KPMG
cutting through complexity

FINANCIAL SERVICES

Evolving Banking Regulation

Americas Edition

The Regulatory Agenda: From Design to Implementation

May 2015

kpmg.com

ABOUT THIS REPORT

This report is part of a regional series developed by KPMG's network of regulatory specialists. The insights are based on discussions with clients and KPMG professionals assessments of key regulatory developments.

For other regional reports, please contact regulationfs@kpmg.com. or visit www.kpmg.com/regulatorychallenges.

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Introduction

We are pleased to present our latest edition of *Evolving Banking Regulation in the Americas*. That the series is now in its fifth year attests to the intensity and complexity of the post-crisis regulatory environment, and while many of the mandated reforms are now known, further changes to the agenda are still underway as the financial crisis continues to cast a long shadow over the financial services industry. Next year's iteration will likely contain further changes still.

The regulatory authorities remain focused on enhancing the resiliency and resolvability of the global systemically important banks (G-SIBs), and have plans for additional action in the coming year.

To date, increased capital, liquidity, and leverage requirements, coupled with stress testing and capital planning mandates, have added significantly to the industry's operating costs, hurting revenue. New regulatory reporting requirements, resolution and recovery planning, and stricter supervisory oversight are also consuming vast amounts of the industry's time and resources. With stronger consumer protection measures and new restrictions on trading and equity investment under the Volcker Rule now firmly in place, additional revenue opportunities may prove hard to come by in the future, although firms continue to look for greater efficiency and fund new technology.

Yet, additional regulatory action is still to come, perhaps further dampening the industry's prospects. Increased capital surcharges and so-called "bail-in" debt requirements for the G-SIBs have been proposed, and action limiting reliance on short-term wholesale funding is expected as well.

Cybersecurity threats also continue to remain a growing risk and the ever-present credit cycle must be managed as well, particularly with the regulatory community expressing concern about relaxing underwriting standards in leveraged lending.

Clearly, there is a lot of activity on the regulatory front with no sign that there will be a lessening of the pressure from the regulatory agenda in the near term. KPMG continues to believe that the regulatory environment, particularly in the United States, will likely remain very intense for some time to come.

There is no question that many firms are struggling to adapt and evolve to this new regulatory agenda and operating environment.

Increased capital and liquidity requirements coupled with activity restrictions have constrained revenue generation in a global economic environment that is experiencing multiple strains while the industry's cost structure continues to climb.

As a result, some firms are beginning to rethink their overall strategy and business model, and have begun exiting less profitable product lines and geographic regions.

If banks are to successfully adapt to the new regulatory environment, KPMG believes that four core areas must be addressed: 1) strategic and structural change; 2) conduct and culture; 3) data and reporting aggregation; and 4) risk and governance.

There can be no question, however, that fundamental change is required to transform the industry's strategic focus and operating model so that it can successfully navigate the regulatory change that is now underway.

Indeed, it is clear that the regulatory environment will require banks to change their operating model and undertake a re-examination of their overall strategy and structure.

Yet, longstanding problems with data quality and aggregation capabilities, in addition to ongoing governance failures, are preventing the industry from addressing the magnitude of change required. Even early adopters of change are struggling to meet the ever growing body of regulatory mandates.

Successfully meeting the regulatory challenges will require wholesale change.

Indeed, the management and oversight of regulatory mandates and compliance programs must be transformed – it is too complex not to be addressed in a fully integrated fashion from an enterprise perspective. Getting this right requires a significant commitment and strong leadership from the very top of the organization, and compliance with the regulatory agenda must be a part of everyone's job.

However, the loss of confidence the industry has suffered since the crisis and the ongoing scrutiny the industry faces have created a difficult operating environment. There is simply no room for error. Indeed, headlines surface almost daily suggesting that the industry has not been held to account for the serious misdeeds uncovered by the financial crisis.

New, post-crisis allegations of ongoing misconduct further suggest that the industry has yet to learn its lesson, while multiple regulatory authorities have now stepped forward to say that the industry's problems may not be related to a "few bad apples," but are perhaps the result of the structure of the firms themselves, or "the barrels in which they are stored."[1]

As we said last year, "At the end of the day, banks must ensure that their employees are 'doing the right thing.' But they must also know when they are not."

The **Regulatory Pressure Index** (see pages 3 and 4)—based on a combination of the views of regulatory experts from across KPMG's global network and banking clients—spotlights a comparison of the regulatory pressures in the global environment: North America (United States and Canada); Europe, Middle East and Africa (EMA); and Asia Pacific (ASPAC), and contains a new section to highlight the unique differences in Latin America (LATAM), which we hope you will find useful.

This report focuses primarily on the United States and the steps U.S. banks are taking to meet ever increasing regulatory demands. Like last year, we argue that without far-reaching changes in bank culture and significant improvements in risk management and governance systems, coupled with major data and IT systems upgrades, banks will be challenged to keep pace with the growing demands of regulators, investors, and indeed, the public at large.

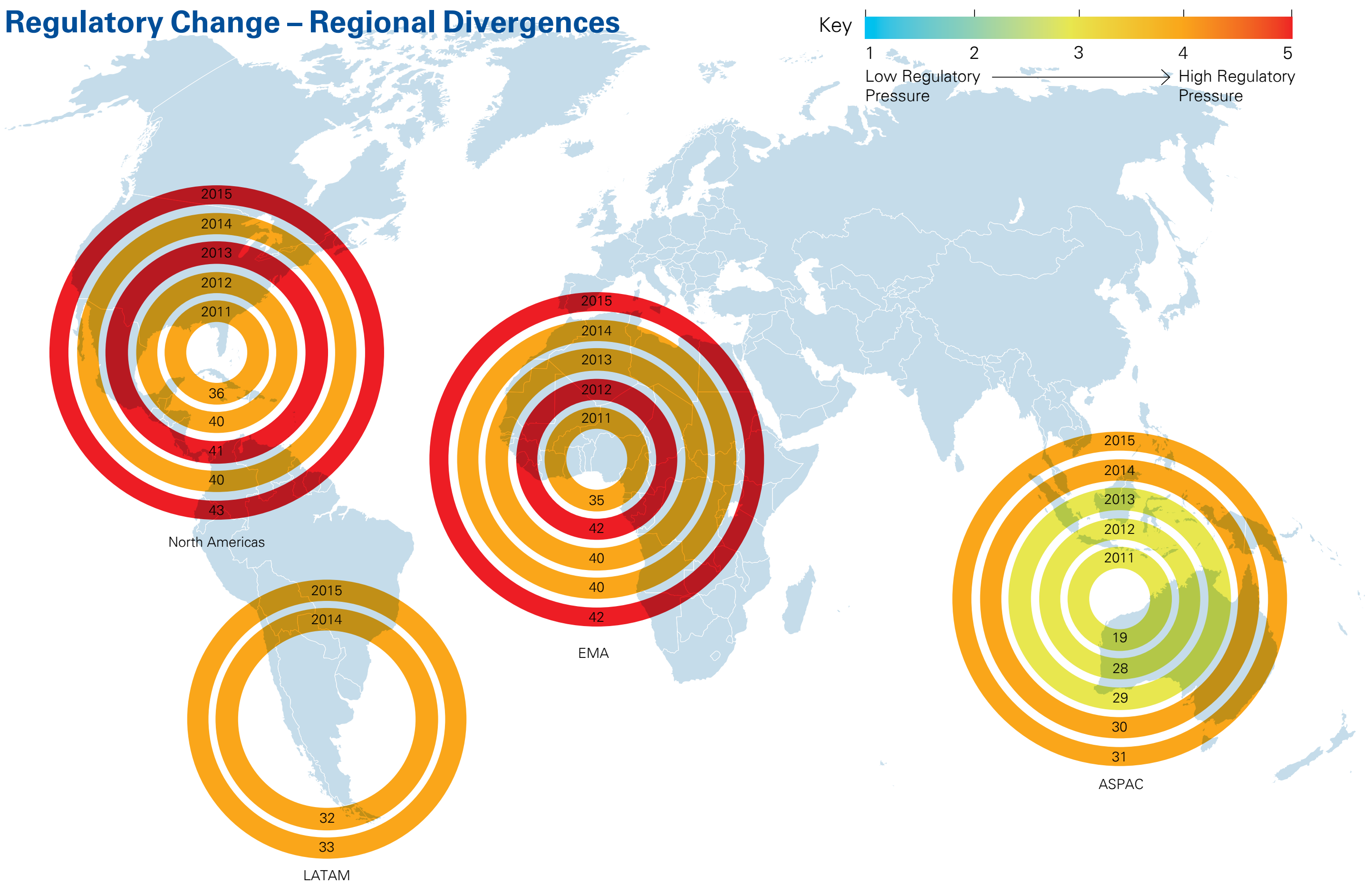
The loss of confidence the industry has suffered since the crisis and the ongoing scrutiny the industry faces have created a difficult operating environment. There is simply no room for error. Indeed, headlines surface almost daily suggesting that the industry has not been held to account for the serious misdeeds uncovered by the financial crisis.

[1] Speeches by Federal Reserve Bank of New York President William Dudley and Federal Reserve Board Governor Daniel Tarullo on October 28, 2014; Speech by Bank of England Governor and Chair Mark Carney on November 17, 2014.

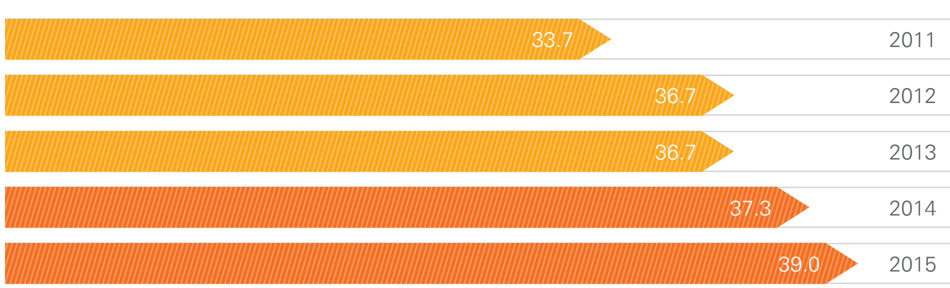
Regulatory Pressure Index

Our regulatory pressure index is based on a combination of the views of regulatory experts from across KPMG's global network and banking clients across the Americas (where we separate out Latin America from North America for the first time); Europe, the Middle East and Africa; and the Asia-Pacific region.

Regulatory Change – Regional Divergences



The global pressure continues to grow



Note:
1) The regional numbers are the sum of the scores in each region across the ten individual areas of regulatory pressure.
2) Mexico is included in the Latin America data.
3) From 2011 to 2013 the global pressure index is the unweighted average of the indices for North America, EMA and ASPAC. In 2014 and 2015 the global pressure index is a weighted average of North America (one-third), EMA (one-third), ASPAC (one-sixth) and LATAM (one-sixth).
4) Data for LATAM is only available for 2014 and 2015

Source: KPMG Internal Survey, 2015.

Overall, regulatory pressures have risen again this year. In some areas this reflects the continuing challenges of implementing regulatory reforms, now that the details of the regulations have become clear. This includes most of the core Basel 3 capital and liquidity standards; risk and performance-adjusted remuneration; and some market infrastructure requirements.

In other areas the regulatory pressures reflect the continuing development of regulatory initiatives that are at various stages of evolution, including the risk weighting of assets, the designation and regulatory treatment of D-SIBs, macro-prudential policy, retail and wholesale market conduct and culture, risk governance, and recovery and resolution planning.

Across the regions, the steady increase in regulatory pressure on banks in the Asia-Pacific region has continued, particularly in liquidity and retail and wholesale conduct. However, pressures remain highest in North America and Europe, with the most severe pressures in the areas of capital, systemic risk, conduct and culture, and the intensity of supervision. The highest regulatory pressure in LATAM is in the areas of financial crime and tax.

Key issues within the individual areas of regulation include:

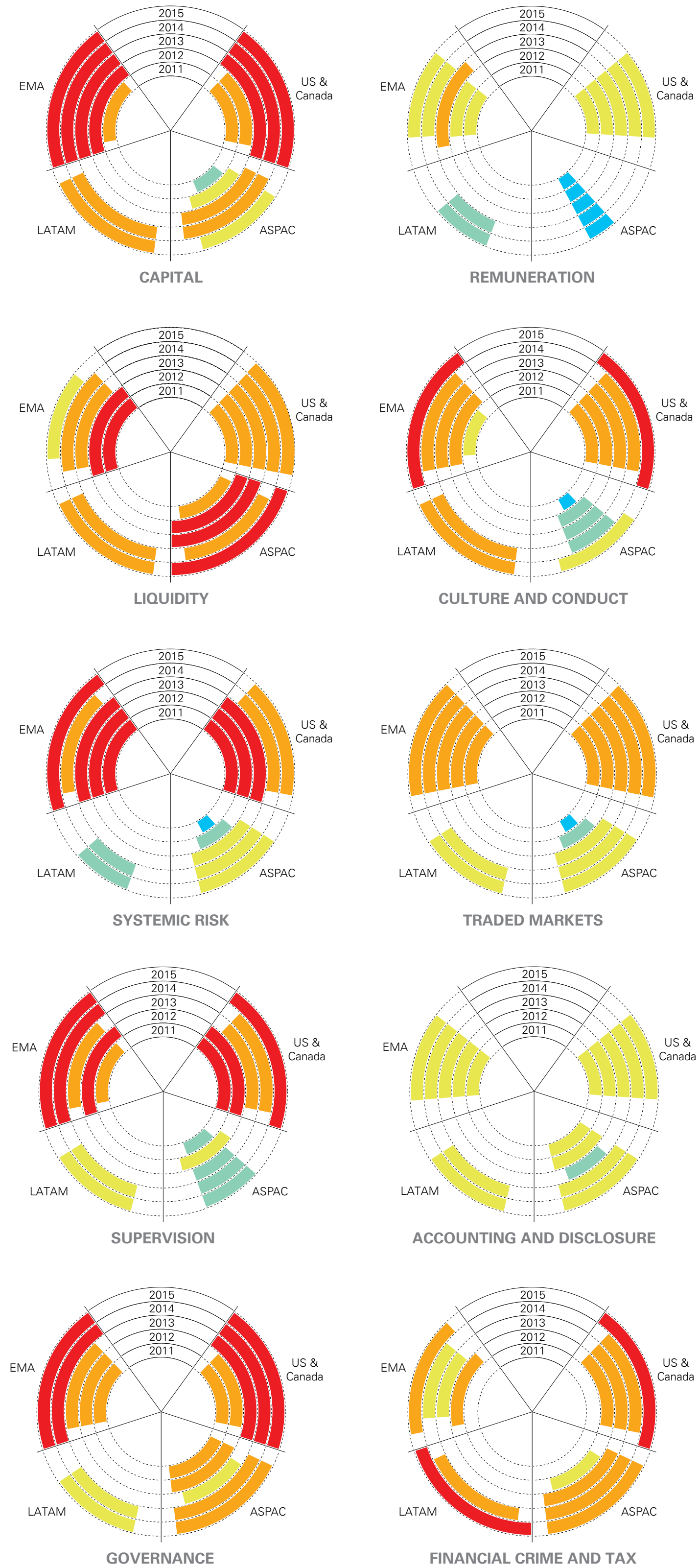
Capital – even as the core Basel 3 standards are being implemented, the shift towards 'Basel 4' continues, with the calibration of the leverage ratio either set higher than 3 percent (as in Switzerland and the US, and proposed in the UK) or yet to be determined, and new pressures on banks emerging from stress testing and from wide-ranging revisions to risk weighted assets.

Liquidity – further revisions to the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) calculations have, on balance, reduced the pressures here, in particular in Europe through the more generous treatment of covered bonds as a source of high quality liquid assets. However, as with capital requirements, the overlay of stress testing (already underway for the largest US banks), Pillar 2 and macro-prudential requirements for liquidity may increase the regulatory pressures on banks significantly.

Systemic risk – increasing pressures, in particular in Europe, are building from the designation and regulatory treatment of domestic systemically important banks (D-SIBs), minimum requirements for banks to issue long-term bail-in liabilities, and the increasing use of macro-prudential instruments.

Culture and conduct – a series of misconduct episodes in retail and wholesale markets has left banks and regulators seeking to improve conduct and culture. Regulation and supervision are becoming increasingly intensive and intrusive in this area.

Supervision – in addition to the generally tougher supervision that has emerged in all regions since the financial crisis, making the ECB the single banking supervisor in the Banking Union area has already led to a more demanding supervisory approach for many banks subject to direct supervision by the ECB.



Source: KPMG Internal Survey, 2015.

The Regulatory Agenda: From Design to Implementation

Despite reports of a broadening economic recovery in the United States, conditions remain uncertain, and sluggish growth continues to set this recovery apart from previous ones. The stringency of the overall regulatory environment is presenting an extremely challenging time for the banking industry. Numerous global hotspots also are of growing concern, as banks continue to struggle to gain momentum and try to achieve revenue targets. This will be very difficult, given the cumulative effect of the increased capital and compliance charges, coupled with the additional activity restrictions the industry now faces. It is perhaps time to learn to navigate a new world of revenue returns that could be less than pre-crisis levels.

Maintaining financial stability remains front and center for the regulatory authorities. In March, Federal Reserve Board Chair Janet Yellen said, "We cannot eliminate the possibility of another crisis, but we can make a crisis less likely and less damaging by limiting excessive risk-taking by firms we oversee and by helping ensure that the most systemically important firms are better prepared to weather a crisis."[2]

Those who thought the regulatory agenda might moderate as time passed have been proven wrong. As KPMG's **Regulatory Pressure Index** shows (see pages 3 and 4), the intensity of the supervisory environment has risen from the previous year for all sectors and is the highest and climbing in the United States, followed closely by the EMA area, particularly for areas of regulation related to bank capital and supervision.

The elevation in the rating likely reflects the continuing challenges banks face as they seek to implement the multitude of regulatory reforms, from Basel III's capital, leverage, and liquidity requirements, and resolution and recovery planning, to additional stress testing, regulatory reporting, and capital management mandates. However, this credit cycle seems different from those that came before it; a fundamental change has occurred in the regulatory community. Financial stability is now the primary focus, perhaps at the expense of overall economic growth.

There can be no question that regulatory changes since the financial crisis have been extensive. Yet, again as Chair Yellen noted in her March 3, 2015 speech, "We have made significant progress on our regulatory reform agenda both domestically and internationally, but we still have work to do."

To date, regulatory authorities in the United States have focused on enhanced prudential standards mandates, such as capital, liquidity, and stress testing, with the industry raising more than $500 billion from 2008 to the end of 2014. Likewise, the increased focus on liquidity has caused the largest firms to raise liquidity by roughly one-third since 2012, and reduce their reliance on short-term wholesale funding. The Minimum Leverage Ratio requirement in the United States is also much tougher than the measure developed under Basel III; it is five percent at the bank level (six percent at the bank holding company) instead of the Basel framework's three percent.

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– Federal Reserve Board Chair, Janet Yellen

[2] Speech by Federal Reserve Board Chair Janet Yellen on March 3, 2015.

The regulatory agencies are also quite intently focused on the resolution and recovery planning process, with the Federal Deposit Insurance Corporation (FDIC) and Federal Reserve Board expressing dissatisfaction with the industry's progress in this area to date. The FDIC is particularly focused on holding the industry accountable for developing effective and actionable resolution and recovery plans, since it is ultimately responsible for resolving insolvent firms.

The *Dodd-Frank Wall Street Reform and Consumer Protection Act* (Dodd-Frank Act) also gave new supervisory powers to the Federal Reserve Board, which has taken a much more active role in supervision following the financial crisis. Likewise, in Europe, supervisory authority has also been centralized with the European Central Bank (ECB), as the ECB became the single banking supervisor in the Banking Union area, taking on direct supervision for 123 major banks. Non-European banks, or foreign-owned banks in Europe that have yet to focus on this new development, should do so promptly, as the ECB expands its oversight of these banks.

Supervision has changed dramatically and focus will be intense

The focus of bank supervision has changed as well, with examiners employing a horizontal approach to review and compare practices across the industry to augment exams conducted on a firm-by-firm basis.

As Federal Reserve Board Governor Daniel Tarullo stated at the Federal Reserve's Third Annual Stress Test Modeling Symposium in the summer of 2014, "supervisory stress testing and the associated review of capital planning processes have provided a platform for building out a regulatory framework that is more dynamic, more macroprudential, and more data-driven than pre-crisis practice."[3]

Notably, Chair Yellen has also taken a very active role in banking supervision and regulation. Referring to the largest banks, she recently stated that the Federal Reserve Board has "significantly enhanced the manner by which we assess whether these firms have sufficient capital and liquidity and are meeting new regulatory requirements… we have substantially raised our expectations for how well the firms we supervise should be managing their risks, maintaining internal controls, and exercising governance. And we have reorganized our supervision of large financial institutions to increase the quality, consistency, and range of perspectives brought to bear on supervisory strategy and decisionmaking."[4]

Following the introduction of the Supervisory Capital Assessment Program (SCAP) in the spring of 2009, stress

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– Federal Reserve Governor, Daniel Tarullo

"…we have reorganized our supervision of large financial institutions to increase the quality, consistency, and range of perspectives brought to bear on supervisory strategy and decisionmaking."

– Federal Reserve Board Chair, Janet Yellen

[3] At the Federal Reserve Board and Federal Reserve Bank of Boston Third Annual Stress Test Modeling Symposium, Boston, Massachusetts on June 25, 2014.

[4] Speech by Federal Reserve Board Chair Janet Yellen, 'Improving the Oversight of Large Financial Institutions,' at the Citizens Budget Commission, March 3, 2015.

There is a new focus on culture, particularly at the largest banking organizations, and we can expect to hear more about this in the coming months.

testing became the cornerstone of the Federal Reserve Board's approach to the regulation and supervision of the largest financial institutions. Other Basel Committee on Banking Supervision (BCBS) member countries have since followed suit and have now incorporated stress testing practices into their ongoing supervision.

However, it is important to understand that the stress-testing process has centralized the supervision of G-SIBs at the central banks, notably the Federal Reserve Board and the ECB. Moreover, the stress tests have broadened the role of monetary theorists and economists in the supervisory process through the development of macroeconomic scenarios. As Federal Reserve Board Governor Daniel Tarullo said before a conference at the Financial Stability Oversight Council (FSOC) on January 30, 2015, "We are all macroprudentialists now."

This is an important new development, further centralizing and strengthening the role of the Federal Reserve Board in the overall supervisory process, and potentially lessening the role of the examination staff at the twelve Federal Reserve Banks that are spread throughout the country. Traditionally, supervised banks have had a stronger relationship with examiners at their respective Reserve Bank, and the advent of the Federal Reserve Board's new role could potentially disrupt these relationships. The Federal Reserve Board's enhanced role has also garnered the attention of the U.S. Congress, with some members growing increasingly critical of this new authority.

The heightened focus on supervision is equally shared by all of the regulatory agencies, with a particular focus on boards of directors' roles in setting direction and oversight for revenue and profit generation, risk management, and control functions. Additionally, senior management is expected to have the expertise and level of involvement required to manage core business lines, critical operations, banking offices, and other material entities.

Of particular note, the regulatory authorities are now stressing that the largest firms maintain a corporate culture that emphasizes the importance of compliance with laws, regulation, and consumer protection, while also acknowledging that strong corporate governance is important at all banking organizations. Indeed, there is a new focus on culture, particularly at the largest banking organizations, and we can expect to hear more about this in the coming months.

Supervision tailored to both size and complexity of the firm

Supervision, however, is not a one-size-fits-all process. As Federal Reserve Board Governor Tarullo stated before the U.S. Senate Banking, Financial and Urban Affairs Committee on March 18, 2015, "the stringency of the Federal Reserve's prudential regulations increases in proportion to the systemic importance of the banking organizations…the Federal Reserve aims not only to achieve the Dodd-Frank Act goal of mitigating risks to U.S. financial stability, but to do so in a manner that limits regulatory costs and the expenditure of supervisory resources where not needed to promote safety, soundness, and financial stability."[5]

Most of the prudential regulatory agencies, including the FDIC, Federal Reserve Board, and Office of the Comptroller of the Currency (OCC), have adopted a tiered approach to supervision that generally divides banks into four distinct groups: (1) community banking organizations, which are those with $10 billion or less in total assets; (2) regional banking organizations, which have total assets between $10 billion and less than $50 billion; (3) large banking organizations, which have total assets of $50 billion or more, but are not among the largest and most complex banking organizations; and (4) firms considered to be G-SIBs, which are the largest and most complex banking organizations.

As a result, there are heightened expectations with regard to corporate governance for large banking organizations that are not applied to regional or community banking organizations. For instance, under the Federal Reserve Board's final rule establishing enhanced prudential standards for certain bank holding companies and foreign banking organizations, banks under $50 billion in total consolidated assets are not required to have an independent Risk Committee of the board of directors, a Chief Risk Officer, nor do they have to complete the more rigorous supervisory stress testing requirements under the Federal Reserve Board's Comprehensive Capital Analysis and Review (CCAR), but can instead conduct their own Dodd-Frank Act stress tests (company-run) using certain mandated scenarios, the results of which are not publicly disclosed.

Additionally, the Dodd-Frank Act requires banking organizations with total consolidated assets of $50 billion or more and nonbank financial companies designated by FSOC for supervision by the Federal Reserve Board to periodically submit resolution plans to the Board and the FDIC. Each plan, commonly known as a "living will," must describe the firm's strategy for rapid and orderly resolution under the U.S. bankruptcy code in the event of material financial distress or failure of the company.

There is growing support in the United States to ensure that the Dodd-Frank Act regulations are appropriately "tailored" and many are now hopeful that the $50 billion asset threshold, which triggers a number of the Dodd-Frank Act provisions, will be raised.

Growth of shadow banking

While international regulatory authorities are focused intently on increasing financial stability, they also plan to look further into the workings of the so-called shadow banking system, which includes a number of very large hedge funds and private equity funds. Notably, while the sector initially declined in the aftermath of the financial crisis, it has begun to grow again.

Interestingly, in Europe the financial system differs from the United States in terms of the relative size and the role played by banks as compared with nonbank financial institutions. According to a report by the International Monetary Fund, banks in the euro area accounted for roughly 75 percent of total lending by banks, whereas in the United States, banks accounted for just under half this amount at the end 2013.[6] Due to post-crisis concerns that the relatively large role played by nonbank financial institutions almost brought down the global financial system, the Financial Stability Board (FSB) is examining the role of the shadow banking system and is expected to make recommendations in the coming year.[7]

To date, international regulators appear to believe that the risk of a sharp and disorderly disruption to financial stability is likely contained. But they are increasingly concerned about the non-regulated financial sector, or shadow banking system. Many within the regulatory community and industry have also expressed concern about compressed credit and liquidity risk premiums within the financial system following the crisis. During a recent speech before the FSB, ECB Chair

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[5] Testimony by Federal Reserve Board Governor Daniel Tarullo before the U.S. Senate Banking, Finance, and Urban Affairs Committee on March 18, 2015.

[6] See *Global Financial Stability Report: Risk Taking, Liquidity, and Shadow Banking–Curbing Excess while Promoting Growth* (Washington: International Monetary Fund, October 2014).

[7] The FSB, together with the insurance regulatory bodies, is expected to adopt separate proposals addressed specifically to the insurance industry, and is also considering additional regulation for the mutual fund industry.

Regulatory authorities believe that there is a need to respond to any potential regulatory gaps that may emerge in order to keep pace with changes to the financial system.

Mark Carney said, "Market adjustments to date have occurred without significant stress." However, Carney stressed the need for market participants to be "mindful of the risks of diminished market liquidity, asset price discontinuities and possible contagion across asset markets."[8]

Clearly, regulatory authorities believe that there is a need to respond to any potential regulatory gaps that may emerge in order to keep pace with changes to the financial system.

However, it will not be possible to identify in advance all the threats to financial stability. And it is for this reason that regulators consider it critical to maintain and strengthen the robustness of all financial institutions.

Regulatory change management must be transformed

For the financial services industry, there can be no question that the current environment is extremely challenging, and will likely remain so for the foreseeable future. It is for this reason that bank executives must take a fresh look at how they manage their overall regulatory and compliance structures. The traditional compliance program, which is largely based on a siloed approach, is unlikely to be robust enough to meet current regulatory expectations.

Indeed, as we noted in the Introduction, KPMG strongly believes that without transformational change, it will be impossible for the industry to satisfy the regulatory authorities, their boards, investors, and the public at large.

This transformational change is especially critical at this point in time since most regulatory expectations are now known and even more so because demands are expected to escalate. While the regulatory pressure is most intense for the largest, global banks, firms of all sizes will need to address the growing scrutiny. Moreover, reputational and overall headline risk remain acute and are not likely to diminish, and regulators have now moved beyond proposals targeted at specific conduct to looking at overall cultural issues within the industry.

This multitude of risks can only be addressed by implementing a centralized and holistic approach to managing existing and future regulatory demands to ensure that compliance programs are fully integrated into the strategic objectives of the firm as a whole.

As the Figure below demonstrates, the existing "react and respond" approach is no longer viable. It is leading to multiple points of duplication, data input error, fragmented reporting, and documentation across business units that is highly inefficient. There is also a critical need for the industry to improve its performance and further build out its risk management capacity across the enterprise. Furthermore, a centralized approach to managing these issues would also provide consistency across business lines and operating units.

Transforming the industry's regulatory compliance initiatives will require strong leadership from the top and the active participation of every single employee of the firm. But regulatory compliance programs must become sustainable. It is critical to ensure a global view that will

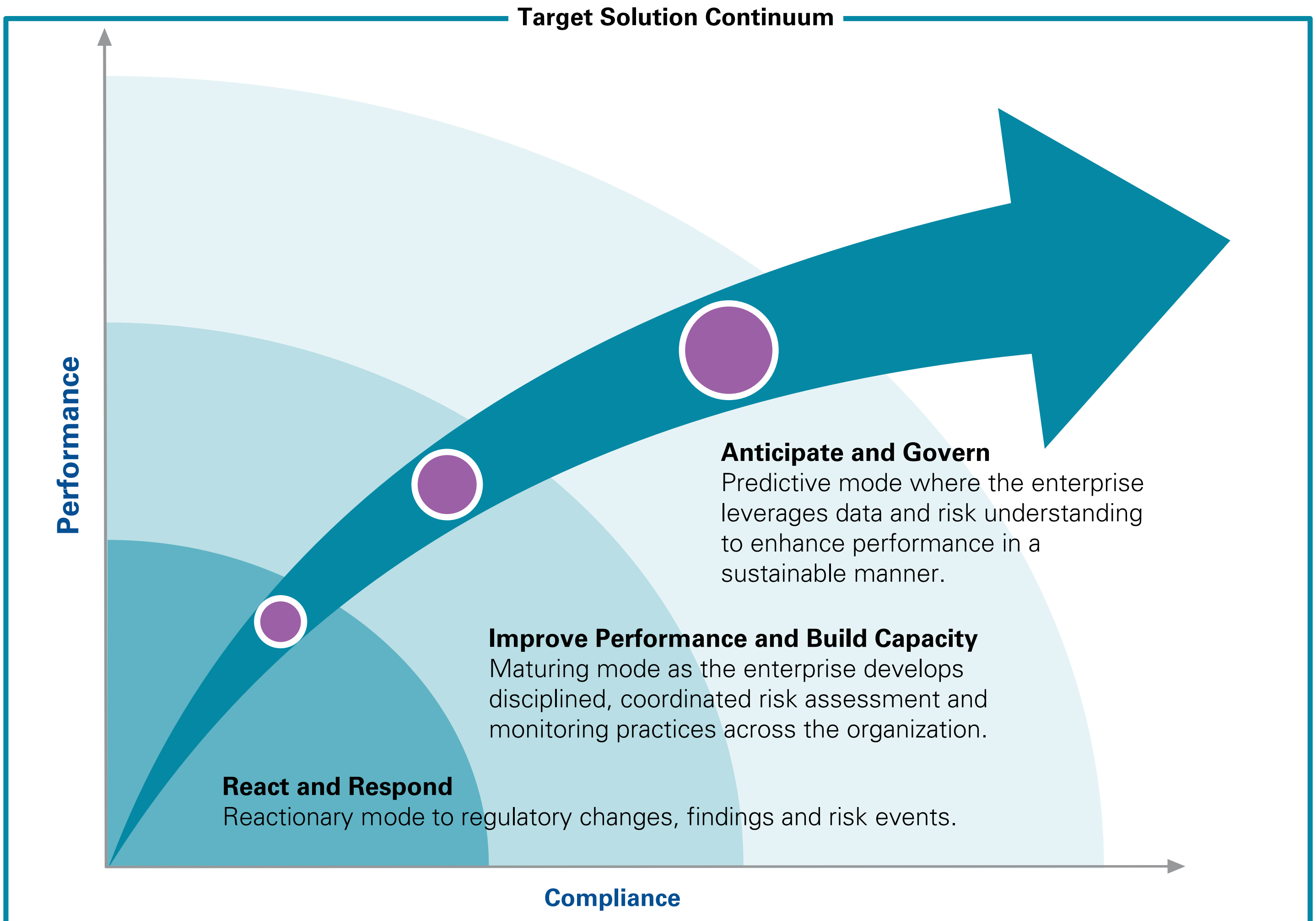
[8] Reuters, March 26, 2015.

effectively and efficiently address the regulatory environment from an end-to-end perspective. It is also the only way to get a handle on data quality issues.

As KPMG has stressed, wholesale change that is transformational in nature will be required to understand the impact of all of the new regulations and to assess the strategic impacts to the industry's business and operating models, legal entities, products and services, in addition to capital and liquidity, and tax implications. To meet these challenges, firms must move towards an integrated and strategic approach, and develop an operating model for regulatory change that will centrally drive the key changes and tactical activities across their business units and geographic locations.

Transforming the industry's regulatory compliance initiatives will require strong leadership from the top and the active participation of every single employee of the firm. Regulatory compliance programs must become sustainable.

Industry Transformation



Source: KPMG LLP, 2015

Latin America

The Latin American region is relatively diverse and somewhat disparate in geographical and regulatory terms with each country at different points in the development curve and economic cycle, driven by different political forces and ideologies and with financial sectors of varying compositions in terms of national, regional and international players. This means that, for each of the regulatory themes identified in the **Regulatory Pressure Index** on page 4 there is often not a single 'Latin America story' with significant variations in the amount of regulatory attention many of them are receiving across the region. An example of this would be in relation to Accounting & Disclosure where the Argentinean banking regulator has recently begun the process of transition to International Financial Reporting Standards (IFRS), whereas, in the other major economies, there have been no significant changes to regulations related to financial reporting in the banking sector. Another example would be in relation to Traded Markets where the Mexican regulator has been focused on a potential transition to the use of Swap Execution Facilities whilst the Chilean market has been continued moving towards the creation of a Central Clearing Counterparty and the Brazilian regulator has been less active in this area given the high proportion of derivatives that are traded on the BM&FBovespa exchange.

Despite this, there are cross-region themes and the global agenda does have an influence on the local regulators. The summary presented below aims to draw out some of the main differences between the regulatory agenda in the U.S. and that being followed in Latin America.

Two things are clear when comparing the RPI information shown on pages 3 and 4 for the U.S. to that for Latin America:

1) Regulatory pressure in Latin America is lower than that in the U.S. as shown by the total RPI on page 3 (33 vs 43).
2) The regulatory agenda in Latin America has developed differently to that of the U.S. as shown by the differences in the RPIs by regulatory theme on page 4. Large differences are noticeable in the areas of systemic risk, supervision and governance.

The difference in overall regulatory pressure is largely due to the relatively small impact that the financial crisis of 2008 had on the financial sector in the region. There were no significant liquidations bankruptcies of financial institutions and whilst growth in the wider economy was impacted, most countries recovered more quickly than countries in the rest of the world. Therefore, whilst regulators used the opportunity to review their approach and learn from the perceived mistakes of regulators in the countries more broadly impacted, there was little public or political pressure to implement rapid, wholesale regulatory changes to the financial system as elsewhere. This lower pressure is reflected in the smaller impact that the regulatory agenda has had on profits of national and regional banks which have generally continued to give impressive returns on equity.

In the U.S., the public and political pressure led to fundamental changes to the regulatory bodies and the way they carry out their supervisional activities. In contrast, in the major Latin American countries there have been no wholesale changes to the structure of regulators or significant adjustments to their monitoring models, so, for example, none of the major countries in Latin America have established stress tests in the model of those being rolled out and refined in the U.S. and Europe. Another example of the difference in the amplitude of the regulatory response following the crisis is the roll-out of resolution and recovery plans (living wills) – the definition of which banks should have these plans and the implementation of requirements is relatively low (if present at all) on the agendas of Latin American regulators.

Like the difference in the overall regulatory pressure, the differences in regulatory agendas are also a result of the less severe impact of the crisis in the region and the fact that the local banking sectors were not held at fault for it. This meant that whilst regulators in the U.S. and Europe formed their agendas to rectify the perceived causes of the crisis, the regulators in Latin America continued to look at issues particular to their markets. One such example of this would be in governance – in the U.S. a perceived lack of oversight led to regulatory pressure to reform governance frameworks in financial institutions whilst in Latin America, there was no significant additional focus on this area. Another example would be the Volcker rule which does not have an equivalent in any of the major economies in Latin America.

The difference in the regulatory agendas between the U.S. and Latin America is perpetuated by the fact that the financial sector in almost all of the major countries in Latin America are dominated by national or regional banks (Mexico being the exception), none of which are on the G-SIB list published by the Financial Stability Board. In fact, only a handful of the G-SIBs have any significant presence in the region outside of Mexico. The low level of penetration by the large international banks means that local regulators are able to set and follow their own agendas and the regulatory changes that impact the foreign subsidiaries of G-SIBs are not being mirrored by local requirements. Global co-operation between regulators and a pressure to eliminate opportunities for regulatory arbitrage may mean that these differences are eliminated in the future but, currently, in many cases, the foreign subsidiaries of international banks bound by U.S. and European regulations find themselves at a competitive disadvantage to the national or regional banks.

As we commented in the 2014 edition of this publication, one area where the region is relatively aligned with the U.S., as would be expected, is in the implementation of Basel 3 principles for capital, liquidity and leverage. However, timetables vary from country to country and it is noticeable that there is less urgency in the definition of systemically important banks (impacting the 'systemic risk' RPI), which will have additional capital requirements, and also in the definition of the minimum leverage ratios. Another areas where the RPIs of the U.S. and Latin America are relatively aligned is in relation to Culture and Conduct, however it is noticeable that there have not been any fines of the size seen in Europe and, principally, the U.S. in Latin America. In fact, the driver of this regulatory pressure is different in the two regions; whereas in the U.S. it is driven by the perceived need to maintain public trust in the banking sector and 'punish' the banks for perceived wrong-doing, in Latin America it is often driven by social factors, such as a desire to ensure that low cost banking is available to the population as a whole.

Financial Crime and Tax is notable for being the only area in which regulatory pressure is considered to be most intense. This is partly because Tax Authorities have been looking at ways to increase their tax receipts in order to fund new social programs or to compensate for falling taxable revenues as economies slow and also because of public pressure to address corruption and organized crime issues.

In summary, in as far as one can say that there is a single Latin America regulatory agenda, given the differences between the component countries, it is largely aligned with that in the U.S., however, there are differences in the drivers of the regulatory change which mean that there are differences in the details and the pace of change is less frenetic. However, whilst the pace of change is slower than in the U.S. the overall direction of movement on the prior year is the same with regulatory pressure ratcheting up across several of the key areas.

Conclusion

It is important to understand that policymakers introduced financial reforms to enhance the stability of the financial system following a severe crisis that shook the foundation of the financial system. These reforms will require the financial industry to continue to change dramatically, both in terms of its strategy and structure as well as its approach to managing conduct and culture. Although these changes will be difficult – and in some cases costly – to implement, they are not insurmountable. By incorporating a regulatory change management lens into their overall business strategy, firms can begin adopting the transformational change that will be necessary to overcome these challenges.

Abbreviations

ASPAC	Asia Pacific
BCBS	Basel Committee on Banking Supervision
CCAR	Comprehensive Capital Analysis and Review
ECB	European Central Bank
EMA	Europe, Middle East and Africa
FDIC	Federal Deposit Insurance Corporation
FSB	Financial Stability Board
FSOC	Financial Stability Oversight Council
G-SIB	Global Systemically Important Bank
IFRS	International Financial Reporting Standards
LATAM	Latin America
OCC	Office of the Comptroller of the Currency
SCAP	Supervisory Capital Assessment Program

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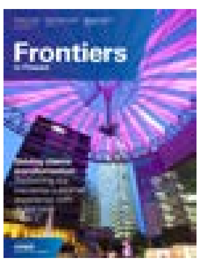
The Volcker Rule

March 2015

The Financial Services Regulatory Risk Advisory practice and the Americas Financial Services Regulatory Center of Excellence (CoE) have developed a point of view on the importance of establishing a strong compliance program with a clearly articulated governance and management framework and a flexible infrastructure to capture and report the relevant data in order to achieve compliance with the rule's provisions.



Frontiers in Finance

Winter 2014

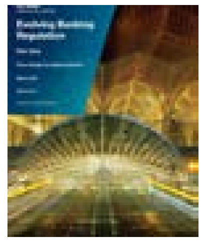
Substantial progress has been made in stabilizing the financial sector since the crisis 6 years ago. Yet a great deal remains to be done. The focus of this issue of Frontiers in Finance is navigating change and transformation. In the issue we address the complex financial services landscape and some of the principal transformation issues senior executives are struggling with today.

From Burden to Competitive Advantage

September 2014

For companies in the financial services sector, the challenges of the global regulatory environment are twofold: Regulations are expensive to implement, and they can limit revenue growth and profitability. A KPMG survey of more than 900 senior executives from U.S.-based multinationals and asset managers revealed that a large number of financial firms see the regulatory environment as a burden on transformation.

2015 edition coming soon.



Evolving Banking Regulation – Part One (EMA Edition)

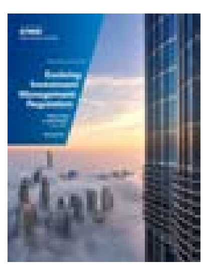
March 2015

Banking regulation has advanced noticeably since the 2008 financial crisis, with considerable progress achieved in recent years. However, many regulatory details remain unresolved and the banks' success in adapting to these regulatory changes varies greatly by institution and jurisdiction.

Evolving Banking Regulation – Part Two (EMA Edition)

April 2015

This report focuses on bank structure, and the search by many banks for a viable and sustainable future amidst increasing regulatory and commercial pressures. What bank models work in this new environment and how can banks factor in the higher costs of doing business, constraints on balance sheet composition, business activities, legal and operational structure; and supervisory intervention all at the same time. Banks face a variety of economic and commercial pressures, including the weak economic environment, low interest rates, market over-capacity, strong competition, technological change, low margins and high cost bases.

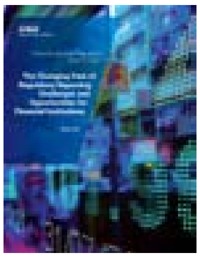


Evolving Investment Management Regulation

June 2014

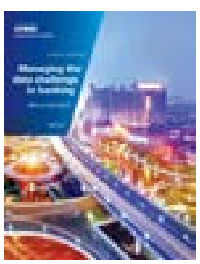
KPMG's look at regulation in the investment management industry. Our focus in this report is on the key areas where regulation combined with other pressures is forcing asset managers to make significant changes. The key areas are structural market change, data and reporting, risk governance, conduct, culture and remuneration.

2015 edition coming soon

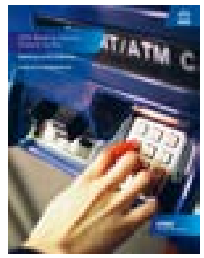


The Changing Face of Regulatory Reporting
September 2014
The Financial Services Regulatory Risk Advisory practice and the Americas' FS Regulatory Centre of Excellence have developed a point of view on the challenges financial institutions are facing around producing core regulatory reports, trends in supervisory expectations, and the current state of banks' regulatory reporting capabilities.

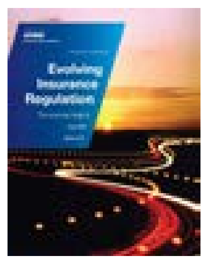
Compliance Risk Management Survey
August 2014
KPMG conducted the Compliance *Risk Management Survey* (CRM Survey) to give respondents insights into the current state of development and integration of the CRM programs in place among their peers and the broader financial services industry. The CRM Survey was also intended to provide a gauge by which the respondents could assess their positioning against evolving industry CRM practices.



Managing the Data Challenge in Banking
July 2014
This looks at the Basel 239 Principles and the underlying challenges of risk data aggregation. However, this issue has to be based on a much broader perspective than simply that of risk data. BCBS 239 may be the prime driver at the moment. But the data challenge demands a much broader strategic response.



2014 Banking Industry Outlook Survey
Building better relationships with customers is paramount for the banking industry. Despite regulatory constraints and rising costs, banking executives need to align key strategic priorities and invest in technology as a focus to provide a better customer experience and keep customers at the heart of decision-making every step of the way.



Evolving Insurance Regulation (EMA Edition)
March 2015
2015 is seeing international developments dominate regulatory change in the insurance industry. In fact, in the last few years we have seen the International Association of Insurance Supervisors (IAIS) lay the foundation through establishing Insurance Core Principles, identifying global systemically important insurers (G-SIIs) and the development of its Common Framework relating to the supervisors of internationally active insurance groups.

Evolving Insurance Regulation (Abridged Americas Edition)
March 2015
A summary of both international and Americas developments along with the CRO/Regulator interviews.

Coming soon
Financial institutions need to transform to meet the regulatory demands. Look for our upcoming papers: Business Transformation in the Financial Sector, Transforming the Regulatory Agenda, and Compliance Transformation.

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