis.org/fsi/aboutfsi.htm) is also assisting financial sector supervisors in EMDEs with the implementation of internationally agreed reforms through a range of channels, including conferences, high-level meetings, seminars and FSI Connect, the FSI's online information resource and learning tool.

[12] See http://www.bis.org/bcbs/implementation.htm. The BCBS aims to complete a first assessment of Basel III capital regulations for all BCBS member jurisdictions by the end of 2015.

[13] The BCG is the BCBS' main outreach group, comprising BCBS member and non-member jurisdictions (the latter being in the majority), regional groups of banking supervisors, the IMF, World Bank and the Islamic Financial Services Board.

The main concerns among EMDEs centre around the potential impact of those reforms on domestic financial intermediation and ensuring adequate home-host coordination. The reforms imply additional costs primarily through new capital and margining requirements (particularly for non-centrally cleared transactions), [14] which may affect the further development of these markets domestically and the supply (cost and availability) of finance for end-users. In addition, EMDEs emphasise the need for greater cross-border cooperation and information sharing to avoid potential duplication and inconsistencies in regulatory requirements (including those that arise from the wide scope of cross-border legislation in some advanced economies) as well as to address privacy/confidentiality issues for reporting obligations. Some EMDEs also note that oversight of these markets involves several domestic agencies and that institutional arrangements are still evolving.

These concerns are not restricted to EMDEs – in fact, the dividing line in most cases is between major financial centres and other jurisdictions. Several of these jurisdictions have been adopting a "wait and watch" approach to completing the implementation of international standards and resolving cross-border issues between major financial centres before finalising their own regulatory framework and determining the appropriate form of derivatives-related financial market infrastructures (FMIs), particularly whether to rely on domestic or foreign FMIs. [15] Some jurisdictions have adopted a phased approach to the implementation of reforms in this area, focusing initially on better understanding the structure of their domestic OTC derivatives markets (given their previously largely unregulated nature) and imposing registration and trade reporting requirements. [16]

Ongoing international policy work in this area aims to address many of these concerns. In particular, work by the FSB, SSBs, and the OTC Derivatives Regulators Group (comprised of market regulators from jurisdictions with large OTC derivatives markets) is continuing to resolve cross-border gaps, inconsistencies, and conflicts. The finalisation of international standards on data reporting, access and aggregation; capital requirements regarding bank exposures to CCPs and margin requirements for non-centrally cleared derivatives; and FMI recovery and resolution regimes will help to provide clarity to jurisdictions so that they can complete their legislative and regulatory framework. In terms of assessing the impact of the reforms, a recent BIS study [17] found that the costs of increased capital and margin requirements globally are more than offset by the benefit that flows from a lower frequency of financial crises due to reforms that reduce counterparty exposures through more widespread central clearing and more comprehensive collateralisation; however, the distribution of those benefits and costs will differ across jurisdictions (including EMDEs) and may result in some higher prices in markets for risk transfer and other financial services. Finally, both the FSB

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[14] This may be particularly the case for long-dated, customised and illiquid derivatives contracts; see the February 2013 FSB report to G20 Finance Ministers and Central Bank Governors on the financial regulatory factors affecting the availability of long-term investment finance (http://www.financialstabilityboard.org/publications/r_130216a.pdf).

[15] This is a particular concern for those jurisdictions whose currency is not traded in one of the large global CCPs, and that will therefore need to decide whether to set up a domestic recognised CCP in order to mitigate the impact on domestic market participants from additional capital and margining requirements for non-centrally cleared OTC transactions.

[16] See, for example, the discussion on OTC derivatives market reforms in the February 2013 FSB peer review of South Africa (http://www.financialstabilityboard.org/publications/r_130205.pdf).

[17] See http://www.bis.org/publ/othp20.pdf.

and relevant SSBs (BCBS, CPSS, IOSCO) will continue to monitor implementation of the relevant policy reforms and standards to ensure the G20 objectives are met.

In addition to its standard-setting activities, IOSCO is assisting securities regulators in EMDEs to address some of these issues via guidance and technical assistance. IOSCO's support includes regular workshops and seminars to share expertise and enhance the supervisory and surveillance capacity of securities regulators in EMDEs; technical assistance, education, training and research including through the IOSCO Foundation, which is expected to be established in the near future; monitoring via annual surveys of the resources and capacity of its EMDE members; provision of guidance and Frequently Asked Questions to EMDEs on relevant IOSCO Recommendations and Principles; and other measures (e.g. joint projects with international organisations) to promote the development of domestic capital markets in EMDEs.

4. Policy measures for G-SIFIs and resolution regimes

As noted in the June 2012 FSB study, EMDEs' concerns about higher loss absorbency requirements for global systemically important banks (G-SIBs) are largely similar to those expressed for Basel III. These concerns relate to the reduction in the scale of operations and/or increase in intermediation costs for G-SIBs operating in EMDEs, particularly in those jurisdictions whose domestic banking system is largely foreign-owned; and the potentially asymmetric nature of the benefits and costs across home and host jurisdictions of G-SIBs depending on where the additional capital will be held and which jurisdiction can trigger the conversion of capital instruments to ensure loss absorbency at the point of non-viability. A number of EMDEs point to the need for additional home-host coordination to address these issues.

Several EMDEs stress the need for adequate involvement of host jurisdictions in crisis management groups (CMGs) and the design of group-wide resolution plans and strategies for G-SIBs. Those jurisdictions express concerns about relying on group-wide resolution strategies without adequate *ex ante* assurances by and consultations with home authorities of G-SIBs. In this context, some EMDEs note that, while key host jurisdictions of internationally active banks are included in CMGs, other jurisdictions where the G-SIB's presence is smaller (as a share of the overall group's activity) but still systemically important from that jurisdiction's perspective are not. Moreover, concerns raised by EMDEs underscore the need to ensure equal treatment of creditors of the same class across the entire group, as host authorities could be less willing to support a resolution led by the home country in the absence of fair and equitable treatment of host country creditors. Finally EMDEs point out that significant legislative changes and capacity building will be necessary to adopt the resolution authorities, powers and tools of the FSB *Key Attributes of Effective Resolution Regimes for Financial Institutions* (*Key Attributes*) in their jurisdiction.

Many of these concerns are common to advanced economies and are being addressed in ongoing international policy work on effective resolution regimes and on resolution planning for G-SIFIs. In particular, the FSB published guidance in July 2013 to assist national authorities and firms in implementing the recovery and resolution planning requirements under the *Key Attributes*, and it launched a public consultation in August 2013 on principles governing information sharing for resolution purposes.[18] The guidance identifies *inter alia* factors and considerations for the selection and successful implementation of a resolution strategy (including home-host issues), while the proposed principles define legal gateways for the disclosure of non-public information (including with relevant host authorities not represented in a CMG) and specify home-host information sharing in the context of firm-specific cooperation agreements. In terms of next steps, the FSB will launch its Resolvability Assessment Process in 2014 that will assess the resolvability of each G-SIFI by a group of high-level policymakers from home and key host authorities of the G-SIFI.

The G-SIFI policy framework has recently been extended to the insurance sector. In July 2013, the International Association of Insurance Supervisors (IAIS) issued policy measures for global systemically important insurers (G-SIIs) and the FSB, in consultation with the IAIS and national authorities, identified an initial list of G-SIIs to which these measures will apply based on an assessment methodology that the IAIS developed. Given that policy measures for G-SIIs were issued recently, EMDEs have thus far not raised concerns over the envisaged G-SII policy measures. Nevertheless, the IAIS will monitor how EMDEs may be impacted by these measures and, through the work of its Implementation Committee and Financial Inclusion Subcommittee, to address the needs and challenges that emerge.

5. Banking structural reform initiatives

There have been a number of recent banking structural reform initiatives in Europe and in the US that go beyond internationally agreed financial regulatory reforms. These initiatives aim to limit financial safety net protection (and the resulting subsidy) to core financial system functions; reduce the risk of cross-contamination of commercial and investment banking and of their respective cultures; and increase the resolvability of SIFIs. They include the outright prohibition on certain activities (e.g. "Volcker Rule" ban on proprietary trading by commercial banks in the US); ring-fencing (e.g. draft UK legislation in response to Vickers report recommendations on the separation of activities by the deposit-taking part of a banking group); and subsidiarisation (e.g. Liikanen report, French legislative proposal to have commercial banking and trading activities performed by separate legal entities within the same group, and German law on the protection of retail banking against risks arising from speculative activities of deposit-taking credit institutions and groups).[19]

Some EMDEs have voiced concerns about the potential negative effects of these initiatives on their domestic financial markets, and called for more analysis and greater international coordination on this issue. The jurisdictions planning the introduction of these measures are major financial centres so, by enhancing financial stability in them, such policies

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[18] See http://www.financialstabilityboard.org/press/pr_130716.pdf and http://www.financialstabilityboard.org/press/pr_130812.pdf.

[19] See, for example, "Structural bank regulation initiatives: approaches and implications" by Gambacorta and van Rixtel, BIS Working Paper No. 412 (April 2013, http://www.bis.org/publ/work412.pdf) and "Creating a Safer Financial System: Will the Volcker, Vickers, and Liikanen Structural Measures Help?" by Viñals et al, IMF Staff Discussion Note 13/4 (May 2013, http://www.imf.org/external/pubs/ft/sdn/2013/sdn1304.pdf).

can have positive spillovers on the global economy and financial system. However, these policies may also impose costs to, and provide scope for cross-border regulatory arbitrage by, internationally active banks that could result in changes to their business models and impact the nature of their global operations. Some EMDEs cautioned against the potential fragmentation and deleveraging that these measures may create, and suggested additional work be taken at the international level to assess their impact. In the St Petersburg Summit Declaration, the G20 Leaders recognised that structural banking reforms can facilitate resolvability and called "on the FSB, in collaboration with the IMF and OECD, to assess cross-border consistencies and global financial stability implications, taking into account country-specific circumstances", and to report to the next G20 Summit.

6. Conclusions and next steps

Six main conclusions can be drawn from the monitoring findings on the effects of financial regulatory reforms on EMDEs. These are as follows:

1. Most reforms identified by EMDEs as impacting them are the same as those described in the June 2012 FSB study – namely, the Basel III capital and liquidity frameworks; OTC derivatives market reforms; policy measures for G-SIFIs, including resolution regimes; and banking structural reform initiatives in Europe and in the US that go beyond internationally agreed financial regulatory reforms.

2. EMDEs' concerns about potential unintended consequences of these reforms remain qualitative (rather than quantitative) in nature, reflecting the early stage of implementation. This confirms the need for ongoing long-term monitoring and the approach taken by the FSB to embed such monitoring, analysis and reporting into existing mechanisms and consultation channels where possible.

3. The concerns of EMDEs concerning Basel III reforms continue to be driven by domestic implementation challenges and by the need for adequate home-host coordination to address potentially adverse cross-border effects. The focus of attention has shifted towards liquidity ratios as it becomes increasingly clear that banks in many EMDEs will be able to meet the minimum capital requirements and as the details of the new liquidity standard become clearer.

4. Those EMDEs that are members of the G20/FSB have made the most progress in adopting international regulatory reforms, in accordance with their commitments and the agreed implementation timetable. Other EMDEs with less developed financial systems and/or supervisory and regulatory structures are adopting a more phased approach to implementation that reflects their particular policy priorities and capacity constraints. The FSB, IFIs and SSBs continue to support EMDEs in their approach to implementing those reforms.[20]

[20] The October 2011 FSB-IMF-World Bank report on financial stability issues in EMDEs (http://www.financialstabilityboard.org/publications/r_111019.pdf) noted that "the more financially-integrated EMDEs—especially those that belong to the G20/FSB and participated in the development of this framework—should adopt the [Basel II/III] framework according to the agreed timetable. Other countries, with less internationally integrated financial systems and/or with substantial supervisory capacity constraints, should first focus on reforms to ensure compliance with

5. A cross-cutting theme is the lack of adequate resources and expertise in EMDEs to adequately respond to the numerous post-crisis global regulatory initiatives. This finding reinforces the need for the international community to expand its efforts to assist EMDEs in developing capacity through targeted and well-coordinated technical assistance, training and knowledge sharing activities.
6. IFIs and SSBs are increasingly focusing on the implementation challenges of agreed reforms on EMDEs and have stepped up their monitoring, analysis and assistance. Additional guidance by SSBs and the identification of good practices, where appropriate, would facilitate the application of new international standards in EMDEs.

In terms of next steps, the FSB will continue to monitor and report on the effects of agreed regulatory reforms on EMDEs as part of its overall implementation monitoring framework. An important objective of this monitoring will continue to be the sharing of implementation experiences and lessons across EMDEs and within the FSB. This can help foster a better understanding of the different impacts arising from the implementation of agreed reforms on EMDEs and thereby facilitate the mitigation of any material unintended consequences.

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the Basel Core Principles and only move to the more advanced capital standards at a pace tailored to their circumstances".