



G20 GLOBAL ISLAMIC FINANCE CONFERENCE: BENEFITS AND CHALLENGES

Regulatory Challenges and Kuwait's Experience

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Outline

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- 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

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Evolving Regulatory Challenges:

1-Ensuring a level-playing field

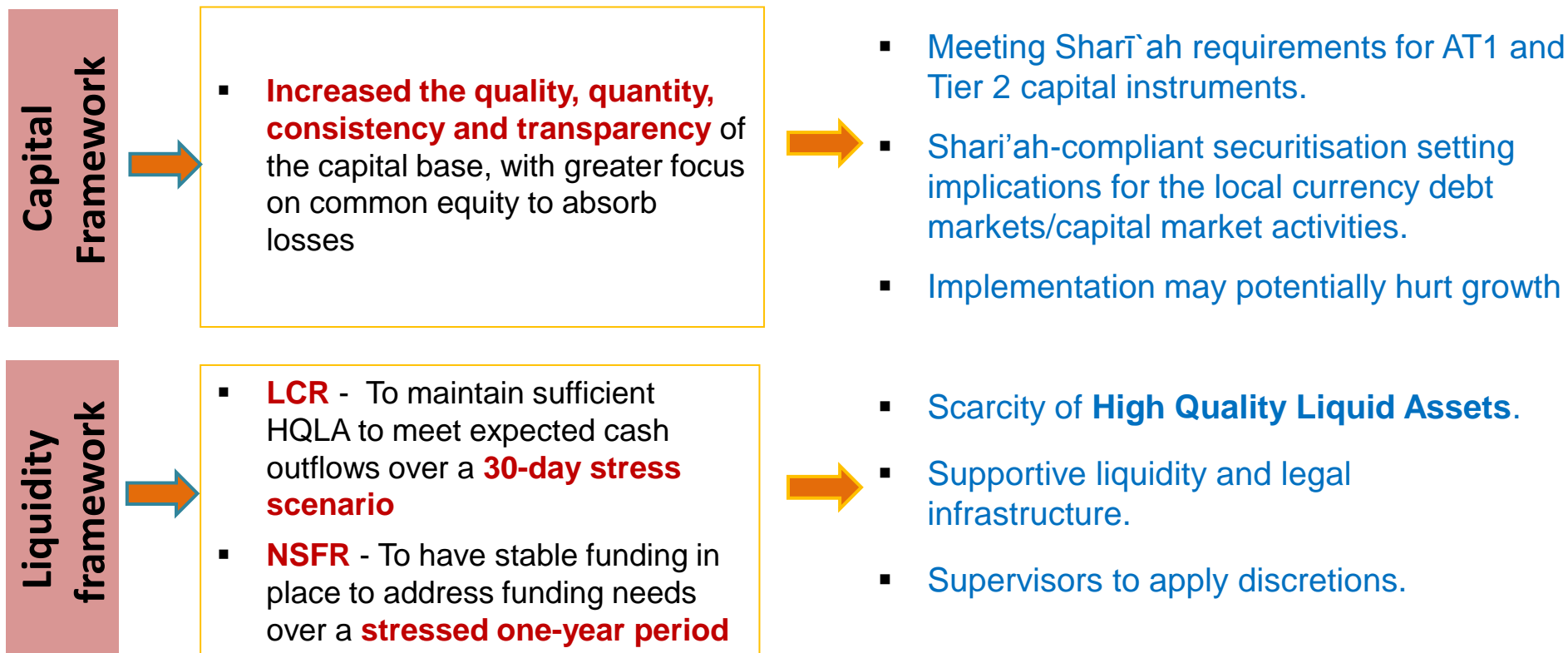
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- Need for a level playing field in a dual banking system
- *Principle of Proportionality* and the scope for supervisory discretion
 - ▣ Limited data and research available
- CBK's experience: Ensuring a level playing field
 - ▣ Adequate legal basis
 - ▣ 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

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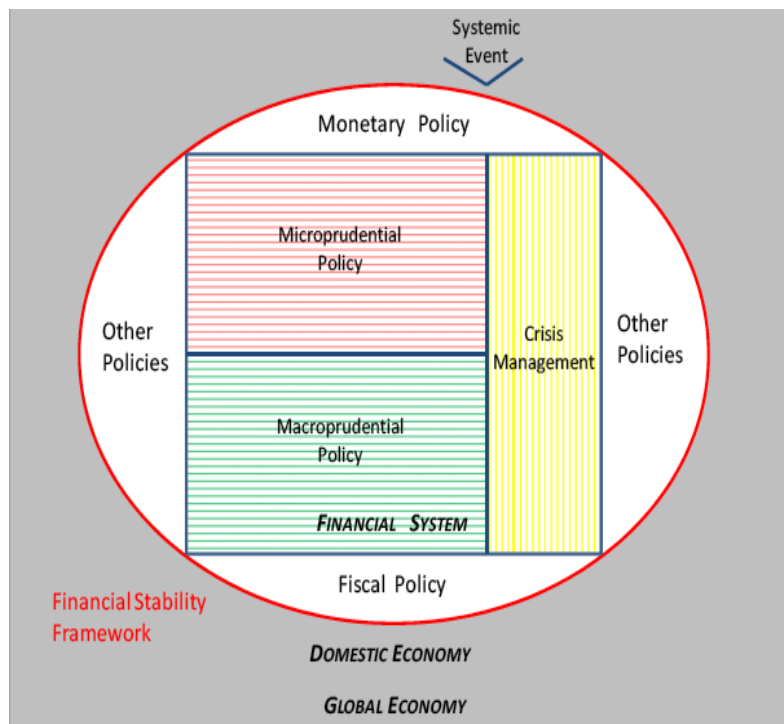
- Implementation of Basel III; a classic example of an evolving challenge
- BCBS has left some of the key issues to supervisory discretion
 - ▣ Use of discretion may result in diverging approaches to regulation



Evolving Regulatory Challenges: 3-Complementing Micro with Macroprudential regulations

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- Financial Stability Framework and Macroprudential Policy



Source: IMF WP 2011

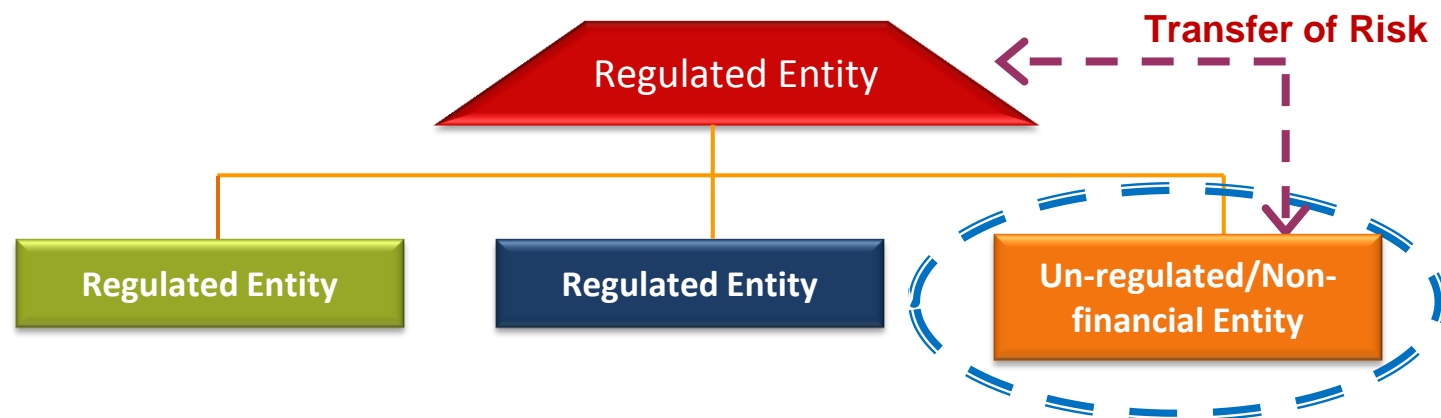
- Macroprudential policy framework in a dual banking system
 - ▣ How should the macro-prudential policy framework be structured for measuring and monitoring systemic risk for Islamic banks?
 - ▣ Which instruments should be used, how and under what conditions?
- CBK's experience
 - ▣ Promoting transparency in consumers' debt servicing

Evolving Regulatory Challenges:

4-Cross-sector and cross-border supervision

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- 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

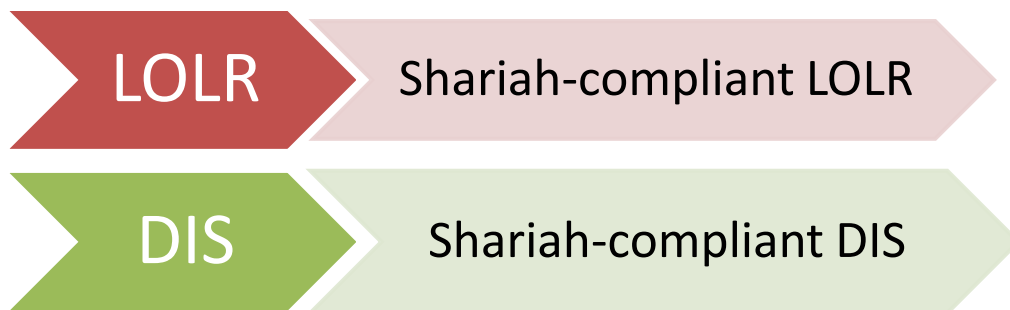


- Need for close coordination between supervisory authorities
 - Consolidated Supervision

Evolving Regulatory Challenges: 5-Safety-Nets & Resolution Regimes

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- 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

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- 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**

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Thank You !

