Guernsey Financial Services Commission

Banking

Philip Marr, Director

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Guernsey Financial Services Commission

Review of Banking Sector Supervision in 2012

Philip Marr, Director

Purpose of Review

- Supervisory Round-up
- Specifically: performance against key objectives for 2012
- Consider “What’s in the regulatory pipeline”

Core Supervision - Overview

- On-going banking supervision of licensees
- Intensive supervision of subsidiary banks
  - capital adequacy and liquidity adequacy
- Focussed supervision of branch banks
  - liquidity & systems and controls emphasis
- Licensing of new banks; surrenders of exiting banks
- Ownership changes and change of controllers
- Policing the perimeter

Core Supervision - Continued

- Subsidiaries – further refinement of ICAAP/SREP programme
- Good news – you are smarter; we are quicker
- Supporting methodologies for Pillar 2 risks are more substantial and credible
- Flagging new or developing issues for next ICAAP

Approach to Branches

- Continuation/reactivation of branch prudentials
- Need to better understand nature and range of business
- Some perform treasury functions; some plain upstreaming
- Head Office and intergroup business pricing is not always transparent: hence our focus – “value to the group”

Delivery of AML/CFT Programme

- Early 2012 visits part of three year cycle
- Big change – centralisation of function: AML Division
- Benefits – consistency, quicker turnaround, centre of excellence
- Opportunity for Risk Based Approach across whole finance sector
- Handbook changes reflect feedback from industry

International Engagement

- Membership of GIFCS – formerly OGBS
  – initiatives to widen membership; revise SOBP for trusts
- Benefits – forum for host supervisors: common issues
- Access to Basel Committee on Banking Supervision
- Participation in Colleges of Supervisors
- Bilateral meetings with home supervisors

Credit Book Onsite Reviews

- Not all banks in Guernsey actively provide credit facilities
- Credit onsites extend knowledge of the disciplines and procedures applied to credit assessment, authorisation, administration and on-going review
- Enhances understanding of risk appetite and credit quality – we have seen some changes since 2008, especially in appetite for property lending

Other Developments

- Completed the revision of the Code of Conduct on advertising in conjunction with AGB
- Consent required to repatriate capital or pay dividends – validate that subsidiary boards have properly addressed issues before paying away
- Review of Large Exposures policy – some slippage: Andrea will summarise where we go from here

Engagement with Industry & Government

- Regular meetings with AGB, Policy Council, FEPG, Commerce and Employment, GIBA

- Monitoring Vickers proposals

  - work with Jersey, Isle of Man in discussions with HM Treasury – on-going complex issue

What's New in Regulation?

- Revised Core Principles
- Basel III – CDs paper
- Systemically important banks or “too big to fail”
- Basel to revisit Large Exposures
- Locally - Policing the perimeter

Update on Centralised Business Functions

Philip Marr, Director

Authorisations Unit changes and benefits

All PQ/PDs will be processed centrally by the Authorisations Unit

Benefits:

- Single point of contact and response for PQ/PDs
- A common and consistent approach to dealing with PQ/PDs
- PQ/PDs are immediately recorded and dealt with sequentially – removes the previous divisional peaks and troughs
- A common approach to due diligence
- Enhanced IT provides real time status of submissions

AML Division changes and benefits

1. Co-ordinated Regulatory Division onsite visits occurring concurrently

   Benefit: Will minimise the level of inconvenience to those visited by co-ordination of Regulatory Division onsite visits occurring concurrently

2. Introduction of the AML/CFT Questionnaire

   Benefits:

   - Increased timeframe for FSBs, NRFSBs and PBs to complete and return AML/CFT Questionnaire and supporting documentary evidence
   - Provides AML Division with a greater understanding of the business prior to commencing visit
   - Increased efficiency and optimisation of the Commission's time during on-site visits

AML Division changes and benefits cont'd.

3. Application of standardised AML and CFT processes

   Benefit: An efficient, effective and consistent approach to AML and CFT

4. Centralisation of AML and CFT

   Benefit: A Division which is exclusively focused on AML and CFT

5. Application of a Commission-wide risk based approach to AML and CFT

   Benefit: An approach which is consistent with the revised international standards published by Financial Action Task Force and which reflects the AML risks in the jurisdiction's finance sector

Sentinel Programme - The Five Pillars

- **Extranet** – Online/electronic submissions and licensee engagement. Exploring opportunities with other regulators, including Jersey.
- **Operating platform** – Evaluating the best way to integrate Workflows, Document Management and build on our existing CRM investment.
- **Risk Based Supervision methodology** – In dialogue with other regulators to assess how they've approached this.
- **Data Management** – The creation and management of the data we need to feed the systems.
- **Reporting methods** – What are the industry standards we need to embrace?

The approach

- The intention is to take a modular, phased approach and buy-in/adopt proven technologies wherever possible.
- The programme will be underpinned by change management best practice.
- Through GIBA, a working party has been established with industry, which meets monthly.

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Review of Large Exposure Policy

Andrea Sarchet-Luff, Assistant Director

The current regime

- Has not changed since 1994
- Focus is on commercial, corporate and individual exposures
- Exemptions for short-term market loans and many sovereign exposures
- Considerable flexibility in respect of the 25% limit

Proposed regime – headline points

- No exemptions – all exposures are “in”
- 800% limit remains in place
- Intra-group lending – case by case
- Limits for all other types of exposures
- Changes to BSL/2 to better capture exposures

Intra-group exposures

- Expressed as a % of capital – clear expression of concentration risk
- Limit will be agreed on a case by case basis
- Annual review of limit including counterparty review by the local licensee

Third party bank exposures

- Includes all market loans, CDs, FRNs, etc.
- Exposure limits on a sliding scale according to counterparty's lowest rating:

Standard & Poor's	Fitch	Moody's	Maximum % of net capital
AAA to AA-	AAA to AA-	Aaa to Aa3	100%
A+ to A-	A+ to A-	A1 to A3	75%
BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	50%
BB+ to BB- and below	BB+ to BB- and below	Ba1 to Ba3 and below	25%

Sovereign exposures

- Zone A/B governments replaced by High Income OECD countries/other countries.
- Exposure limits on a sliding scale according to counterparty's lowest rating:

Lowest rating: S&P's / Fitch / Moody's	HI – OECD countries: maximum % of net capital	Non HI – OECD countries: maximum % of net capital	
		Local currency	Non-local currency
AAA / Aaa	1000%	1000%	500%
AA- / Aa3	500%	500%	200%
A- / A3	200%	200%	150%
BBB - / Baa3	100%	100%	50%
Below BBB - / Baa3	Not permitted.		

Client exposures

- Capped at a maximum of 25% of capital unless:
  - Secured by cash, HI-OECD securities or both
  - Subject to a sub-participation agreement such that the residual exposure is no more than 25%
- Will consider exceptions….

Next steps

- More thinking required around the detail:
  - Effective date?
  - Grandfathering arrangements?
  - Treatment of some exposures; e.g. repo?
- Aim to release consultation paper in Q1 2013.
  - How will these proposals affect your business?

Questions & Answers

Philip Marr	- Director
Audrey Branch	- Deputy Director
Andrea Sarchet-Luff	- Assistant Director