World Council

World Council's Top 10 Advocacy Successes of 2018

January 24, 2019

WASHINGTON—Advocacy is a key component of our mission at the World Council as we recognize the importance of limiting regulatory burdens for credit unions across the globe. In 2018, we continued to advocate international standard setting bodies on behalf of the global financial cooperative movement. Here are the top 10 success stories the year.

1. Stress Testing Regulatory Burdens Made "Proportional" at World Council's Urging

The Basel Committee on Banking Supervision (Basel Committee) revised its *Stress testing principles* standard to reduce the regulatory burdens of stress testing on credit unions and other community-based financial cooperatives. The Committee's final standard responded to World Council's comments urging the Basel Committee to adopt a more "proportional" approach to stress tests because of their high compliance costs. The Basel Committee agreed with World Council that stress testing in practice had become disproportionately burdensome on community-based institutions.

The Committee's updated stress testing standard will now require prudential supervisors to conduct stress tests that are proportionate to the size, complexity, resources and risk profile of the institution being stress tested.

2. **Demutualization De-Emphasized as a Resolution Tool for Financial Coops in Response to World Council's Advocacy**

The final version of the International Association of Deposit Insurers' guidance on *Resolution Issues for Financial Cooperatives* includes significant changes from the proposal urged by World Council to help better preserve the financial cooperative model. Specifically, the final version of the Association's guidance clarifies that demutualization of a financial cooperative as a resolution measure should be used only as a last resort, such as when a business combination with another financial cooperative is not possible.

The final version of the Association's guidance also emphasizes purchase and assumption transactions with other financial cooperatives as a preferred resolution method when the financial cooperative to be acquired has passed the point of non-viability.

3. **Basel Committee Adopts World Council Recommended Changes in Fintech Guidance**

The Basel Committee's *Sound Practices on the implications of fintech developments for banks and bank supervisors* for the first time established an international standard for the prudential regulation of financial technology companies, or "fintechs."

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The Committee's final fintech paper reflects World Council's comments that fintech companies should be subject to comprehensive prudential, consumer protection, data security and anti-money laundering/countering the financing of terrorism (AML/CFT) regulation and urging the Committee to promote a regulatory level playing field by ensuring that fintech companies are subject to the same regulatory requirements that apply to authorized deposit-taking institutions such as banks, credit unions, and building societies.

4. **World Council's Advocacy Achieves Increased Audit Standard Transparency**

The Monitoring Group and the International Federation of Accountants (IFAC) have issued new international rules on audit standard amendment procedures that respond to World Council's comments by adopting a "multi-stakeholder" public consultative approach for amendments to auditing standards. These new public notice and comment procedures will increase public participation and should help better reduce audit-related paperwork burdens on credit unions and other mutual depository institutions.

5. World Council's Efforts to Reduce AML/CFT De-Risking Reflected in Guidance

The Basel Committee, the Committee on Payments and Market Infrastructures (CPMI), the Financial Action Task Force (FATF) and the Financial Stability Board (FSB) endorsed the Wolfsberg Group's publication of its *Correspondent Banking Due Diligence Questionnaire* to help address the decline in the number of correspondent banking relationships around the world, as urged by World Council in comments made to the Basel Committee and the FATF.

The questionnaire aims to standardize the collection of information that correspondent banks ask from other banks when opening and maintaining these relationships, which should make it easier for credit unions and other community-based depository institutions to establish and maintain correspondent bank accounts.

6. **Basel Committee Finalizes Standards on Short-Term Securitisations with Changes Urged by World Council**

The Basel Committee and the International Organization of Securities Commissions (IOSCO) finalized two standards on regulatory requirements and capital treatment for short-term securitisations, such as asset-backed commercial paper, with changes urged by World Council to limit regulatory burdens on community-based financial institutions.

Key changes in the final standards urged by World Council include reducing an institution's minimum performance history to qualify for short-term securitisation eligibility from five years to three years and clarifying that credit and liquidity support to an asset-backed commercial paper structure can be performed by more than one entity. Also at World Council's urging, the Basel Committee and IOSCO clarified that equipment leases and auto loan and lease securitisations can be used as collateral under the short-term securitisations framework.

7. **Basel Committee Adopts World Council's Recommended Amendment to Treatment of Net Stable Funding Ratio**

The Basel Committee adopted World Council's recommended changes to the treatment of extraordinary monetary policy operations in the Net Stable Funding Ratio (NFSR). The amendment to the NSFR, which is Basel III's medium-term liquidity management metric, reduced credit unions' and banks' reserve requirements for claims on central banks (such as mandatory reserves) with a maturity of more than six months.

In practice, the amendment will reduce reserve requirements for credit unions and other depository institutions in situations where central banks attempt to absorb excess liquidity in the banking system.

8. Basel Committee Adopts World Council-Recommended Disclosure Exemptions

The Basel Committee exempted credit unions and other community-based depository institutions from many aspects of its Basel III disclosure rules and has made other disclosure requirements optional at the national-level, as urged by World Council. Under the new rules, virtually all community-based depository institutions will be exempt from the disclosure standard's requirement to report historical operational losses. It will also be up to national-level regulators to decide whether to require depository institutions to issue disclosures on capital distribution constraints and on exposures to problem assets under expected credit loss accounting standards like International Financial Reporting Standard 9 (IFRS 9) and United States generally accepted accounting principles' Current Expected Credit Losses (CECL).

In addition, the Committee adopted World Council's recommendation to exempt credit unions and other community-based financial institutions from Basel III's Total Loss Absorbing Capacity disclosure obligations. Total Loss Absorbing Capacity is a set of Basel Committee gone-concern capital requirements for internationally active banks that set a 16% minimum risk-weighted capital ratio and a minimum 6% leverage ratio beginning in 2019. Previously, community-based institutions were exempt from the Total Loss Absorbing Capacity ratio requirements, but not from the related disclosure obligations.

9. **Cyber Lexicon Finalized with World Council-Recommended Clarifications**

The Financial Stability Board (FSB) finalized its *Cyber Lexicon* standard with clarifications urged by World Council to help limit compliance burdens on credit unions and other community-based financial cooperatives. The FSB published the *Cyber Lexicon* to support the development of new international cybersecurity standards for financial institutions. In response to World Council's comments, the FSB limited the scope of the lexicon to core terms only and clarified that cybersecurity reporting requirements should be appropriately tailored to reduce paperwork burdens.

10. Report and Proposal on Access to Derivatives Respond to World Council's Concerns

The Financial Stability Board, the Basel Committee, the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) have issued a report on *Incentives to centrally clear over-the-counter (OTC) derivatives* that responds to

World Council's comments that smaller financial institutions may soon be shut out of the interest rate derivatives market unless revisions are made to the Basel III regulatory capital standard. The report incorporated World Council's suggestion that the Basel III leverage ratio should be reworked because the high cost of Basel III for banks that clear derivatives transactions has made it harder for smaller financial institutions to purchase derivatives products.

World Council of Credit Unions is the global trade association and development platform for credit unions. World Council promotes the sustainable development of credit unions and other financial cooperatives around the world to empower people through access to high quality and affordable financial services. World Council advocates on behalf of the global credit union system before international organizations and works with national governments to improve legislation and regulation. Its technical assistance programs introduce new tools and technologies to strengthen credit unions' financial performance and increase their outreach.

World Council has implemented 300+ technical assistance programs in 89 countries. Worldwide, 89,026 credit unions in 117 countries serve 260 million people. Learn more about World Council's impact around the world at www.woccu.org.

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