Regulatory Challenges and Kuwait’s Experience
Foundational challenges of recurring nature
- Supervisory framework, auditing & accounting framework, legal and financial infrastructure, and capacity building

Evolving Regulatory Challenges
- Ensuring a Level playing field
- Implementing Basel III Reforms
- Complementing Micro with Macroprudential Regulation
- Cross-Sectoral and Cross-Border Supervision
- Building safety nets and resolution regimes
Foundational Regulatory Challenges

Supervisory Prudential Framework – Capital adequacy, Risk Management, Corporate Governance, Shariah Governance

Accounting and Auditing Framework

Legal and financial markets Infrastructures

Capacity building
Evolving Regulatory Challenges:  
1-Ensuring a level-playing field

- Need for a level playing field in a dual banking system
- *Principle of Proportionality* and the scope for supervisory discretion
  - Limited data and research available
- CBK’s experience: Ensuring a level playing field
  - Adequate legal basis
  - Consistent supervisory approaches
    - Basel III reforms such as capital, leverage, and liquidity
    - “Fit and proper criteria” for corporate governance
  - Shariah-compliant opportunities for liquidity management
Evolving Regulatory Challenges: 2-Implementing Basel III Reforms

- Implementation of Basel III; a classic example of an evolving challenge
- BCBS has left some of the key issues to supervisory discretion
  - Use of discretion may result in diverging approaches to regulation

**Capital Framework**
- Increased the quality, quantity, consistency and transparency of the capital base, with greater focus on common equity to absorb losses

**Liquidity framework**
- LCR - To maintain sufficient HQLA to meet expected cash outflows over a 30-day stress scenario
- NSFR - To have stable funding in place to address funding needs over a stressed one-year period

- Meeting Shari`ah requirements for AT1 and Tier 2 capital instruments.
- Shari`ah-compliant securitisation setting implications for the local currency debt markets/capital market activities.
- Implementation may potentially hurt growth
- Scarcity of High Quality Liquid Assets.
- Supportive liquidity and legal infrastructure.
- Supervisors to apply discretions.
Evolving Regulatory Challenges: 3-Complementing Micro with Macroprudential regulations

- Financial Stability Framework and Macroprudential Policy

- Macroprudential policy framework in a dual banking system
  - How should the macro-prudential policy framework be structured for measuring and monitoring systemic risk for Islamic banks?
  - Which instruments should be used, how and under what conditions?

- CBK’s experience
  - Promoting transparency in consumers’ debt servicing

Source: IMF WP 2011
Evolving Regulatory Challenges: 4-Cross-sector and cross-border supervision

- **Cross-Sectoral exposures**
  - Islamic banks may have a range of activities that cross supervisory boundaries.

- **Cross-Border exposures**
  - Increasing presence of Islamic banks across countries
  - Containing the risk of contagion

- **Need for close coordination between supervisory authorities**
  - Consolidated Supervision

[Diagram showing the relationship between regulated entities and un-regulated/non-financial entities with the concept of transfer of risk.]
Evolving Regulatory Challenges: 5-Safety-Nets & Resolution Regimes

- Safety-nets can help contain spillovers to other institutions
  - Need for Shariah compliant safety nets

- Underdeveloped insolvency laws and resolution regimes
  - No clear precedent available for resolution framework for IFIs
  - Different interpretation of Shari’ah rules and principles complicating insolvency across jurisdictions

- Measures for cross-border insolvency for IFIs
Given the evolving nature of our regulatory challenges, we need to:

- Strengthen our regulatory capabilities
- Strive for convergence in regulatory regimes
- Work collectively & benefit from each others’ experiences
Thank You!