

**CCMF/CARICOM/CARTAC**  
**Workshop on Regional Financial Stability**  
**A Caribbean Architecture**

Regional Efforts to Harmonise Banking Regulation

Cleviston Haynes  
Central Bank of Barbados  
March 2010



# CARIBBEAN GROUP OF BANK SUPERVISORS

- ❑ Started 1983.
- ❑ Reports to CARICOM Governors.
- ❑ Mandate to enhance and coordinate harmonisation of bank supervisory practices in English speaking Caribbean.
- ❑ Membership currently consists of 15 jurisdictions, of which 6 are not members of CARICOM.
- ❑ Secretariat headquartered at Bank of Jamaica since 2003.



# PRINCIPAL ACTIVITIES

- Conferences
- Training
- Harmonisation Initiatives
- Working Groups
- Supervisory Colleges

# CONFERENCES

- ❑ Provide a forum for the senior regional regulators to explore the implications of developments in regional and international markets, and to seek to strengthen co-operative efforts to implement international best practices.
- ❑ The 2010 Conference is scheduled for 27 – 29 May 2010, in the Netherlands Antilles and will be held under the theme: “The Road to Recovery: Confronting Regional Supervisory Challenges”.
- ❑ Conferences embrace regional and international banking regulators and financial institutions.



# TRAINING

- ❑ Regional Training at the forefront of CGBS agenda in recognition of the critical role played by trained and skilled examiners in an effective supervisory framework.
- ❑ Complements in-house, on-the-job, on-line and institution specific training.
- ❑ Programme of training each year is based on priority needs of members and availability of facilitators. Key areas include
  - ❑ Credit Risk
  - ❑ Operational Risk
  - ❑ Liquidity Risk
  - ❑ Capital
- ❑ Involves international and regional experts as presenters.
- ❑ Inadequate attention to developing regional trainers.

# HARMONISATION

- ❑ The Group has produced detailed documentation of supervisory guidance under a 'Harmonisation Project', which was jointly sponsored by the International Monetary Fund and CARICOM regional central banks in the early 1990s.
- ❑ The objectives were to prepare detailed proposals on various areas in the regulation and supervision of the region's financial institutions, where it was identified that harmonisation could be effected.
- A significant output from this project was the documented guidance for the region on supervisory principles, one publication of which was a 'Handbook on On-site Inspection Procedures'.

# HARMONISATION

- ❑ Project provided guidance on
  - ❑ the regulatory framework;
  - ❑ capital and other prudential criteria;
  - ❑ loan classification and loss provisioning guidelines;
  - ❑ the supervision of offshore banks;
  - ❑ training of regional inspectors;
  - ❑ deposit protection; and
  - ❑ on-site and off-site inspection procedures.

# WORKING GROUPS

- Draft CARICOM Banking and Financial Institutions Bill
- Consolidated Supervision
- Crisis Management

# CARICOM BANKING AND FINANCIAL INSTITUTIONS BILL

- ❑ A Technical Working Group reviewed the draft CARICOM Banking and Financial Institutions Act.
- ❑ Recommendations are that the Bill be used as a 'model bill', with discrete supervisory policy directives issued by the appropriate organ of CARICOM for implementation by members.
- ❑ Ministerial feedback/endorsement is necessary to move forward (some five confirmations are still awaited).

# CARICOM BANKING AND FINANCIAL INSTITUTIONS BILL

- ❑ This approach suggests minimum standards rather than uniformity.
- ❑ Action required inter alia with respect to
  - ❑ Legislation
  - ❑ Prudential standards
  - ❑ Reporting
  - ❑ Disclosure
  - ❑ Guidelines

# CONSOLIDATED SUPERVISION

- ❑ Mandate to recommend a framework for effective consolidated supervision of cross-border entities.
- ❑ The framework should include inter alia
  - ❑ Establishment of minimum standards for the sharing of information among regulators in the region;
  - ❑ Common technical definitions for concepts such as ‘financial group’, ‘significant shareholder’, ‘controlling shareholder’, and ‘related parties/group’;
  - ❑ Adoption of consistent financial reporting standards for the reporting of financial information;
  - ❑ Consistent application of capital adequacy standards.

# CONSOLIDATED SUPERVISION

- ❑ In 2004 the group agreed and signed a Memorandum of Understanding designed to share information among regional regulators.
- ❑ MOU defines obligations of Home and host regulators.
- ❑ Members have relied on the MOU for information requests, participation in supervisory colleges and joint examinations/meetings with institutions' management.
- ❑ Critical that regulators have legal authority to share information.

# CRISIS MANAGEMENT

- ❑ Mandate from CARICOM Governors to prepare Crisis Management Plan
- ❑ The objective of the plan is to preserve the financial stability of regional jurisdictions which face contagion risk arising from the distress of a financial institution by means of:
  - ❑ Strengthening preparedness in normal times by establishing a monitoring regime of Early Warning Indicators;
  - ❑ Reducing contagion to other financial institutions in the region and thus reducing spill over to the real economy;
  - ❑ Managing crises by involving all stakeholders, addressing the situation as early as possible, sharing information with regional regulatory bodies and determining the most appropriate solution;
  - ❑ Harmonizing regional intervention approaches and coordinating responses to systemic risk which have cross border effects;
  - ❑ Resolving the crisis and bringing about a resumption of normal banking system operations.

# CRISIS MANAGEMENT

- ❑ Plan would be formalized via a Memorandum/a of Understanding involving Central Bank Governors/Heads of Monetary Authorities, Banking Regulatory Agencies and Ministers of Finance.
- ❑ The plan would provide an agreed upon strategy for regulatory and state coordination in the face of illiquidity or insolvency of a multi-jurisdictional financial institution.
- ❑ Plan initially encompass strategies primarily for the banking sector.
- ❑ Given presence of cross-jurisdictional conglomerates operating in all sectors of the financial services industry, it was proposed that similar plans be developed for the other parts of the financial system by the respective regulators in the region.

# CRISIS MANAGEMENT

- ❑ Critical pre-requisites at the national level which have been identified include:
  - ❑ An early warning system of monitoring institutions;
  - ❑ The full sharing of information among regional authorities with the requisite confidentiality constraints;
  - ❑ The existence of national plans in order that certain actions would be pursued and tools applied at the domestic level before the Regional Plan is executed; and
  - ❑ Enabling legislation in each jurisdiction.

# CRISIS MANAGEMENT

- ❑ Structural challenges to be addressed include
- ❑ The existence of significant differences in the legislation and supervisory approaches across the region to deal with intervention actions;
- ❑ Obstacles posed by the general legal framework and competing national priorities that, in a wider sense, could impair the effectiveness of the Plan. E.g. foreign currency exchange controls that would restrict the flow of funds to a distressed centre;
- ❑ Achieving regional consensus on the events and conditions that trigger a crisis;
- ❑ Not all jurisdictions have a Central Bank as the regulator for the banking sector which has implications for the role that the central banks would need to assume, in addition to the regulatory roles in the management of the crisis;
- ❑ Resource challenges - implementation of the Plan will place additional demands on scarce resources to effectively undertake ongoing monitoring of macro-prudential indicators and management of the information database.

# SUPERVISORY COLLEGES

- ❑ Since January 2008 the CGBS established a bi-annual schedule for Supervisory Colleges pertaining to regional cross border entities. These colleges are scheduled on the margins of two annual CGBS events, the Annual Planning Meeting (usually January each year), and the Annual Conference (usually May each year). Since 2008 Colleges have been held for the following banking groups:
  - ❑ First Caribbean International Bank
  - ❑ Royal Bank of Canada/RBTT
  - ❑ Republic Bank
  - ❑ Bank of N. T. Butterfield and Sons
  - ❑ Bank of Nova Scotia

# SUPERVISORY COLLEGES

- ❑ The meetings are open only to jurisdictions that are either home or host to the respective banking entities and are chaired by the Home jurisdiction.
- ❑ The Agenda involves presentations from the Home authority, updates from host jurisdictions and discussions on matters of mutual concern to jurisdictions.

**THANK YOU!**

