

**CCMF/CARTAC/Caricom
Workshop on Regional Financial Stability**

A Caribbean Architecture

THE ROLE OF THE COLLEGE OF REGULATORS

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AGENDA

- Conditions that warrant establishment of a College of Regulators.
- Benefits of a properly functioning College of Regulators.
- Challenges with implementation of a College of Regulators.
- Initiatives that are underway in the region.

CONDITIONS THAT WARRANT ESTABLISHMENT OF A COLLEGE OF REGULATORS

Conditions that Warrant a College of Regulators

- Too big to fail
- Interconnectedness
- Lack of appreciation of macro economic implications on micro prudential supervision
- Crisis management planning

Conditions that Warrant a College of Regulators (Cont'd)

❖ Companies that:

- Operate cross border.
- Are systemically important and operate cross border.
- Are systemically important and operate both cross border and cross sector.

Conditions that Warrant a College of Regulators (Cont'd)

- Institutions that operate by means of branches and/or subsidiaries.
- Host Regulators' inherent need to understand if the parent company is operating from a position of strength or weakness.

Conditions that Warrant a College of Regulators (Cont'd)

- Companies that operate cross border or are part of a conglomerate structure usually centralize their key governance, risk management, internal control and compliance functions.
- Complex structures can mask the true intent and effects of intra-group transactions and this in turn increases risks to the group.

Conditions that Warrant a College of Regulators (Cont'd)

- Unregulated entities within a conglomerate group are a cause for concern.
- The need to identify multiple gearing or internal generation of capital.
- Opaqueness and complexity of corporate structure can hinder supervision.

Conditions that Warrant a College of Regulators (Cont'd)

The need to:

- Reduce risk of regulatory arbitrage.
- Guard against regulatory capture.

Conditions that Warrant a College of Regulators (Cont'd)

AML – CFT

- Reputational Risk
 - Problems in one jurisdiction can have immeasurable consequences for the entire region.
 - Reputational risk has financial consequences.

BENEFITS OF A PROPERLY FUNCTIONING COLLEGE OF REGULATORS



Benefits of a College of Regulators

- Send clear message to companies that regulators are communicating with each other to:
 - Coordinate supervisory reviews.
 - Assess operations in a holistic manner.
 - Collaborate throughout the business cycle: licensing, on-going supervision and in times of crisis.

Benefits of a College of Regulators (Cont'd)

- Share views and information on broad macro economic developments and trends that can impact on the stability of the financial system both locally and regionally.
- Reduce regulatory burden.

Benefits of a College of Regulators (Cont'd)

- Increase understanding and appreciation of each other's supervisory practices, methodologies and legislative requirements.
- Engender mutual trust and respect among supervisors as this is a necessary and important pre-condition for a successful College of Regulators.

Benefits of a College of Regulators (Cont'd)

Pooling of expertise to identify:

- System wide trends and developments
- Sector-specific risks
- Company-specific issues
- Supervision strategies

Benefits of a College of Regulators (Cont'd)

- Foster better exchange of information, enhanced coordination and cooperation during a crisis.
- Enhance Home-Host communication.
- Enhance Host-Host communication.

CHALLENGES WITH IMPLEMENTATION OF COLLEGE OF REGULATORS

Challenges with Implementation of College of Regulators

- The reality that laws will never be identical.
- The need to recognize the equivalence in each other's laws, regulations, guidelines and supervisory methodologies.

Challenges with Implementation of College of Regulators (Cont'd)

- Restriction on the ability to share information.
 - International organizations such as IOSCO, BIS and IAIS have recognized the importance of the need for regulators to share information.
 - Memorandum of Understanding and Multilateral Memorandum of Understanding will help.

Challenges with Implementation of College of Regulators (Cont'd)

Regulatory Mandate Differs

- Most regulators have a single mandate: prudential regulation.
- Some regulators have the additional responsibilities for market conduct.

Challenges with Implementation of College of Regulators (Cont'd)

Logistic Challenges – Companies that operate both Cross Border and Cross Functional

- Conglomerates that operate in insurance, banking and securities sometimes could have two to three different regulators to deal with in each jurisdiction that they operate including the home jurisdiction.

Other Considerations

College of Regulators is company-specific

- Every systemically important, cross border institution should have its own College of Regulators.

INITIATIVES THAT ARE UNDERWAY IN THE REGION



Regional Initiatives

- In June 2009, Caribbean Leaders issued a directive which seeks to establish a new framework of financial regulation for the region.
- Internationally, OSFI Canada has formally set up a College of Regulators for each of their major commercial banks. Regional regulators usually participate in this meeting.
- Regionally, the CGBS and CAIR have taken the initiative to effectively construct meaningful College of Regulators in the Region.

Regional Initiatives (Cont'd)

- CGBS is in the final stages of completing a crisis management plan.
- Continued improvement in standards for disclosure, transparency and corporate governance for both public and private companies.
- Early warning systems, stress-testing and the publication of financial soundness indicators.

Regional Initiatives (Cont'd)

- COFAP is charged with ensuring coherence, co-ordination and harmonization in the development and integration of the regional financial system and in reporting on regulatory gaps.
- The leaders requested finalization of the CARICOM Financial Services Agreement.