BANKING REGULATION AND SUPERVISION EXPECTATIONS IN THE AMERICAS 2020

MARCH 2020

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ASSOCIATION OF SUPERVISORS OF BANKS OF THE AMERICAS

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I. INTRODUCTION

This report presents the most relevant results from the Survey on Banking Regulation and Supervision Expectations for 2020 that the General Secretariat of the Association of Supervisors of Banks of the Americas (ASBA) distributed among its members during December 2019. The survey was answered by 27 supervisory authorities from the same number of countries in Latin America, the Caribbean, and Spain.[1]

The second section of the paper provides a brief analysis of the risks, macroeconomic perspectives, and financial environment in the Americas region for 2020. This section highlights some scenarios that could affect financial markets, such as commercial tensions, volatility in the prices of agricultural and livestock commodities, electoral processes, and adverse impacts caused by climate events. The paper does not analyze the situation created by COVID-19, as this phenomenon did not manifest until the beginning of 2020.

The third section focuses on the attention that members of the Association are giving to the implementation of the Basel III agreements, with emphasis on the elements that some jurisdictions plan to introduce in the coming years, as well as the opinion on the adequacy of some of these standards for the region.

The fourth section discusses the expectations that supervisors in the region have regarding banking law reforms and their purpose. In addition, the main changes observed in the organizational structure of some of the Association's member institutions are discussed. These changes relate to the introduction of new departments or management areas, expansions to existing ones, and reorganization of responsibilities.

The fifth section examines the expected changes in the supervisory processes, both on-site and off-site. At the same time, it identifies future plans on the introduction of new technologies in supervisory processes. The section includes both changes in what is known as suptech, as well as any other type of technological change, considering the different levels of development in ASBA members.

Finally, the sixth section presents the regulatory and supervisory expectations for 2020. On this occasion, some of the topics under review include: capital and transparency, requirements on corporate governance, conglomerates and financial groups, bank resolutions, technology-related issues (fintech, cybersecurity, data protection), and measures that some countries are taking regarding the risks associated with climate change.

It should be noted that the information presented here corresponds to the regulatory intention of the authorities until December 2019 and does not contemplate the most recent developments caused by the rapid spread of the Covid-19 virus, which will likely impact the regulatory agenda of ASBA members.

1/ Banking supervisory authorities of the following countries participated in the survey: Aruba, Bahamas, Barbados, Belize, Bolivia, Brazil, Cayman Islands, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Spain, Guatemala, Guyana, Haiti, Honduras, Mexico, Nicaragua, Paraguay, Peru, Republic of Panama, Dominican Republic, Surinam, Trinidad & Tobago, Turks and Caicos Islands, and Uruguay.

II. EXPECTATIONS ON RISKS IN THE MACROECONOMIC AND FINANCIAL ENVIRONMENT

During 2019, world economic activity was characterized by low growth derived from a slowdown in the main advanced economies - with the exception of the United States, which is experiencing the longest expansion cycle in its history - and in some emerging countries. In Latin America and the Caribbean, the cases of Argentina, Brazil, Chile, and Mexico stand out, where the observed growth was lower than expected, affecting the growth rate of the region.

The slowdown in global economic activity was the product of idiosyncratic factors, such as: the escalation in trade tensions between the United States and its main trading partners, the uncertainty generated by the departure of the United Kingdom from the European Union, and the increase in geopolitical tensions in the Middle East. Among these factors, the increase in trade tensions stands out, which had a negative impact on manufacturing production and the volume of global trade. In an increasingly financially integrated world and where more and more countries are part of global production chains, the effects of idiosyncratic factors tend to amplify.

Regarding our region, other risks specific to each country have to be added to the idiosyncratic factors mentioned above, among which the increase in economic, political, and social uncertainty observed in some Latin American countries stands out. The increase in uncertainty was reflected in a downward revision in growth expectations for 2019 and 2020, as well as an inhibition in investment decisions for the region. On the other hand, the Caribbean experienced significant negative impacts arising from natural disasters that took place and the persistence of problems derived from the call for de-risking actions by the global banks that operate in the region.

Despite an economic environment characterized by low growth and higher risks, the region was characterized by an absence of inflationary pressures and significant resilience in certain sectors, such as services, labor market and wages, as well as the internal consumption in countries. The absence of inflationary pressures granted a wide margin of maneuver for the implementation of more accommodative monetary policies. Thus, despite the fact that 2019 was a year characterized by marked uncertainty and a slowdown in economic activity, the region's financial markets showed resiliency and abundant liquidity, which allowed them to absorb rather than amplify the negative aspects.

In retrospect, the region exhibited more resilience against negative shocks when compared to what was observed twenty or thirty years ago. This could be explained by the fact that countries are less vulnerable to the outside world, have more resistant financial systems, and the authorities have a wider room for maneuver in the use of their economic policy tools (fiscal and monetary).

By 2020, a slight economic recovery was expected in the world economies, a trend expected to continue until 2021, according to reports from different international organizations such as the International Monetary Fund (IMF)[2] and the Organization for Economic Cooperation and Development (OECD).[3] However, these favorable forecasts are conditional on 2019 idiosyncratic risks not repeating or escalating to a higher level.

Among the new risks, it stands out the possible affectation of global production chains and, therefore, of world economic activity due to the appearance of the COVID-19 virus known as Coronavirus.

The magnitude of the negative impact caused by this event is estimated to be profound and will be closely related to the extent and duration of this phenomenon. Various qualifiers have made major reviews of the countries of the region, including forecasting major contractions.

It is evident that this disruption will have a significant effect on financial regulation decisions during 2020, so this report should be understood as the regulatory intention before the health emergency.

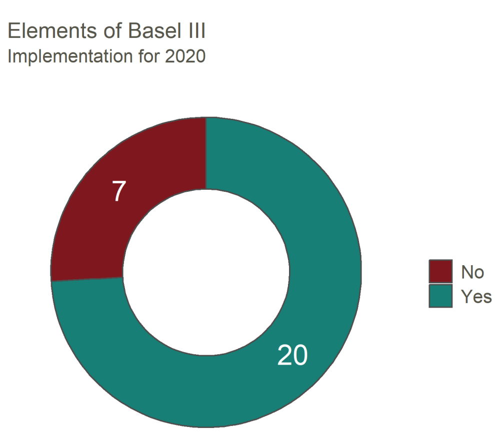
2/ IMF. World Economic Outlook, January 2020. Tentative Stabilization, Sluggish Recovery? Accessed on march 4, 2020.

3/ OECD Economic Outlook, Interim Report March 2020. Accessed on march 4, 2020.

III. BASEL III ELEMENTS

The Survey on Banking Regulation and Supervision Expectations for 2020, among other things, asked the region's supervisory authorities about their plans regarding the incorporation of some of the elements of the Basel III framework in their banking regulations in the coming two years. Figure 1 shows the number of jurisdictions whose supervisory authorities affirmatively or negatively responded to this question.[4]

FIGURE 1. NUMBER OF JURISDICTIONS PLANNING TO INTRODUCE BASEL III ELEMENTS OVER THE NEXT TWO YEARS.



As can be seen from the graph, most jurisdictions that participated in the survey plan to introduce various elements of Basel III into their legal frameworks. However, there is significant diversity in the number of elements of the Basel standards that jurisdictions expect to incorporate into their regulations (see Tables 1 and 2).

Countries that are part of the Association and also belong to the Basel Committee[5] or those that have a higher level of development in their financial markets, expect to adopt a greater number of elements, among which stand out those related to liquidity requirements, capital buffers, requirements for systemic banks, and the new capital requirements for credit, market, and operational risks.

It is interesting to mention that because the issuance of new norms requires in many cases the modification of certain laws, some countries have chosen to publish the content of the norms that will contain the Basel standards before formally incorporating them in their regulation. The foregoing with the purpose of facilitating financial institutions to study the modifications that they must carry out in their accounts to comply with the regulations once they come into force. This is the case, for example, in Peru, where the publication of the upcoming leverage ratio regulation is planned for the sole purpose of institutions to begin monitoring it, since the definite adoption of this regulation (establishing a mandatory minimum ratio) requires changes to the law.

4/ This question was answered by 28 institutions from 27 different jurisdictions.

5/ Argentina, Brazil, Mexico, United States of America and Spain.

In other cases, such as Chile, the legal changes necessary to introduce some elements of Basel III have already been approved, with which, among other things, the stress tests conducted for credit and market risks which are currently being carried out informally by the *Comisión para el Mercado Financiero*, will be formalized.

A significant number of countries that do not plan to introduce the Basel III standards into their regulations mentioned, as a reason for this, the complexity of the standards in comparison to the reality of their financial systems. Therefore, they indicated that they will focus their efforts on only implementing the main elements of Basel II. Some countries, such as Bolivia, are considering adopting provisions similar to those contained in Basel III, but appropriate to the context of their financial system. This is the case of recommendations for establishing the countercyclical capital buffer, in addition to having tools similar to the Leverage Ratio (LR), the Liquidity Coverage Ratio (LCR), and the Net Stable Funding Ratio (NSFR).

TABLE 1

Liquidity requirements (LCR, NSFR, intraday liquidity)	Capital buffers (countercyclical/capital conservation	Systemic Bank Requirements (additional credit risk requirements, large exposures, TLAC)
Colombia (NSFR), Ecuador, Mexico (NSFR), Honduras, El Salvador, Peru, Dominican Republic, Guatemala, Cayman Islands, The Bahamas	Uruguay, Chile, Panama, Trinidad & Tobago	Mexico, Honduras, Chile, Peru

TABLE 2

Credit risk requirements (standardized approach, requirements on investments, securitizations)	Market risk (standardized method, IRRBB, FRTB)	Operational risk (new requirement: business indicator)
Mexico, Brazil, Honduras, Costa Rica, Peru, Panama, Belize[6]	Colombia, Brazil, Costa Rica	Mexico, Brazil, Uruguay

6/ In the case of Belize, a combination of Basel II and Basel III requirements is planned for Pillar 1 and 2.

IV. GENERAL REFORMS AND CHANGES IN THE SUPERVISORY AUTHORITY

As part of the Survey, the supervisory authorities were asked about the changes, reforms or updates that they hope to put into practice in their structure, regulatory, and supervisory processes or in the use of technologies within their institutions.

CHANGES IN GENERAL BANKING LAWS

Half of the authorities that participated in the survey expect to carry out reforms in their general banking laws during 2020 (Figure 2). The most relevant changes mentioned are related to modifications to allow for the implementation of international standards related to banking regulation and supervision, to expand the scope of current regulation to incorporate financial institutions that are outside of the current regulatory perimeter,[7] to create new legal figures for the granting of licenses, and new legal powers for supervisory authorities, as well as to establish modifications in the autonomy and independence of supervisory authorities.[8] Some of these changes are in the process of negotiation and approval by the congress in each jurisdiction.

CHANGES IN CORPORATE GOVERNANCE PROCESSES

Thirteen of the members who were surveyed expect changes in the organizational structure of their supervisory entities. These changes have to do with the introduction of new departments or units, reorganization of responsibilities, and expansion of personnel in existing departments (Figure 3).

FIGURE 2. PERCENTAGE OF JURISDICTIONS THAT EXPECT CHANGES IN THEIR GENERAL BANKING LAW.

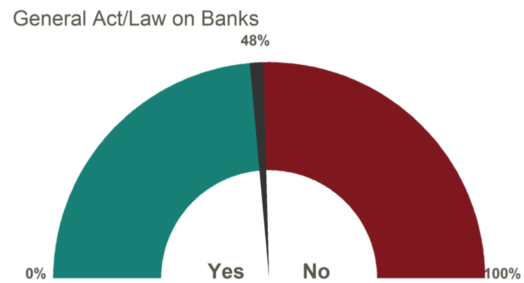
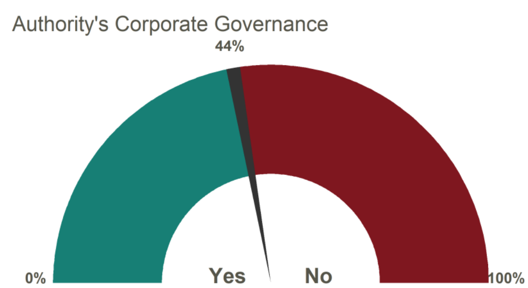


FIGURE 3. PERCENTAGE OF JURISDICTIONS THAT EXPECT CHANGES IN THE CORPORATE GOVERNANCE OF THEIR FINANCIAL SUPERVISORY AUTHORITY.



7/ In some cases, the supervisory authority will include within their supervisory perimeter insurance companies and/or cooperatives.

8/ Some of the most mentioned powers include those related to bank resolution, supervision of conglomerates, and powers on financial inclusion.

TABLE 3. ORGANIZATIONAL STRUCTURE.

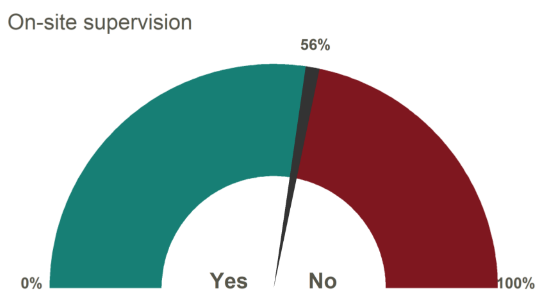
COUNTRY	CHANGES IN THE ORGANIZATIONAL STRUCTURE
Ecuador	Issuance of a new organic statute for organizational management by processes, which includes adjustments in the organizational structure.
Peru	The SBS will develop a gradual data governance adoption strategy for which it has determined to establish a task force to lay the groundwork for a new data department headed by a Chief Data Officer. In the future, this unit is expected to have: (i) assigned roles and responsibilities on this topic, (ii) implemented data strategies, (iii) a data quality program, (iv) a data custodians' program, (v) an ad-hoc committee, among others. On the other hand, a change in the organizational structure of the Information Technology Unit is expected. The aforementioned, by virtue of the creation of a new department to be called the Department of IT Security. The main function of this department will be to define norms, procedures, methods, and techniques in order for the Superintendency to have safe, reliable, and available information systems in real time.
Colombia	Currently, a draft decree is under process through which the organic structure of the *Superintendencia Financiera* de Colombia is partially modified, pursuant to the provisions of the Financial Conglomerates Law (Law 1870 from 2017). In addition, the purpose of this update is to include new functions related to financial innovation and modifications to responsibilities in topics related to financial consumer protection.
Mexico	Changes in the organizational structure and an update of the CNBV's Internal Regulations are expected; in addition, changes to in the application of supervisory processes through the implementation of technology are also expected.
Honduras	The organizational structure will be modified in order to adjust it to the new risk-based supervisory approach, to be adopted starting in 2020.
Chile	The new General Banking Law approved in 2019, establishes the merger of the *former Superintendencia de Bancos* and the former *Superintendencia de Valores y Seguros*. Since 2019, the regulatory body for banks, securities, and insurance is the *Comisión para el Mercado Financiero* (CMF). As a result of the above, the CMF will be in the process of transformation during the coming years.
El Salvador	Transformation of the current IT Department into the IT Management Unit (June 2020) and expansion of the Financial Regulation area (December 2020).
Bolivia	The entity is considering changes to the organizational structure that would facilitate risk-based supervision from the perspective of consolidated supervision.
Bahamas	Modifications to the way industry taxes are collected.
Trinidad & Tobago	A framework for market conduct supervision is being developed. Other changes are necessary to ensure the continued efficiency of operations.
Surinam	A new directorate for legal, compliance, and international relations affairs has been created in addition to the three existing directorates for supervisory, monetary, and banking operations.
Turks & Caicos Islands	The Commission will have an additional director with experience in human resources matters. The compliance and banking departments are being strengthened for a more efficient and effective use of personnel.

V. SUPERVISORY PROCESS

1. SUPERVISORY PROCESS

More than half of the supervisory entities that are members of ASBA expect a change or reform in their on-site and off-site supervisory processes.

FIGURE 4.1 PERCENTAGE OF AUTHORITIES THAT EXPECT TO IMPLEMENT CHANGES IN THEIR ON-SITE SUPERVISORY PROCESSES.



In the case of on-site supervision, a little over half of the countries that participated in the survey have recently introduced a risk-based supervision framework. Additionally, countries such as Ecuador, Paraguay, Honduras, Belize, and Haiti expect to introduce a framework based on this approach over the next two years.

Another set of countries expects to update their risk-based supervisory approach. For example, Bolivia and Guatemala, will update and standardize their manuals for risk supervision.

On the other hand, Colombia plans to establish a "preventive supervision with a focus on behavior." Based on the above, a supervisory methodology focused on behavior will be adopted considering aspects, such as the organizational culture of entities, their corporate governance, business models, employee incentives and business practices, among others. In addition, various Caribbean countries expressed their willingness to strengthen risk supervision and compliance with anti-money laundering and countering terrorist financing (AML/CFT) topics.

As for off-site supervision, the expected changes are related to the modifications that will be made to the overall supervisory process, for example, the introduction or updating of risk-based supervision frameworks. However, an interesting case is the one shared by the Banco Central do Brazil (Table 4).

FIGURE 4.2 PERCENTAGE OF AUTHORITIES THAT EXPECT TO IMPLEMENT CHANGES IN THEIR OFF-SITE SUPERVISORY PROCESSES.

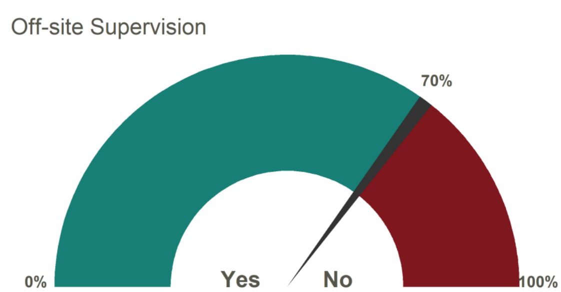


TABLE 4. OFF-SITE SUPERVISION IN BRAZIL.

The Financial System Monitoring Department (Desig), which is part of the Banco do Brazil (BDB), has been working for two years on a broad redefinition of its microprudential processes to better integrate their off-site monitoring with supervision. In addition to both full-scope and simplified field inspections, the BDB has implemented "monitored situation" inspections.

A monitored situation (MS) is a predefined event that represents a common concern for supervision. It is comprised by a set of metrics, parameters, and filters applied to multiple available databases to characterize the predefined problem event. The benefits are: (i) systematization and documentation of the entire monitoring process; (ii) standardization of the final stage of the analysis process; (iii) transparency of the monitoring process; and (iv) knowledge by the supervisor of the entire process and its results, and not just the aspects that generated an alert. Currently, 439 monitored situations have been defined that cover the following topics or risks: (i) economic and financial situations; (ii) credit risk; (iii) capital and prudential limits; (iv) foreign exchange market; (v) market and liquidity risks; (vi) stock market; (vii) information quality; and (viii) investment funds. The results of these tasks (around 100,000 MSs are carried out monthly) are shared by means of a Management Board which is made available to the supervision teams. Therefore, MSs also work as a corporate governance mechanism, as it reduces information asymmetry. By 2020, there are initiatives to complete the migration of all microprudential processes to this new model and to intensify the use of MSs in the supervisory process.

2. TECHNOLOGIES AS SUPPORT FOR SUPERVISION

This section discusses the answers received on the introduction of new technological tools to support financial supervision processes. Topics such as Suptech, the use of big data and artificial intelligence analysis techniques, and other types of supervisory technology changes are explored.

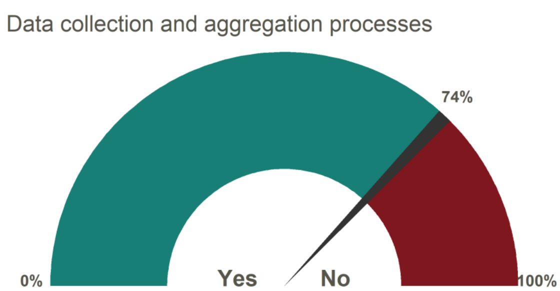
Of the 27 members who participated in the survey, 21 expect to conduct some level of updating in their data collection and verification processes for supervision (Figure 5). In some cases, minor updates are expected due to the introduction of new requirements, such as the implementation of modifications to the IFRS 9 accounting standard, as in the case of Mexico and Uruguay.

Some authorities plan to carry out modernization processes in their communication channels with the financial system and within the supervisory body. With this objective, projects are being developed to improve data collection, governance, integrity, and data management through the use of technological tools.

The case of some countries in the Caribbean is quite interesting to analyze, these countries have worked to refine their information systems for supervision in a relatively short time, as a result of international evaluations and the recommendations that have originated from them (Table 5).

In addition to the data collection processes and communication systems with the supervised entities, Figure 6 shows the proportion of authorities that expect to introduce innovative technologies to support supervision. In this case, innovative technologies refer to the use of big data analysis methodologies, machine learning, deep learning, and artificial intelligence, mainly.

FIGURE 5. PERCENTAGE OF AUTHORITIES PLANNING TO UPDATE THEIR DATA COLLECTION AND AGGREGATION SYSTEMS .

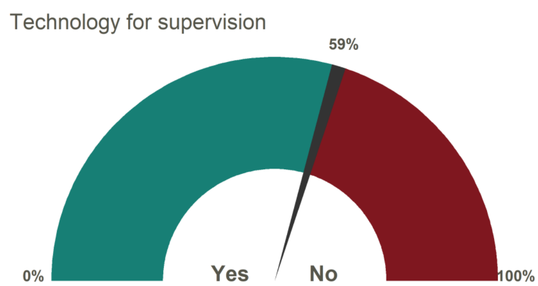


More than half of the authorities expect to carry out an update on this regard in the short term. In particular, various authorities mention that they will concentrate, as part of an inital phase, on aspects related to data governance and data management, as well as on the development of tools aimed at preparing, exploring, and displaying data.

The more sophisticated tools are expected to be gradually developed and implemented in the medium and long term. Among these tools is the development of Data Lakes, which allows for the incorporation of transactional data sources, structured and unstructured analytics, as well as the use of artificial intelligence solutions for different processes such as authorizations, risk ratings, suspicious transaction identification, among others.

On the topic of implementing innovative technologies for supervision, the cases of Mexico, Brazil, and Spain stand out, these countries have already taken important steps in the introduction of this type of supporting tools (Table 6).

FIGURE 6. PERCENTAGE OF AUTHORITIES PLANNING TO INTRODUCE INNOVATIVE TECHNOLOGIES TO SUPPORT SUPERVISION.



Finally, most jurisdictions are generally less willing to implement solutions based on public or semi-public cloud services to support regulatory and supervisory activities. Among jurisdictions that use or plan to introduce cloud services, these focus on non-critical services such as internal communications, email, video conferencing, and internal quality management processes. In most cases, the type of cloud service that authorities plan to introduce is that of Software as a Service (SAS), in fewer cases authorities plan to develop a private cloud.

FIGURE 7. PERCENTAGE OF AUTHORITIES PLANNING TO INTRODUCE CLOUD SERVICES TO SUPPORT SUPERVISION.

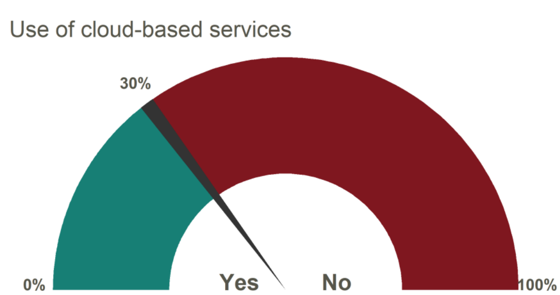


TABLE 5. UPDATE ON DATA COLLECTION AND ANALYSIS SYSTEMS IN THE CARIBBEAN.

COUNTRY	CHANGES
Aruba	On January 1, 2018, the Central Bank of Aruba (CBA) launched its big data storage and analytics framework called Forecasting, Analytics, Modeling Environment (FAME). In 2020, the CBA will continue with the implementation of data queries and will explore the possibilities of big data analysis through FAME.
Cayman Islands	The Cayman Islands Monetary Authority (CIMA) launched the submission of Regulatory Enhanced Electronic Forms (REEFS) in 2015 with the objective of receiving regulatory information in a more efficient manner. The first phase focused on the fiduciary and insurance divisions. However, in November 2019, the Authority started requiring the filing of the Banks' Quarterly Prudential Refund (QPR) through REEFS, moving from an Excel-based template to online forms. Through REEFS, users will be able to electronically submit and track new license applications, submit requests for changes, such as ownership and control, place of business, including licensee's terminations. During 2020, CIMA is trying to implement new software tools to automate the analysis of the data being received.
Surinam	The Bank is working on centralizing its data collection/reception process from all relevant parties. The ultimate goal is to establish a centralized data warehouse with business intelligence (BI) tools to aggregate specific data on banking supervision or financial sector stability.
Trinidad & Tobago	The Central Bank will implement a new tool to receive regulatory information that will improve its validation, as well as business intelligence (BI) reporting.

TABLE 6. INTRODUCTION OF INNOVATIVE TECHNOLOGIES TO SUPPORT SUPERVISION.

COUNTRY	CHANGES
Mexico	The CNBV is developing a new platform to receive regulatory reports based on APIs, Artificial Intelligence, and cloud applications. The suptech platform will mainly receive regulatory reports from new entities called Financial Technology Institutions (fintechs). The platform's architecture is based on receiving regulatory reports through APIs, and then these are processed in non-relational databases (Data Lakes) and examined through basic analytical models (dashboards) and advanced analytic models (machine learning models, among others).
Spain	In the area of prudential supervision, natural language processing tools (Artificial Intelligence) are developed for the analysis of contracts, minutes, and other types of documents. In the area of behavior supervision, the Bank of Spain is exploring techniques based on machine learning to support the management and analysis of unstructured information in order to automatically identify and extract clauses and keywords, automatically classify document types, transforming unstructured information into structured reports in Excel and Word for analysis, and continuous learning to extract and identify information. These tools are currently being used in supervisory activities to review the conditions in the marketing of consumer loans and the mortgage portfolio.
Brazil	The BCB uses Artificial Intelligence (AI) techniques and intends to deepen the use of these tools in the coming years. The main AI applications that are implemented or in the process of being implemented are: • ADAM. Sampling system for credit operations based on machine learning. • Cross Guarantee. Verification of personal guarantees based on neural networks. • Blitz. Analysis of customer information based on machine learning. • Pythos. Fraud detection system based on machine learning and natural language processing. • EVE. Automatic inspection tool based on machine learning, natural language processing, and neural networks. • MARIA. Automatic analysis of inspection and audit reports based on natural language processing (synthesis).

VI. REGULATORY EXPECTATIONS FOR FINANCIAL INSTITUTIONS

1. CAPITAL AND TRANSPARENCY

This section presents the expectations of regulation and supervision with respect to financial institutions. ASBA members were consulted on the type of actions they plan to carry out during 2020 regarding different regulation and supervision topics that would affect financial entities. For this exercise, five types of actions were considered:

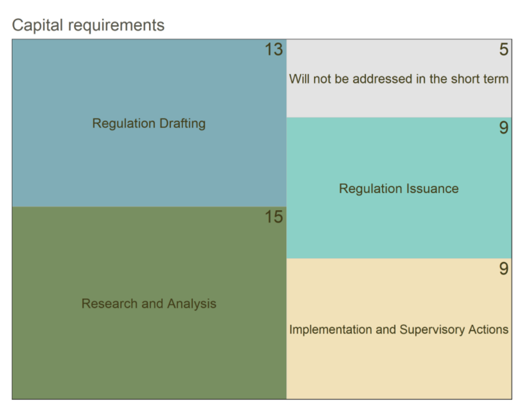
- **The topic will not be addressed in the short term**. The authority does not plan to conduct any type of action during 2020 and 2021.
- **Research and Analysis**. Activities that are carried out to comprehensively understand a regulatory topic and to assess the feasibility of developing regulation and its scope.
- **Regulation Development**. Preparing a draft version of regulation and the corresponding approval processes.
- **Issuance of Regulation**. Official publication of regulations.
- **Implementation and Supervisory Actions**. Implementation and monitoring of compliance with the referred regulation..

It is worth mentioning that the authorities were able to choose more than one action for each topic, except in the event that the topic is not addressed in the short term.

At least half of the participating authorities expect to carry out regulatory research, analysis and development actions regarding the introduction of new capital requirements during 2020. Ten jurisdictions plan to issue regulations in this regard.

Research and analysis actions, as well as the development of regulations are focused on studying the feasibility and adapting the international standards of Basel III and, in some cases, Basel II.

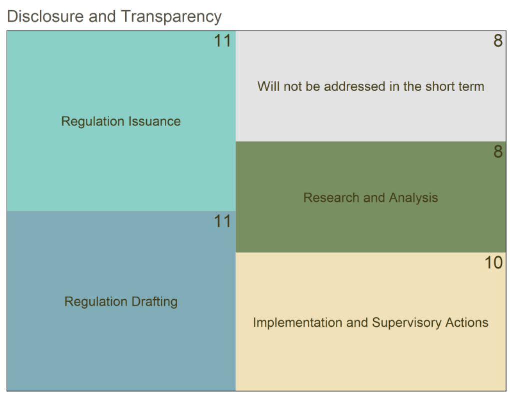
FIGURE 8. CAPITAL REQUIREMENTS.



The specific type of regulation that is planned to be developed and issued varies among countries. However, the following topics have been mentioned: definition of capital, standardized method for credit risk, market and operational risk framework, capital buffers, additional capital requirements, and requirements for systemic banks, among others.

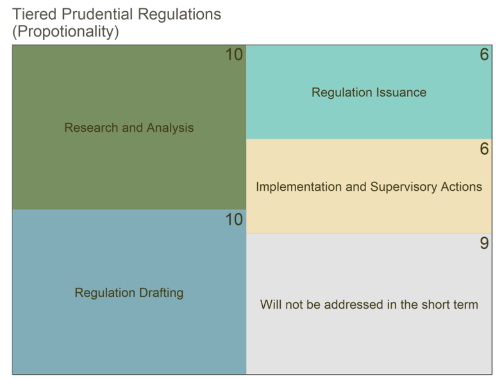
In parallel, authorities plan to develop and issue regulation related to the disclosure and transparency of regulatory and supervisory information, in accordance with the new capital and liquidity requirements that are planned to be introduced.

FIGURE 9. DISCLOSURE AND TRANSPARENCY.



While a significant number of authorities in the region are planning to analyze, develop, and issue regulation that recognizes the importance of proportionality in the implementation of banking regulation, a similar number of jurisdictions do not plan to address this issue in the short term (Figura 10).

FIGURE 10. PRUDENTIAL REGULATIONS (PROPORTIONALITY).



On the other hand, three main approaches were identified in the implementation of a possible framework that considers proportionality in banking regulation:

1. **Implementation of a differentiated regulation by type of supervised entity or business model**. For example, by establishing differences between regulations for banks, cooperatives, fintechs, and other types of entities, but establishing the same regulation for all authorized entities under the same legal figure. An important consideration is that the definition of business models varies among jurisdictions, so comparing regulations from different jurisdictions will be a difficult task.

2. **Differentiated regulation within the same type of entity**. Some authorities mentioned that they are analyzing the implementation of regulation according to a segmentation of entities, based on size and complexity,[9] as occurs in Brazil.

3. **Specific requirements.** Some authorities mentioned this approach in which certain requirements may be applied to some institutions with specific characteristics, without formally establishing a segmentation.[10]

9/ The FSI names this type of approach: Categorization approach (CAP). (https://www.bis.org/fsi/publ/insights1.pdf)

10/ This approach is consistent with that characterized by the FSI as Specific standard approach (SSAP). (https://www.bis.org/fsi/publ/insights1.pdf)

TABLE 7. CASES. EXPECTATION ON PROPORTIONALITY.

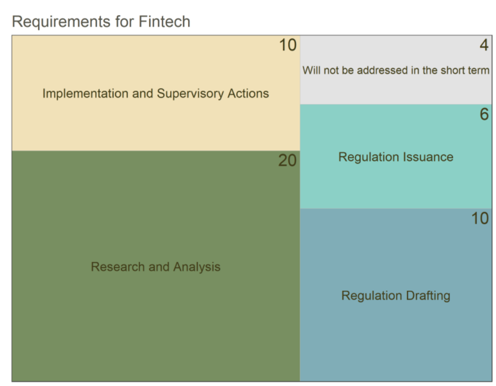
COUNTRY	EXPECTATIONS ON PROPORTIONALITY
Peru	The SBS is in the process of analyzing the experience of other countries in relation to proportionality in order to establish a model that adapts to the characteristics of the local financial system. As a first approximation, in 2019 a project was published that updates the regulations on management for business continuity. Among the main aspects of the regulatory project, is the incorporation of the proportionality criterion. In this case, two groups of entities have been defined which will be subject to different standards, depending on the type of risk they originate. In 2020, some of the supervision activities will be simplified for entities that do not take deposits from the public. This would imply less comprehensive and detailed monitoring reports; lower ICAAP requirements (Principle 1, Pillar 2, Basel II); and a decrease in costs for inspections.
Spain	In terms of differentiated prudential regulations, it is important to point out Law 1955 from 2019, the National Development Plan (article 166) that created innovative technological development entities, which aim to implement innovative technological developments to carry out activities inherent to the entities supervised by the *Superintendencia Financiera de Colombia*. The aforementioned article empowered the National Government to establish differentiated conditions, obligations, and prudential requirements, which are in the process of being issued, for these new entities to start their operations. The purpose of this regulation is to address and resolve some aspects related to the operation of fintech entities in the country, such as the establishment of minimum equity requirements.

2. TECHNOLOGY REQUIREMENTS

The introduction of new business models in the region's financial markets continues its course. As can be seen in Figure 11, a significant number of authorities mentioned that they will continue working on research that will allow them to better understand the environment of innovative financial technologies, monitoring the development of trends at a global and regional level, as well as identifying the associated risks that may affect the financial system.

In more advanced economies, efforts will focus on stable coins, Central Bank Digital Money (CBDC), artificial intelligence, privacy and data flow, as well as bigtech.

FIGURE 11. REQUIREMENTS FOR FINTECH.



Some authorities are in the process of preparing, developing, and issuing regulation regarding financial technology entities. Most jurisdictions will move forward attending specific cases. In this sense, a significant number of jurisdictions consider that it will not be necessary to make large interventions at the legislative level, so they will choose to carry out specific interventions in cases where they consider as essential, depending on the risk that these entities could represent for the stability or financial integrity of the local industry, as well as the level of international development; but, above all, at each country's level. This approach contrasts with the case of Mexico, which determined to conduct changes at the legislative level to create a general fintech framework.

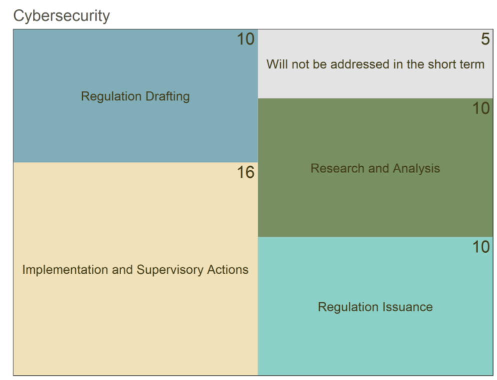
There are a wide variety of approaches with which the authorities are addressing the fintech issue. A significant proportion of the surveyed countries expect to establish (or have already established) communication hubs with new service providers, others study the introduction of sandbox-type schemes, and a smaller number examine the feasibility of open banking approaches.

Among the specific interventions, expected for 2020, by various countries are products related to capital raising (equity-crowdfunding), collective financing (loan-crowdfunding), as well as products related to the execution of payments and digital currencies.

Different authorities are exploring and defining their responsibilities with respect to enabling technologies for financial products, such as cloud services, inter-institutional data exchange schemes (APIs), the use of artificial intelligence and machine learning, among others. Coordination among authorities from different sectors is an ongoing task for the region in general.

The 2019 edition of this report mentioned that various authorities had begun the transition from a stage of concern to a stage of regulatory action. During 2020, we expect for the implementation and monitoring of issued regulations to take place. In most cases, the implementation of these regulations will consist of the issuance of secondary regulations (Figure 12).

FIGURE 12. CYBERSECURITY.



Some other countries are carrying out or are about to start, regulatory development processes.

The case of Central America stands out where financial authorities are planning to address cybersecurity issues on a regional basis. To this end, the financial authorities that are part of the Central American Council of Superintendents of Banks, Insurance, and other Financial Institutions (CCS) will develop a common regulation on cybersecurity, based on the model of the Superintendencia Financiera de Colombia. Likewise, they plan to develop templates for management assessment and the determination of inherent risk in the institutions, taking as a reference the model of the European Banking Authority (EBA).

Other jurisdictions, such as Turks & Caicos, which have also established the topic of cybersecurity as a priority, have decided to analyze the measures and structures that banks have adopted to deal with cybersecurity risks, with the purpose of developing a regulation on this topic in accordance to the characteristics of the local industry.

The practice of outsourcing services, particularly those associated with cloud services, is at the center of attention of financial authorities. However, most authorities in the region do not expect a regulatory or supervisory response to take place in the short term. Eleven authorities replied that they do not contemplate addressing this issue at the moment (Figure 13). The authorities that expect to implement supervisory actions in this area anticipate doing so within the current frameworks that regulate the outsourcing of services in general, although these do not in many cases contemplate cloud services.

Among the authorities that plan to have some type of response regarding the outsourcing of services, this response will focus on the incorporation of specific requirements on cloud services within the current regulations, issuance of supervisory guidelines as well as guidelines for the management of specific risks derived from these providers. Table 8 shows the particular case of the actions expected in Peru and Brazil.

FIGURE 13. OUTSOURCING REQUIREMENTS.

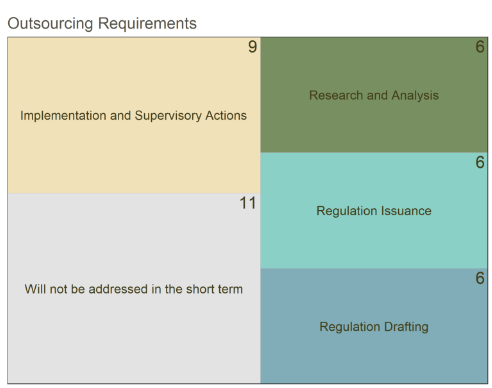


TABLE 8. CASES. REGULATORY EXPECTATIONS ON OUTSOURCING SERVICES.

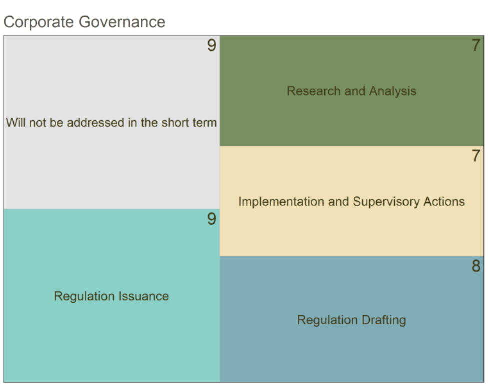
COUNTRY	REGULATORY EXPECTATIONS ON OUTSOURCING SERVICES
Peru	The authority plans to analyze updating the specific regulation on outsourcing data processing abroad, in particular that related to cloud services, incorporating specific requirements to this modality of provision of technology services. In addition, the authority plans to issue regulation on business continuity management. This regulation will update the requirements for entities in the financial system on this topic. Some provisions that will be proposed in the regulation include: • Expressly requiring entities in the financial system to have continuity strategies in the event of failure or unavailability of the goods or services provided by their main suppliers (including significant outsourcing). The strategies to be implemented can range from having an alternate provider, to formalizing service level agreements applicable in crisis situations, to the use of own resources to deal with crises. • For entities in the financial system which have market concentration, these will be required to implement communication protocols through an alternative means of communication with their critical suppliers, as well as with authorities and other stakeholders.
Brazil	Currently, the topic of outsourcing services is regulated by Resolution 3,954/2011, which addresses the hiring of correspondents in the country. The outsourcing of services is also mentioned in other regulations, such as in the regulation that addresses cyber security issues (Resolution 4,658/2018 and Circular 3,909/2018), and the regulation on the prevention of money laundering and terrorist financing (Circular 3,461/2009). Resolution 4.658/2018 put into force regulations related to the hiring of relevant data processing and storage services, as well as cloud computing services. Therefore, during 2020 continuous work will be conducted to verify the compliance of institutions with the requirements established in this regulation. Another important aspect for 2020 with respect to outsourcing is the enactment of the General Law on Data Protection. In this regard, pilot actions will be developed to evaluate how institutions manage relevant third parties, how bank correspondents manage these from the perspective of information security. In addition, there is a proposal in public consultation for the implementation of an Open Banking scheme covering data exchange between financial institutions.

3. CORPORATE GOVERNANCE, CONGLOMERATES, AND CRISIS MANAGEMENT

At least ten authorities in the region plan to develop and issue regulation regarding the corporate governance of financial institutions.

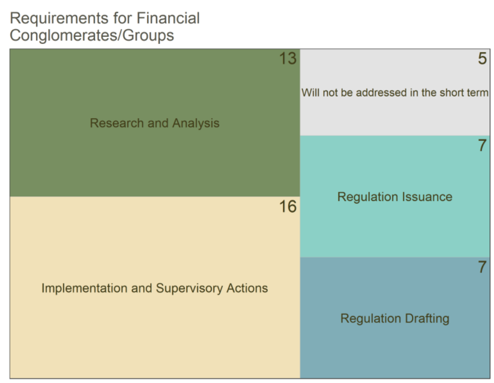
In most cases, these are reviews or modifications to current regulations in order to include guidelines related to the moral and technical suitability of shareholders, directors, managers, and top management in the supervised entities; requirements related to corporate governance for conglomerates and holding companies of financial groups; and, in general, to adjust regulations to international standards, adapting the role of corporate governance within a risk-based supervisory approach. Nine of the twenty-seven countries that participated in the survey will not address the issue any time soon, and another group of authorities will carry out customary corporate governance oversight actions based on their existing frameworks.

FIGURE 14. CORPORATE GOVERNANCE.



With respect to expected regulatory changes in the topic of conglomerates or financial groups, in the majority of jurisdictions in the region, actions are expected for general supervision of these groups and/or for the implementation of recently issued regulations. In the case of Colombia, for example, the supervisory methodology for Financial Holdings and Conglomerates will be implemented during 2020, which was defined and approved during 2019 (Table 9).

FIGURE 15. REQUIREMENTS FOR FINANCIAL CONGLOMERATES/GROUPS.



Another set of jurisdictions, which have not recently implemented regulatory changes, will conduct these supervisory actions under their current frameworks, enabled by different memorandums of understanding between financial institutions within the jurisdiction, as well as bilateral or multilateral agreements with other jurisdictions. In the case of the Caribbean, for example, there is a regional initiative to establish policies and protocols for the exchange of information between authorities, on the results of inspection reports of regional financial conglomerates.

TABLE 9. RESPONSE OF THE SUPERINTENDENCIA FINANCIERA DE COLOMBIA.

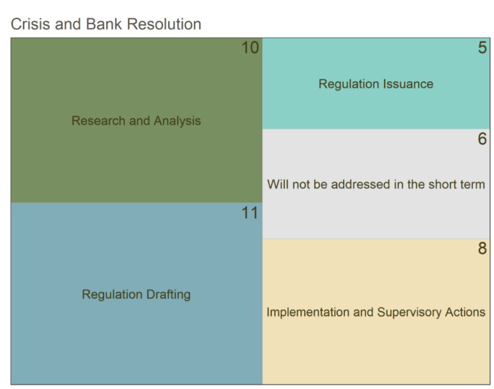
PAÍS	SUPERVISION METHODOLOGY
Colombia	Methodologically, the supervisors of the Superintendencia Financiera de Colombia are expected to evaluate and monitor the following aspects: • **Capital** (verify its adequacy): Understanding of the ownership structure. Evaluation of the application of multiple-use capital deductions. Verification of the basis for determining capital. Revision of the adequacy of the level of capital calculation. Follow up on the schedule of capital reinstatement, when applicable. • **Corporate Governance** (supervision of compliance with the disclosure of guidelines and standards): Supervision of the existence and adoption of policies and best practices: relationships, conflicts of interest, limits on intragroup and related party operations, transparency of information, internal controls, and management of risks. Evaluation of the quality of the process for defining relationships. Assessments on whether the ownership and risk governance structure allow for comprehensive and consolidated supervision. • **Risk Management** (supervision of the identification, measurement, control and monitoring risk activities): Supervision of the management of intragroup and related exposures. Monitoring compliance with established limits.

Finally, half of the authorities that participated in this survey will continue to carry out research and analysis actions, either to develop regulation or to update current regulations. These actions will mainly focus on gaining knowledge on the structures of financial economic groups and groups that should be consolidated, which supervised entities are part of; specifying the calculation of minority interest of subsidiaries as part of the effective consolidated equity; specifying criteria for the preparation and submission of consolidated information to other supervisors; as well as improving the complementary reports on consolidated information.

In terms of crisis management and bank resolution, the region has made little progress in the past decade (Figure 16).

The prolonged effects of the 2008 financial crisis accelerated the pace in which international standard-setting bodies agreed on the elements that should be considered in the resolution processes of financial institutions, together with the development of effective protection schemes for depositors and investors.

FIGURE 16. CRISIS AND BANK RESOLUTION.



However, with some exceptions, little attention has been paid to this topic in the region because the impact of the crisis in the countries in Latin America and the Caribbean was relatively moderate, compared to what happened in Europe and the United States. As a consequence, few jurisdictions in the region have updated their financial institution resolution frameworks and processes related to crisis management.

In 2020, we expect a significant response regarding the revision of these frameworks, mainly in terms of research, analysis, and development of regulatory proposals. Regarding research and analysis topics, these will focus on identifying strengths and weaknesses. In this regard, crisis simulation exercises are planned both locally and regionally during 2020, in order to identify areas for improvement in regulatory and crisis resolution frameworks in the case of deposit-taking institutions. At the same time, the 2020-2024 strategic planning of the CCS considers, within the activities to be undertaken by the Crisis Management and Resolution Committee, conducting a compliance assessment of each jurisdiction on the key attributes of an effective resolution.

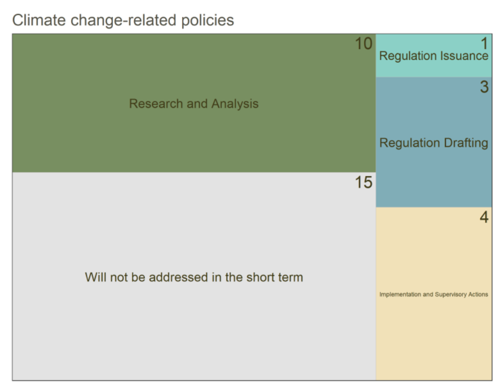
Finally, the largest economies, such as Mexico and Brazil, plan to carry out research and possibly develop regulation on the subject of TLAC (Total Loss Absorbing Capacity). In addition, the Central Bank of Brazil has developed a draft law on resolution regimes, the objective of which is to update the Brazilian resolution framework, in accordance with the recommendations of the Financial Stability Board (FSB). The project is currently being examined by the Ministry of the Chief of Staff of the Presidency of the Republic, from which it must be sent to the National Congress.

4. CLIMATE RISKS

There is an increasing attention towards risks arising from climate matters in the global community. In fact, the Global Risk Report of the World Economic Forum places various risks related to climate matters in the first five positions with the highest probability of occurrence, while the risk with the greatest impact could be the failure of actions against climate change.[11]

In contrast to the increasing attention at the global level, the financial authorities in the region do not plan to address this issue in the short term, in general. On the other hand, ten of the twenty-seven jurisdictions participating in this survey are carrying out research and analysis actions in order to study the potential implications of climate risks on the financial sector to determine, in the future, the most appropriate mechanisms to incorporate these into the risk management methodologies of financial institutions (Figure 17).

FIGURE 17. CLIMATE CHANGE-RELATED POLICIES.



Only three countries mentioned that they expect some type of response in terms of developing regulation. In the region, Costa Rica and Honduras plan to begin developing prudential regulation on environmental and social risk management. On the other hand, the Bank of Spain actively participates in various working groups at a global level, to analyze these issues and to prepare a regulatory response (Table 10).

11/ World Economic Forum, The Global Risks Report 2020.

TABLE 10. RESPONSE OF THE *BANCO DE ESPAÑA* TO THE CLIMATE CHANGE RISKS IN THE FINANCIAL SECTOR.

The *Banco de España* (BdE) published in its financial stability magazine No. 37 (2S 2019) the result of a study conducted on the credit quality of exposures to activity sectors which are potentially more exposed to the risks derived from the energy transition.

The retrospective analysis reveals that, after the global financial crisis, the default rate of these sectors has been lower than that of the rest of productive activities. However, this could change when these sectors fully internalize the costs of the pollution they generate and have to act in a more competitive environment.

On the other hand, the BdE, in its role as prudential supervisor, is participating in several working groups focused on sustainable finance, within the framework of various international organizations:

- The European Central Bank is in charge of developing the mandates contained in the amendments to the prudential regulations (CRR II and CRD 5) related to the inclusion of ESG (Environmental, Social, and Governance) risks in (i) the Supervisory Review and Assessment Process (Pillar 2); (ii) the disclosure requirements to the market of large listed entities, and; (iii) the evaluation of whether it would be justified to give specific prudential treatment to assets and/or exposures substantially associated with environmental or social objectives (Pillar 1).

- The Single Supervisory Mechanism is currently working on the preparation of a supervisory expectations document that it plans to publish in the first quarter of 2020. On the other hand, the BdE will publish another document directed at less significant entities.

- Within the 2019-2020 work plan of the Network for Greening the Financial System, the publication of three technical papers are considered, which include: (i) the integration of climate risks in the framework of microprudential supervision; (ii) the development and adoption of environmental risk assessment methodologies by entities and; (iii) scenario-based climate risk analysis.

In addition, the BdE is working on the implementation, in the near future, of stress tests around different ecological transition scenarios, promoting entities to develop risk models that contemplate climate change, mainly in their credit portfolios. In addition, the preliminary draft of the Climate Change and Energy Transition Law (still in the draft phase) provides that the BdE, the *Comisión Nacional del Mercado de Valores*, and the *Dirección General de Seguros y Fondos de Pensiones,* jointly prepare, every two years, a report on the assessment of the risks for the Spanish financial system that derive from climate change as well as the policies to address it. This report is to be coordinated within the scope of the Macroprudential Authority (Financial Stability Board).

Finally, it should be noted that the BdE has started to organize seminars, conferences, and workshops on different topics related to sustainable finance, with the objective of having them on a monthly basis.

VII. CONCLUDING REMARKS

The regulatory and supervisory authorities in the region have a clear and consistent regulatory agenda for 2020. However, given the current situation and the imminent deterioration of economic conditions caused by the global pandemic due to the spread of the COVID-19 virus, the regulatory agenda of the different jurisdictions could undergo some adjustments. For example, extensions of implementation of standards to allow banks to maintain their operational capacity in the current context.

Thus, this report presents the regulatory intention of the financial authorities for 2020.

In general, ASBA associate members continue with their processes of adopting and adapting the Basel III reform package. In particular, authorities will focus on liquidity requirements, capital buffers, requirements for systemic banks, and new capital requirements for credit, market and operational risks.

A large part of the authorities that responded to the survey expect to accomplish reforms in their general bank laws during 2020. The main reforms are modifications to allow the implementation of international standards of banking regulation and supervision, the expansion of the current regulatory perimeter to incorporate other financial institutions, and the creation of new legal figures for ranting of licenses.

On issues directly related to changes in supervisory processes, ASBA member authorities expect some changes or reforms regarding their on-site and off-site supervisory processes. In particular, the expectations of the authorities indicate that more jurisdictions will take steps in the adoption and use of technologies to support supervision, such as the collection and verification of data and the introduction of innovative technologies such as artificial intelligence and machine learning for some of its processes.

The regulatory intention of the authorities is also highlighted in issues related to regulation and supervision of Fintech and requirements on cybersecurity and management of outsourcing services for financial institutions.

Finally, most financial authorities expect changes in strategic issues such as capital and transparency, corporate governance, financial conglomerates, bank resolutions, and anti-money laundering.

TERMS AND ABBREVIATIONS USED IN THIS REPORT

ASBA or Association	Association of Supervisors of Banks of the Americas
EA	Advanced Economies
Survey	Survey on Banking Regulation and Supervision Expectations in the Americas for 2020
FI	Financial Institutions
IFRS 9	International Financial Reporting Standard
EP and FS	Economic Policy and Financial Stability
FSI	Financial Soundness Indicators
IMF	International Monetary Fund
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
FATF	Financial Action Task Force
DLT	Distributed Ledger Technology
ECCB	Eastern Caribbean Central Bank
API	Application Programming Interface

ASBA MEMBERS

Associate Members

Andean Region

Superintendencia Financiera de Colombia
Autoridad de Supervisión del Sistema Financiero, Bolivia
Superintendencia de Bancos del Ecuador
Superintendencia de Banca, Seguros y AFP, Perú

Caribbean Region

Central Bank of Belize
Banco Central de Cuba
Bank of Guyana
Bank of Jamaica
Banque de la République d' Haïti
Cayman Islands, Monetary Authority
Centrale Bank van Aruba
Centrale Bank van Curaçao en Sint Maarten
Eastern Caribbean Central Bank
Financial Services Regulatory Commission, Antigua y Barbuda
Turks & Caicos Islands Financial Services Commission
Central Bank of Barbados
Central Bank of the Bahamas
Central Bank of Trinidad and Tobago
Centrale Bank van Suriname
Financial Services Commission, British Virgin Islands

Central American Region

Superintendencia de Bancos, Guatemala
Comisión Nacional de Bancos y Seguros, Honduras
Superintendencia de Bancos y de Otras Instituciones Financieras de Nicaragua
Superintendencia del Sistema Financiero, El Salvador
Superintendencia General de Entidades Financieras, Costa Rica
Superintendencia de Bancos de Panamá
Superintendencia de Bancos de República Dominicana

North American Region

Board of Governors of the Federal Reserve System, USA
Office of the Comptroller of the Currency, USA
Federal Deposit Insurance Corporation, USA
Comisión Nacional Bancaria y de Valores, México

Southern Cone Region

Comisión para el Mercado Financiero, Chile
Banco Central do Brasil
Banco Central de la República Argentina
Banco Central del Paraguay
Banco Central del Uruguay

Non Regional

Banco de España

Collaborator Members

Banco Central de Reserva de El Salvador
Comisión Nacional de Microfinanzas, Nicaragua
Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros, México

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