

## G20 GLOBAL ISLAMIC FINANCE CONFERENCE: BENEFITS AND CHALLENGES

Regulatory Challenges and Kuwait's Experience

Dr. Mohammad Y. Al-Hashel Governor, Central Bank of Kuwait

#### Outline



- 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

**Framework** 

# Evolving Regulatory Challenges: l-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

Framework

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





- Shari'ah-compliant securitisation setting implications for the local currency debt markets/capital market activities.
- Implementation may potentially hurt growth

framework Liquidity

- 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

Scarcity of **High Quality Liquid Assets**.

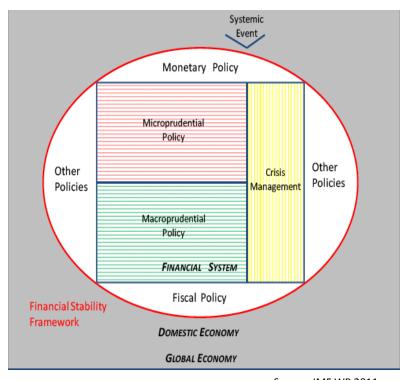


- Supportive liquidity and legal infrastructure.
- Supervisors to apply discretions.

#### **Evolving Regulatory Challenges:**

#### 3-Complementing Micro with Macroprudential regulations

 Financial Stability Framework and Macroprudential Policy



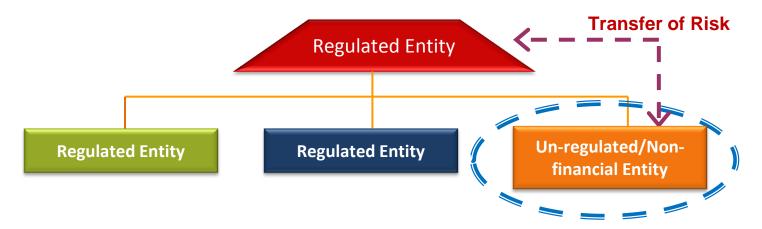
Source: IMF WP 2011

- 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

#### 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

## 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

### Way Forward



□ 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!

