Challenges/ Developments/ Relationships From Regulatory Framework Perspective

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Recent Global Crisis At A Glance

- Deregulation of the markets
- Technological enhancement (e-finance)
- Complexity and opacity of the financial markets
- Inadequate and obsolete regulatory framework
- Deficiencies of CAR
- Excessive on- and off-balance sheet leverage
- Erosion of the level and the quality of the capital base
- Insufficient liquidity buffers
- Procyclical deleveraging process
- Interconnectedness
From the World

From International Press:
The Banker
30 June, 2011

“Good regulation (and dose of good luck) in countries such as CANADA and TURKEY proved its worth during the last crisis”

“Turkey’s Renaissance:
From Banking Crisis to Economic Revival”

From the IMF
By Hugh Bredenkamp, Mats Josefsson, and Carl-Johan Lindgren
The Current Regulatory Framework in Turkey & Possible Effects

- **Market Risk**
  - Basel I 2002
- **Credit Risk**
  - Basel-I/A 2006
- **Operational Risk**
  - Basel I
  - Basel I/A
- **Parallel Run**
  - Basel II
  - Basel II Drafts
- **Basel II**
  - mid 2012
- **Basel 2.5**
  - Basel III

- Current Cons. CAR (%) 16.6-> as of 2012 March
- Consolidated CAR (%) 18.35 to 16.95 -> 1.4 (March 2010/QIS-TR3) under Basel II
- Basel II.5 (CRD III) provisions are taken into Basel II Drafts.
- These will come into force along with the Basel II regulations by mid 2012.

BRSA follows the international agenda regarding the Basel III.

As a member of Basel Committee, it is committed to adopt Basel III reforms parallel with the international timetable.
A Wave of New Regulation is Under Way

BCBS

- Capital
- Systemic Risk & Interconnectedness
- Procyclicality

FSB

- Liquidity
- Leverage Ratio

G-20

- Resolution
- Cost
- Systemic Risk
- Capital Movements
- Moral Hazard
- Group Structures
- Supervisory Colleges
- Intense Supervision
- Compensation
New Regulatory Reform Package

- Strengthening the Capital Base
- Introducing the Global Liquidity Standards
- Reducing Procyclicality and Promoting Countercyclical Buffers
- Introducing the Leverage Ratio
- Enhancing Risk Coverage
- Addressing Systemic Risk and Interconnectedness
Strengthening the Regulatory Framework (I)

**Raising the quality, consistency and transparency of the capital base**

- Common Equity Tier 1 is the predominant form of Tier 1 Capital = Common Shares + Retained Earnings
- Tier 2 capital instruments supplementary given the conditions met.
- Tier 3 capital to be eliminated.

**Introducing a global liquidity standard**

\[
\text{LCR} = \frac{\text{HQ Liquid Assets}}{\text{Net Cash Outflows}} \geq 100 \%
\]

\[
\text{NSFR} = \frac{\text{Available Stable Funding}}{\text{Required Stable Funding}} \geq 100 \%
\]
Strengthening the Regulatory Framework (II)

Supplementing the risk-based capital requirement with a leverage ratio

- Simple, transparent, non-risk based Leverage ratio as a supplementary measure to the Basel II risk-based framework.
- Put a floor under the build-up of leverage in the banking system.
  - \[
  \frac{\text{Tier 1 Cap.}}{\text{Total RWA}} \geq 3\%
  \]

Enhancing Risk Coverage

- Raise capital requirements for the trading book and complex securitisation exposures.
- Strengthen the capital requirements for counterparty credit exposures arising from banks’ derivatives, repo and securities financing transactions.
- Provide additional incentives to move OTC derivative contracts to central counterparties (probably clearing houses)
Strengthening the Regulatory Framework (III)

Reducing procyclicality and promoting countercyclical buffers

- Dampen any excess cyclicality of the minimum capital requirement, cyclicality add on (to be positive in growth and reverse in contraction);
- Promote more forward looking provisions;
- Conserve capital to build buffers at individual banks and the banking sector that can be used in stress;
- Achieve the broader macro prudential goal of protecting the banking sector from periods of excess credit growth.
- Raise the capital buffers backing these exposures

Addressing systemic risk and interconnectedness

Possible capital and liquidity surcharge for systemically important banks
Latest Regulations and Amendments in Turkey

Compliance with GLOBAL Standards

New Regulations (Board Resolutions)
- Control of dividend policy
- Restrictions on FX lending
- Loan to Value Ratio

Amendments
- Capital Adequacy Regulation
- Provision Regulation

New Regulations
- Reg. on Interest Rate Risk in the Banking Book
- Draft Reg. on Management of Credit Risk
- Basel II and II,5 Drafts (Draft Regulation on Internal Systems of Banks, Capital Adequacy and Draft Communiqué)

Amendments
- Own Funds Regulation
- Rating Agencies Regulation

Amendments Made to Meet LOCAL Needs
Latest Regulations and Amendments (I)

Board Resolution on LOAN TO VALUE RATIO (LTV): (17/12/2010)

Loan / Value of Collateral $\leq 75\%$ $\rightarrow$ Residential Mortgages

Loan / Value of Collateral $\leq 50\%$ $\rightarrow$ Commercial Mortgages
### Latest Regulations and Amendments (II)

<table>
<thead>
<tr>
<th>Regulation Title</th>
<th>Details</th>
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<tbody>
<tr>
<td>Banks’ Corporate Management Principles Regulation (09/06/2011)</td>
<td>• Some of the provisions related to the RENUMERATION policies were added, disclosure requirements were introduced (reflection of Pillar 3 on compensation)</td>
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<tr>
<td>Own Funds Regulation (10/03/2011)</td>
<td>• The limits on Tier 1 and Tier 2 capital were changed.</td>
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<tr>
<td>Interest Rate Risk in the Banking Book Regulation (23/08/2011)</td>
<td>• Provisions regarding the measurement of the interest rate risk that arise from the on and off balance sheet positions in the banking book by using standard shock approach were set out.</td>
</tr>
<tr>
<td>Rating Agencies Regulation (17/04/2012)</td>
<td>• Provisions related to validation of rating methods were reviewed.</td>
</tr>
<tr>
<td>Communiqué of Management of Credit Risk (Draft)</td>
<td>• Provisions to provide the sound and efficient management of credit risk were arranged.</td>
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Latest Regulations and Amendments (III)

**PROVISION REGULATION:** (18/06/2011)

- Consumer Credits/ Total Credit ≥ %20
  - %4 (Stand. Cred.)
  - %8 (Sub-Stand. Cred.)

- NPL (Cons. Cred.)/ Total Cons. Cred. ≥ %8
  - %4 (Stand. Cred)
  - %8 (Sub-Stand. Cred)

**CAR REGULATION:** (18/06/2011)

- Residual Maturity of Consumer Credits 1 to 2 years
  - 150 % RW

- Residual Maturity of Consumer Credits ≥ 2 years
  - 200 % RW

General Provision
Domestic Cooperation

- **Domestic cooperation**: BRSA is involved in multiple cooperation arrangements with its domestic counterparts
  - BRSA, Treasury Undersecretariat, Ministry of Development, SDIF and the CBT shall exchange views regarding the implementation of monetary, credit and banking policies (Article 98 of the BL)
  - **Financial sector commission** (Article 99 of the BL), shall ensure the exchange of information, cooperation and coordination among institutions and propose joint policies as well express views regarding the matters that relate to the future of the financial sector
  - “Coordination Committee” (Article 100 of the BL), mainly aims at ensuring a maximum cooperation between BRSA and SDIF
  - “Systemic Risk Coordination Committee” (Article 72 of the BL) focuses on crisis management and identification of systemic risk. Committee shall be authorized to determine the extraordinary measures to be taken and all the relevant institutions and agencies are authorized and responsible for promptly implementation of such extraordinary measures.
  - A **protocol of consolidated supervision was signed** on the 31st of December 2010 between Treasury Undersecretariat, CMB, SDIF, CBRT and the BRSA, designated as the coordinating authority
International cooperation

△ Home-host country relationships

- With regard to cross border cooperation, the BRSA has signed MoUs with 31 countries, which account for almost 72 percent of the total Turkish banking assets abroad.
- Cooperation and information sharing on a cross-border basis should be continued, and further improved through signing of additional MoUs with the remaining relevant home and host countries.
- Confidentiality provisions were improved in the Turkish BL in February 2011 (with sack law No.6111)
- During the last two years, the Agency has also carried out several on-site inspections abroad, even in countries where no MoU was signed.
- BRSA has attended the supervisory colleges arranged by home country supervisory authorities of cross-border financial groups operating in Turkey. In addition, when it is necessary, BRSA exchanges information with foreign counterpart authorities during the supervisory process.
Global-local Steps

Compliance with GLOBAL Standards

New Regulations
- Reg. on Interest Rate Risk
- Draft Reg. on Management of Credit Risk
- Basel II and II.5 Drafts
- Amendments
  - Own Funds Regulation
  - Rating Agencies Regulation

Appraised GLOCAL steps by International Authorities

- Target CAR (2006)
- Liquidity Ratios (2006)
- New Regulation on Loan to Value Ratio
- Amendment to Capital Adequacy Regulation
- Amendment to Provision Regulation
- Dividend Payout Restrictions (2008)

Amendments Made to Meet LOCAL Needs

- Board Resolution on Loan to Value Ratio
- Capital Adequacy Regulation
- Provision Regulation
- Own Funds Regulation
- Rating Agencies Regulation
THANK YOU...

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