BANKING REGULATION AND SUPERVISION EXPECTATIONS IN THE AMERICAS 2021

MAY 2021

ASBA
ASSOCIATION OF SUPERVISORS
OF BANKS OF THE AMERICAS

BOARD OF DIRECTORS

Chairman
Paulo Sérgio Neves
Banco Central do Brasil

Vice Chairman
Jorge Castaño
Superintendencia Financiera de Colombia

Director for the Andean Region
Socorro Heysen Zegarra
Superintendencia de Banca, Seguros y AFP, Perú

Director for the Caribbean Region
Michelle Francis-Pantor
Central Bank of Trinidad and Tobago

Director for the Central American Region
Ethel Deras
Comisión Nacional de Bancos y Seguros, Honduras

Director for the North American Region
Juan Pablo Graf
Comisión Nacional Bancaria y de Valores, México

Director for the Southern Cone Region
Juan Pedro Cantera
Banco Central del Uruguay

Secretary General
Pascual O'Dogherty

Chairman of the Technical Committee
Luis Figueroa de la Barra
Comisión para el Mercado Financiero, Chile

WORKING GROUP

Pascual O'Dogherty

Marcos Fabian

Antonio Pineda

Emmanuel González

María José Baqueiro

TABLE OF CONTENTS

I. OVERVIEW 1

II. THE RISK OUTLOOK WITHIN TH ECURRENT MACROECONOMIC AND FINANCIAL SITUATION 2

III. SUPERVISION IN THE NEW NORMAL 5

IV. GENERAL REFORMS AND CHANGES TO SUPERVISORY ENTITIES 7

V. REGULATORY PROSPECTS FOR FINANCIAL INSTITUTIONS........ 15

VI. CLOSING REMARKS 29

Terms, abbreviations and acronyms used in this report........ 30

I. OVERVIEW

This report showcases the most important results derived from the Survey on the prospects for bank supervision and regulation in the Americas 2021 (the Survey), which the General Secretariat of the Association of Supervisors of Banks of the Americas (ASBA) circulated amongst the associated members between November 2020 and January 2021. The questionnaire had the goal of finding what the regulating and supervising authorities were expecting to be the effects on the financial systems of the current global and regional situation, and it was completed by 21 agencies from Latin America, the Caribbean and Spain.

Section II, following this overview, offers a brief analysis on the risks for the financial sector that have been enhanced or created anew as a result of the Covid-19 pandemic. It also includes the macroeconomic perspectives, financial panoramas and some authorities' responses from this region during 2021. The chapter highlights that, though a significant recovery is expected during 2021, said recovery will not reach pre-pandemic trends for a long while, and will be subject to the fulfillment of the most optimistic expectations for the development of effective vaccination plans and solid economic policies in the region.

The third section considers the changes and adjustments that were made to the usual methods of supervision of financial entities, given the recommendations on social distancing and mobility restrictions.

Section IV explores the main changes in the organizational structure of some of the institutions that are part of the Association. These changes relate to the introduction of new departments or management areas, the expansion of existing ones, and the reordering of responsibilities. It also examines the expected changes to supervision processes, both on-site and off-site. Plans related to the introduction of new technologies to the supervision processes are also identified.

The fifth section presents the regulation and supervision prospects for 2021. The outlooks related to expected changes in the general banking laws relevant to the Association members are assessed, as well as those that have to do with transparency and capital requirements, corporate governance, technology issues (fintech, cybersecurity, data protection), and the steps and measures some countries are taking to address the risks associated to climate change. This last section also includes commentary on the report of the prospects for 2021.

1/ The Survey was answered by RSA from Argentina, Belize, Bolivia, Brazil, Colombia, Costa Rica, Curaçao and St Maarten, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Peru, Spain, Turks and Caicos, and Uruguay.

II. THE RISK OUTLOOK WITHIN THE CURRENT MACROECONOMIC AND FINANCIAL SITUATION

The year 2020 saw one of the most severe economic recessions in recent history,[2] brought about by the emergence of the Covid-19 pandemic. World economic activity suffered an abrupt fall in growth rates of both developed and emerging economies, which combined with the global deceleration already present in 2019. Although every country experienced negative effects, the severity of these varied greatly depending on the economic and sanitation control policies that, in general, avoided larger contractions than expected, as in the case of some Asian countries like China, South Korea and Japan.[3]

Global economic activity fell abruptly as a product of lockdown and social distancing measures implemented to control the pandemic, which profoundly affected supply chains, restrained global trade in goods and services, distorted consumption patterns and increased unemployment rates. In particular, it is to be noted that, in the United States and Latin America, the most important effects have been those related to human cost.[4]

According to reports by international organizations such as the International Monetary Fund (IMF), the World Bank (WB) and the Organisation for Economic Cooperation and Development (OECD),[5] a moderate global recovery is foreseen for 2021, brought by progress in vaccination strategies and the implementation of fiscal and monetary incentives. However, these factors are expected to vary in degree among countries and regions, therefore making the recovery an heterogenous one. Such is the case of the group of advanced economies -led by the United States-, where the estimations for a fast economic recovery are in sharp contrast with the much slower reactivation predicted for Latin America and the Caribbean.

It is to be noted that the expected recovery will likely remain under pre-pandemic trends for a prolonged period of time and will be subject to several risk factors. For instance, the pandemic could worsen or lengthen, particularly if the vaccination process is delayed. Moreover, recovery prospects could be compromised if financial policies do not manage to lay the groundwork for solid growth and development in the long term. In both cases, those in charge of establishing public policy have a crucial role in risk impact and mitigation. Furthermore, the potential reduction of global cooperation may increase uncertainty and provoke less effective political actions.

With regard to our region, it is necessary to add some other risks, particular to each country, to the aforementioned factors. The risks identified in this report include the significant increase in government and corporate debts, a surge of bankruptcies in pandemic-affected companies, potential imbalance in stock markets, and a slow response to the international price increase of commodities and raw materials. For Caribbean countries, it is noted that negative effects will concentrate around the low recovery, in the short-term, of all tourism-related activities, and the persistence of problems derived from de-risking by global banks operating in the region.

2/ The World Bank Group, 2021, "The Global Economic Prospects 2021".
3/ *Idem*.
4/ The International Monetary Fund, 2020, "World Economic Outlook, October 2020: A Long and Difficult Ascent".
5/ The World Bank Group, 2021, op. cit.; The International Monetary Fund, 2020, op. cit.; OECD Economic Outlook, Interim Report, March 2021.

The regulatory and supervisory authorities (RSA) of the region also contemplate risks that are particular to the financial sector; among them, a swollen non-performing loan portfolio of credit extended to individuals or small and mid-size enterprises (SMEs), given the decrease in sales, increase in unemployment and decline in real income.

It is expected that, with the expiration of deferred-payment programs, 2021 will witness the full effect of loan arrears, which may bring lower profits for the financial sector and important restrictions in the credit supply in some countries.

The authorities conduct regular monitoring exercises so as to timely redefine priorities or identify emerging risks different to those already outlined. It is noted that, in the short term, the monitoring of risks will be reinforced in areas related to anti-money laundering, combating the financing of terrorism, and the behavior of credit, solvency, liquidity, operative continuity, and operational risk portfolios.

Despite an economic environment of enhanced risks and uncertainty, the region's RSA implemented a series of actions that succeeded in reducing the adverse economic and financial effects derived from social isolation measures. Some of these mitigating actions are still in effect and are very likely to remain so for the whole of 2021.

A first group of these policies revolves around recommending -or, in some cases, making mandatory- the cessation of all distribution of dividends and repurchase of shares, so as to provide banks with more resources with which to continue granting credit to those sectors in need of financing, while facing increased arrears in their loan portfolios.

Regarding debtor-relief measures, the authorities share temporary initiatives for the forbearance, deferment, and restructuring of payments, implemented in order to transfer liquidity to the agents and mitigate the effect of confinement upon the real economy. These actions range from the reclassification of credits to the partial or total adjustment of the loans terms, rates and payments; all without affecting the borrowers' credit history.

These measures should be taken carefully, however, as they may have undesirable effects, like causing a change in the general credit behavior of debtors, or allowing entanglements with critically insolvent financial users or entities without the financial authorities' realization. In addition, as the end of the relief measures gets nearer, banks and supervisors are confronted with the difficult decision of extinguishing, extending, or modifying them. An interesting case study on facing these questions is provided by the Superintendencia Financiera de Colombia (SFC) or Financial Superintendence of Colombia (table 1).

For their part, with respect of initiatives in support of financial entities, mainly banks, the authorities coincided in easing regulations over capital, allowing the release of reserves, as well as the formulation of incentives for the creation of additional reserves to be recognized as net worth, and confront the potential sequelae of the health emergency. Among the measures in response to the emergency, banks are allowed to dip into their capital conservation buffers without deteriorating their minimum capital requirements.

In addition, measures focusing on the information and processes of supervised institutions are noted, such as special accounting standards, the temporary authorization to operate from remote locations (home office) and deferments of reports to shareholder meetings, documentation on external audits, and information related to shareholding and other corporate news. These actions are examined further in the next chapter.

Finally, it is important to remember that this and all mentioned initiatives are under constant scrutiny and revision as the crisis unfolds, therefore the readjustment or issuance of new regulatory facilitations may occur in different jurisdictions during this and subsequent years, in order to guarantee solid and long-term bank development.

TABLE 1. MEASURES IN SUPPORT OF DEBTORS: THE COLOMBIAN EXPERIENCE.

The Covid-19 pandemic will permanently affect the financial situation of numerous borrowers. Because of this, it is necessary to find an equilibrium between the facilitation of payment and the prudential measures needed to adequately manage credit risks.

On that basis, the Superintendencia Financiera de Colombia (SFC) developed the Programa de Acompañamiento a Deudores (PAD, literally Debtor Accompaniment Program). Through this Program, not only were the containment measures established at the onset of the lockdown in Colombia ("first phase" measures) revised and reworked, but structural solutions, "second phase" measures, were devised and developed. These measures attempt to consolidate the initial program by granting new tools to both entities and debtors, so as to redefine the credit conditions and ensure the steadiness of debt payment. In addition, the Program states the rights and obligations of financial consumers, to avoid affecting debt payment culture in a negative way.

Salient points of the program:

- The SFC, through the Debtor Accompaniment Program, establishes a set of criteria which credit-granting financial institutions must follow to adjust themselves to the needs of debtors. Although financial entities are autonomous in their decision making, the SFC must approve the process of debtor segmentation and the type of measures that would apply to each segment.
- To enact these measures without diminishing credit risk prevention, the SFC authorized the implementation by financial entities of countercyclical loan provisions, known in other jurisdictions as countercyclical capital buffers, given the deterioration of the economic cycle. These measures apply only to the commercial, consumer, housing, and microcredit portfolios, though each with their particular distinctions.
- For the SFC to authorize the decumulation of provisions or liabilities, the entities must present three elements: first, an estimate of the provisions derived from the implementation of the totality of the adopted measures, and the deterioration of the portfolio; second, an impact assessment of the financial state of the entity, were that countercyclical component not to be released; and finally, proof that the liability decumulation will not compensate, maintain, nor generate profits.

III. SUPERVISION IN THE NEW NORMAL

The uncertainty and deterioration that Covid-19 brought to economic conditions affected the regulatory agendas for 2020 in important ways. Banks that were facing pandemic-derived challenges and social isolation measures had to maintain operational capacity nonetheless, so the implementation of regulatory plans and international standards were made to bear adjustments, extensions, and the easing of administrative and regulatory norms. On the international level, the Basel Committee on Banking Supervision deferred the deadline for the implementation of the Basel III accords.[6]

For their part, national financial authorities had to adjust their supervision practices and ways of working so that as much as possible could be done remotely, introducing hybrid reviews (in-person and remote) to inspection visits and even cancelling some visits.

In general, supervisors have compensated the diminished on-site inspection by reinforcing off-site scrutiny. This includes additional requests for information, close communication with the supervised entities and intensive monitoring of financial and operative indicators, as well as the corporate governance of the financial entities. Such a situation made it necessary to adapt the systems for sending and receiving information through secure channels and to tailor regulation so that all the above conforms to the applicable regulatory framework.

Besides the impediments to on-site work faced by supervisors, the authorities identified a set of unforeseen challenges that had to be overcome in the context of the health emergency (figure 1). First, the sudden switching of supervision personnel from operating in person to working remotely, put in danger the continuity of critical operations. From the RSA answers in this respect, the main obstacle was achieving the level of connectivity and data portability required to successfully habilitate acting mainly from afar. Solutions to the problem were found in the acquisition of computer equipment, telephones and servers with enough capacity to allow for remote working. Despite of this, there are some actions that are intrinsically more difficult to execute from home, so all activity related to customer service and hiring of new personnel had to be postponed during periods of highest rates of contagion.

6/ Bank for International Settlements: "Governors and heads of supervision announce deferral of Basel III implementation to increase operational capacity of banks and supervisors to respond to Covid-19".

On a positive note, transferring activities onto a more technologically advanced environment brought along an improvement in the development of systems and tools related to artificial intelligence, automatic learning, and natural language processing. This notwithstanding, the transfer also strained information technology (IT) resources because of the need for more robust protocols for cybersecurity, incident management, and control over data distribution and access.

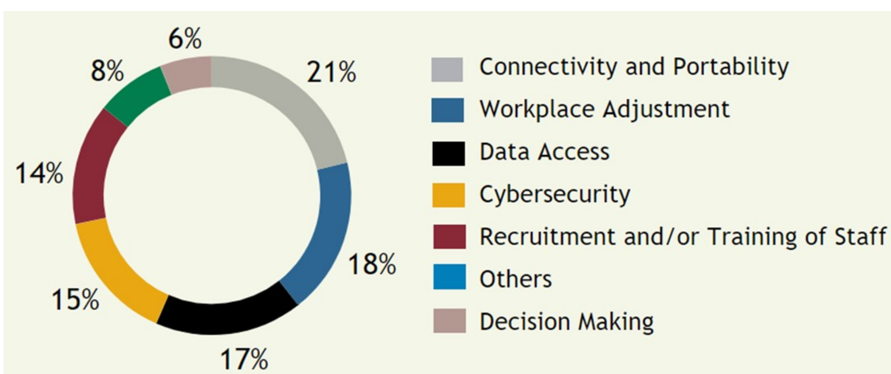
Another one of the diagnosed challenges was that of guaranteeing that all personnel would be provided with optimal conditions for the fulfillment of their functions, so all different jurisdictions designed and deployed a variety of programs for prevention, attention and support, regarding the health and well-being of personnel.

Lastly, despite there being obstacles to the implementation of training programs that had been planned for 2020, there was no widespread interruption of said activities, given that several institutions kept online training programs and that communication, both internal and with the supervised entities, was constant and carried through a number of digital platforms.

In summary, within the context of the health emergency, one of the lessons learned is the realization that supervision should move towards more automated and digitalized processes, through the use of advanced tools for data compilation and analysis. Given the pandemic, the ingenuity in the use of technological tools gained distinctive relevance.

In addition, it is clear that more attention should be paid to the communication between supervisors and supervised, employing more direct channels so as to allow the close review of immediate events, as well as implementing systems for the opportune identification and communication of risk factors. For this, it will be necessary to improve the connectivity and portability conditions, the work spaces, the cultivation of secure channels (cybersecurity), and the adaptation of regulations to allow for on-site reviews that are carried out in a completely remote manner. The continuity of activities of certain institutions throughout 2021 will be determined by the development of digital electronic mechanisms that enable them to interact remotely with their clients in order to hire, execute, and administrate bank services.

FIGURE 1. MAIN CHALLENGES IN GUARANTEEING CONTINUITY OF OPERATIONS, AS IDENTIFIED BY THE RSA.



IV. GENERAL REFORMS AND CHANGES TO SUPERVISORY ENTITIES

As mentioned before, the enhancement of some risks and emergence of new ones in the financial sector have coincided with stresses in the supervision capacity of some institutions, stresses derived from the closing of facilities, the imposition of travel restrictions, and the need to maintain social distancing. Confinement has forced financial authorities to face formidable trials in carrying out their supervision duties.

In view of these challenges, this section of the Survey queried supervision authorities about expected changes, reforms or updates in their institutions' organizational, operative, or process structures, during 2021.

ORGANIZATIONAL OR OPERATIVE STRUCTURE

Half of the supervisory entities that answered the Survey are expecting changes in their organizational or operative structure (figure 2).

Most of these reforms revolve around the creation of commissions or departments in charge of modernizing their supervision patterns into a more solid technological setting. Additionally, it stands out that some members mentioned the formation of new departments strictly specializing in issues related to financial innovation (fintech) and cyber resilience.

A particularly relevant case in terms of organizational changes is that of Costa Rica, where they will evaluate, throughout 2021, the fusion of the four supervisory entities operating in the country's financial system. Table 2 depicts the most important of the expected changes in each of the jurisdictions that responded the Survey.

FIGURE 2. PERCENTAGE OF JURISDICTIONS EXPECTING CHANGES TO THE ORGANIZATIONAL STRUCTURE OF THEIR INSTITUTION.

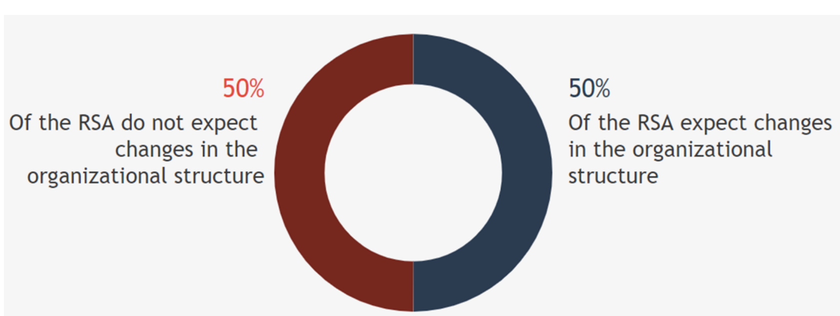


TABLE 2. MAIN ORGANIZATIONAL CHANGES AT THE RSA MEMBERS OF ASBA.

COUNTRY	CHANGES TO THE ORGANIZATIONAL STRUCTURE
Belize	Legislation was enacted to empower the Banco Central (Central Bank) to establish emergency programs and facilities when under unusual or necessary economic circumstances, such as the Covid-19 pandemic.
Bolivia	Adaptations have been made to improve the sending and receiving of electronic documents, as well as electronic information carrying digital signature. Also, the organizational structure of its banking institution is being adjusted in order to strengthen the consolidated supervision of financial groups.
Costa Rica	Costa Rican authorities are analyzing the fusion of the four superintendencies operating in the country's financial system: SUGEF, SUGEVAL, SUPEN and SUGESE.
Curaçao	The structure of supervision used to depend on the sector, e.g. on-site or off-site supervision. Now, it is oriented towards the organization of special units and the specialization on topics regarding the entry of new competitors, continuous supervision and regulation, financial risk assessment exercises, AML/CFT, market behavior, IT, cybersecurity and operational risks.
Dominican Republic	The Superintendencia de la República Dominicana (Dominican Republic Superintendency) is undergoing a two-stage process of institutional reform. The first phase consisted in modifying the general organizational structure and the second, ongoing at the moment of preparing this report, is centered in updating the different areas and departmental structure. These reforms are consistent with the Plan Estratégico Institucional (Institutional Strategic Plan) 2021-2024.
Ecuador	The 2019-2024 plan of the Superintendencia de Bancos del Ecuador (Superintendency of Bnaks of Ecuador) is supported by five strategic pillars: *i)* financial system stability and protection of depositors; *ii)* financial supervision that is risk based, efficacious and effective, preventive and prospective; *iii)* efficient and innovative regulatory framework for controlled systems; *iv)* inclusive financial system, based in innovation, consumer protection, and financial education; and *v)* institutionalization of the Superintendencia de Bancos through strengthening of the expert judgement, the innovative training, and the exercise of its autonomy.
El Salvador	The Departamento de Normas del Sistema Financiero (Financial System Standards Department) was transformed into the Gerencia de Regulación Financiera (Financial Regulation Management), wherein it is expected that, in a maximum of two years time, two additional departments will be created. These will specialize in the issuance and development of standards, one, and attention to queries, the other.
Guatemala	Despite there being no change in the organizational structure per se, two commissions were created within the Superintendencia de Bancos (Bank Superintendency), both oriented towards modernizing the institution: the Comisión para Modernización Institucional (CMI) (Commission for Institutional Modernization), and the Comisión para la Gobernanza de la Información (GOSIB) (Commission for Information Governance).
Jamaica	On November 17, 2020, the House of Representatives approved the Bank of Jamaica (Amendment) Act, 2020. The amended law, and ancillary or connected legislation, strengthen the governing structures of the Bank whilst providing increased independence, accountability and transparency in its functioning. This will promote the establishment of new statutory commissions like, for example, the Financial Policy Committee (FPC), in charge of delineating macro- and micro-prudential regulations. The process of modernization at the Bank has given rise to the creation of new units, as well as to the expansion of existing departments, with new and improved mandates.
Panama	Panama is evaluating the creation of the following units: *i)* one regarding financial innovation and technological transformation (*fintech*); *ii)* one centered on cybersecurity; and *iii)* one in charge of the analysis of systemic risks and international standards.
Turks and Caicos	Departments and units will be realigned so as to respond more precisely to the identification and management of risks. Also, Turks and Caicos is renewing the implementation of the Basel II accords, for which some new areas will be created. Finally, the arrival of new supervision technologies, will give rise to areas focusing in the continuity of technological operations.
Uruguay	In attendance of the important development of the activities of the Unidad de Información y Análisis Financiero (UIAF) (Information and Financial Analysis Unit), a new unit will be established, the Unidad de Cooperación (Cooperation Unit), to take charge of all national or international requests for cooperation. For its part, the already existing Unidad de Análisis Operativo (Operational Analysis Unit) will add to its functions the exclusive analysis of the reports of suspicious operations (ROS). Also, during 2021, Uruguay is to implement an exercise in which the organizational structure of the Superintendencia de Servicios Financieros (Financial Services Superintendency) will be examined in order to verify that its action plan is being fulfilled.

ON-SITE AND OFF-SITE SUPERVISION PROCESSES

At the onset of the Covid-19 outbreak, one of the first problems supervisory authorities had to face, was that of guaranteeing the continuity of their supervision processes. Reasonable success was achieved once some of the initial troubles with connectivity, internet availability and remote data access were addressed, but it all required important adaptations in terms of how, exactly, was any supervision to take place. Hereupon we outline the main changes to on- and off-site supervision processes that have been expected to take place in the short term.

For on-site supervision, three quarters of the questioned members will have made modifications, especially around adjusting their methodologies of risk-based supervision (figure 3). Supervisors' abilities to perform on-site inspections of the supervised entities have been curtailed, both in the national and international arenas. Regardless, options and solutions have been developed to mimic activities performed when visiting in person. Some of the alternatives shared by the members include: organizing more intensive remote meetings with the executive board; greater use of data transfer technology; home delivery of the records of financial institutions; more granularity in the data included in corporation reports, more intensive monitoring of operational and financial indicators, as well as of corporate governance of financial entities; and the use by authorities of alternative sources of information about the supervised corporations.

Despite the available alternatives for supplying on-site supervision, some supervisors mentioned the existence of some elements that are impossible to detect remotely, making supervision judgements more difficult. These elements, evaluated during in-person visits, range from de interactions between the executive board and stockholders, to reading the body language and facial expressions displayed at the meetings. Given the situation, some of those surveyed are prepared to conduct in-person visits, when convenient.

In general, financial authorities will continue to conduct their supervisory processes and activities from afar during 2021, though they will seek to intensify communication by way of executive meeting through digital channels, and to improve all off-site supervision processes. It is not yet clear if these measures will stay transient or become permanent in some jurisdictions.

As per the off-site supervision, and in accordance to trends visible for the last few years, more than half of the membership are expecting some reform, update, or adaptation on their risk-based supervision processes (figure 3). These changes are itemized from a supervisory point of view that should be considered more prospective, preventive and gearing towards a closer integration of on- and off-site supervision. In regard to the supervision focus, an increased attention is expected on activities related to the prudential solidity of financial institutions, especially those with systemic reach; the fight against money laundering; and the protocols for crisis management in cases when major risks eventuate into problematic realities.

With on-site supervision at least somewhat impeded, off-site supervision garners even higher relevance for executive decision-taking. According to what authorities have expressed, they will seek to increase the quality of received data, escalate requests for additional information, tighten communication with the supervised entities, and intensify monitoring of financial indicators, operatives and corporate governance. Such elements, along with others of equal importance, are highlighted in the strategic plans outlined by some of the authorities that responded to the Survey (table 3).

FIGURE 3. PERCENTAGE OF AUTHORITIES THAT EXPECT CHANGES TO THEIR ON- AND OFF-SITE SUPERVISION PROCESSES.

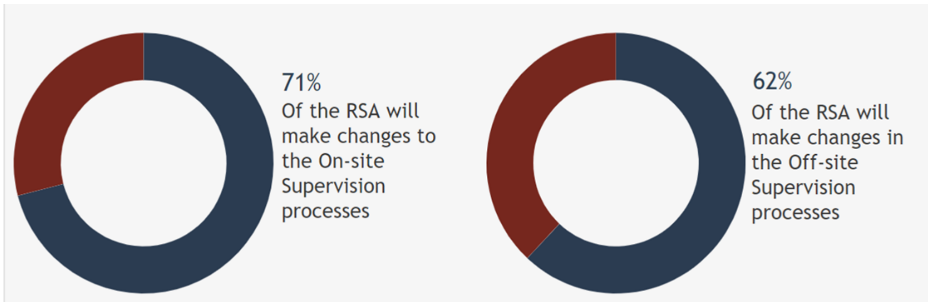


TABLE 3. MOST RELEVANT CHANGES EXPECTED FOR ON- AND OFF-SITE SUPERVISION PROCESSES.

COUNTRY	DETAILS ABOUT EXPECTED CHANGES
Belize	The Covid-19 pandemic has forced Belize to transform its supervisory focus. Under the new conditions, visits are conducted exclusively from remote locations, using a virtual private network, Microsoft Teams, telephonic communication and electronic mail. Management expects that all supervisory activities will continue to be strictly off-site throughout 2021, in an effort to minimize interruptions for financial institutions, and in consideration of the safety and well-being of personnel. Regardless, this situation will be re-evaluated to determine if conditions have improved enough to return to on-site visits.
Bolivia	Adjustments are expected to the supervisory focus and procedures, after taking into consideration that better access to the supervised entities may be achieved through the use of electronic means and that the development of effective control and evaluation tools can ease the advanced detection of risks.
Brazil	On-site inspections have been replaced by remote ones in all planned activities for 2021, and this state of affairs is to last until the pandemic has been effectively stopped. Besides this, no specific changes will be implemented in Brazil in the processes of prudential supervision, though a more precise focus on the understanding and evaluation of business models within the banking sector will be sought, as well as a more efficient and heightened use of databases from the Banco Central do Brasil.
Colombia	From the start of 2020, a project is developing in Colombia that envisions, among other goals, the strengthening of tools used on the process of supervision. The point is to attain a higher degree of automatization and integration that can be felt from the planning stages to the remote execution of supervisory exercises. These changes work in a general manner over the follow-up procedure, including on- and off-site processes, and it is expected that they will be implemented throughout 2021 and part of 2022, allowing a more functional access to all tools when operating from remote locations (home office or off-site work).
Costa Rica	For the 2021-2022 horizon, no changes are planned in procedures of off-site supervision. Regardless, procedures of risk-based supervision, pursuant of consolidated supervision, will be developed during the course of 2021, expecting to put them in effect by the end of 2021.

TABLE 3. MOST RELEVANT CHANGES EXPECTED FOR ON- AND OFF-SITE SUPERVISION PROCESSES.

COUNTRY	DETAILS ABOUT EXPECTED CHANGES
Ecuador	In accordance to the new risk-based supervision model and with the Toronto Centre in an advisory role, focus is being shifted towards a prospective, preventive, and integral supervision, so as to obliterate the separation between on- and off-site functions.
Honduras	Derived from implementing risk-based supervision methodologies, activities were defined for monitoring liquidity and non-systemic institutions at the regional ambit.
Mexico	A continuation of the principal activities of reinforced vigilance is sought, which include additional information requests, close communication with supervised entities, and intensive monitoring of financial, operative and corporate governance indicators. In addition, there is the intention of strengthening the mechanisms of information exchange, by use of digital means and tools such as SharePoint, so as to keep vigilant about information security. Finally, *ad hoc* stress tests, additional to those already applied annually, must be obtained, with flexible rule making and timing horizons. These tests should encompass scenarios that reflect the new financial and economic panoramas opened by the Covid-19 pandemic and evaluate the medium-term effects that adverse conditions may have over the solvency of financial institutions. Supervisory actions derived from the results of the stress tests, must take into consideration the credibility and fulfillment of those recovery and re-capitalization plans that the supervised entities put forward.
Peru	Efforts will continue to strengthen and make more efficient all processes of off-site supervision, through process review and the formulation of guidelines, within the context of the technological transformation. Likewise, the generation of alerts through data-mining will be reinforced and early detection of potential weaknesses improved, in order to achieve better prioritization when planning supervisory actions.
Spain	In general, Spain does not foresee any reforms in supervisory procedures. Notwithstanding, as part of Europe's Single Supervisory Mechanism (SSM), Banco de España (Bank of Spain) takes part in the methodological development of supervision processes, as well as of those adjustments necessary for their implementation in less significant entities (entities under their direct supervision). There are different ongoing projects concerned with constantly improving the methodology and its compliance with European Union regulations. A recent example of one such modification is that of the European guidelines to adopting a more pragmatic stand when facing the challenges posed by the Covid-19-engendered crisis.

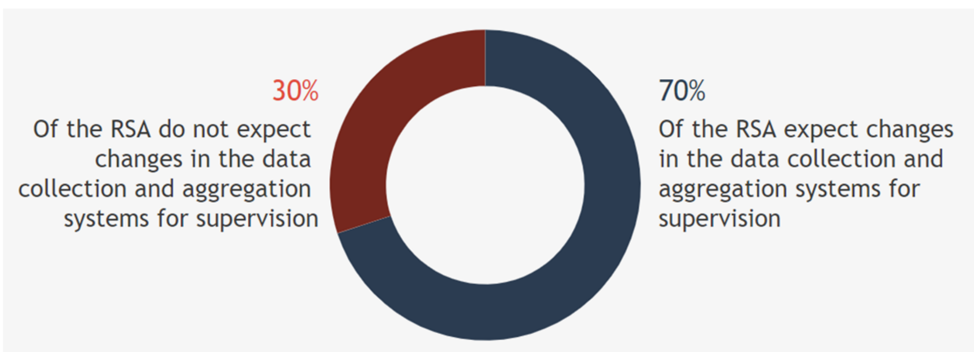
TECHNOLOGIES IN SUPPORT OF SUPERVISION

As in previous editions, this section explores topics such as suptech, the analytics of big data and artificial intelligence, and other technological advances that can be used to aid supervision, as are the management and quality control of data and the use of cloud-based services and cloud computing.

Of the 21 members that responded to the Survey, 15 are expecting to update their means of collecting and verifying data used for supervisory purposes (figure 4).

The growing digitalization of financial services has allowed supervisory authorities to improve and broaden the use of technology, turning their supervision into one more in line with data use and the automatization of processes, at least for routine activities like preparing regulatory reports, data analysis, risk assessments, improved on- and off-site supervision processes, and the management of requests for new authorizations.

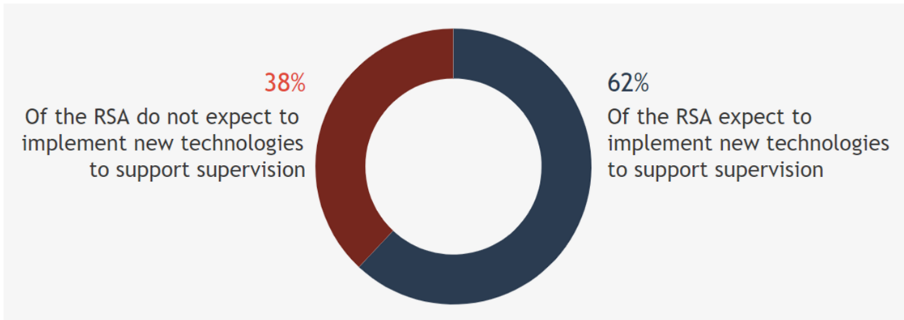
FIGURE 4. PERCENTAGE OF AUTHORITIES EXPECTING CHANGES IN THEIR SYSTEMS OF DATA COLLECTION AND AGGREGATION.



Some of the surveyed authorities are evaluating their guidelines so as to adopt or update all issues related to their data governance and management, in order to modernize communication channels with the financial system and within their own supervisory organs. The cases of Brazil and Peru are noteworthy, for they are revising definitions and creating areas specializing in increasing efficiency or using alternative means of data collection, all in the pursuit of higher quality, granularity, and consistency. Although in progress, these implementation processes, especially those concerning data architecture, are assumed to give fruits only in the medium- to long-term horizon.

Besides the processes of data collection and systems for communication with supervised entities, some authorities, figure 5 shows their numbers, expect to introduce other innovative technologies in support of their supervisory work. In this instance, innovative technologies refers mainly to the analytics of big data, machine learning, deep learning, and artificial intelligence.

FIGURE 5. PERCENTAGE OF AUTHORITIES EXPECTING CHANGES IN TECHNOLOGIES TO SUPPORT SUPERVISION.



As shown in figure 5, more than half of the surveyed authorities are expecting to see some change in this field. In relation to previous years, the growing trend in supervisory bodies of adopting increasingly technological models has gained even more relevance, and it occupies a more important role in the supervisory agenda.

Incorporating new digital tools has allowed authorities to:

1. Strengthen direct communication channels, like video-call platforms, electronic mail and instant messaging apps.
2. Achieve progress in data capture by garnering information from the supervised corporations in a more automatized manner. This fosters and quickens the generation of more precise standardized regulatory reports, when comparing against more traditional means.
3. Rely on having better accessibility, storage, and control of documents like meeting minutes annual reports, product information and memorandums of understanding.
4. Have access to more sophisticated models and analyses, as ratio calculations, identification of atypical values, artificial intelligence, big data analytics, and detection of inappropriate market behaviors.

In respect to cloud computing in support of regulatory and supervisory activities, half of the institutions answered they are willing to use them to some extent (figure 6). This represents a notable change with respect to previous editions of the Survey. It is important to mention that several of the region's authorities are still in the first stages of implementation and currently evaluating prospective suppliers of services (Microsoft Azure, Amazon Web Services, Google Cloud Platform, and IBM Cloud Data Lake, among others) and different modes of utilizing said services (infrastructure as a service-IaaS, platform as a service-PaaS, and software as a service-SaaS)

A similar analysis took place during an ASBA members meeting which centered on regional approaches to outsourcing regulation and risk management of cloud-storage services. The meeting broached these issues in three sessions: the role, faculties and functions of financial authorities; concerns about data (the risks associated to managing sensitive data); and financial stability problems. Table 4 summarizes the most salient points of the meeting.

Finally, also in the scope of technology, an increasing number of supervisory authorities makes use of and implements sandbox processes, as well as innovation centers, to foster and probe financial technology applications in a restricted environment. These uses and changes are further developed in the next section.

FIGURE 6. PERCENTAGE OF AUTHORITIES EXPECTING CHANGES IN THE USE OF CLOUD COMPUTING SERVICES IN SUPPORT OF THEIR REGULATORY AND SUPERVISORY ACTIVITIES.

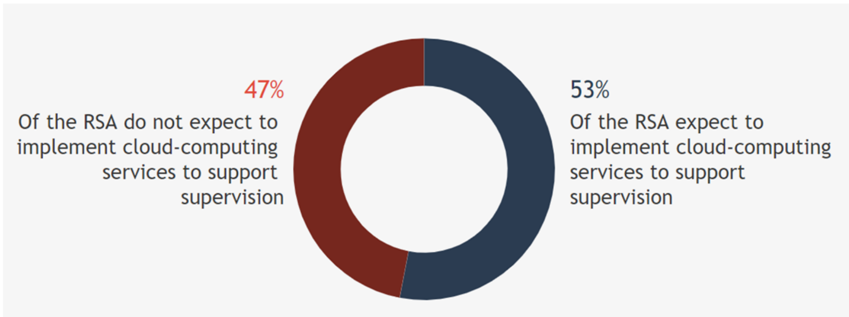


TABLE 4. TECHNICAL DISCUSSION MEETING ON REGIONAL APPROACHES TO OUTSOURCING REGULATION AND RISK MANAGEMENT OF CLOUD SERVICES.

Regulatory and supervisory authorities must understand the mechanics of new technologies, in order not to deprive themselves of the benefits they convey, but also to design measures in their operational and normative frameworks that mitigate the risks associated to using cloud-based services and other technologies.

The role, faculties and functions of financial authorities. The Comisión Nacional de Banca y Seguros de Honduras (CNBS) (Honduran National Banking and Insurance Commission) shared an operational and technological regulation that has been proposed for the country, as well as the results of a questionnaire presented to their financial institutions, on the incorporation of critical activities supplied by third parties. They highlighted the fact that financial institutions play a fundamental role in monitoring critical service providers. In the particular case of overseeing the providers of cloud services, they commented on the alternatives of using contracts or MOUs (Memorandums of Understanding). Given this, regional cooperation is a topic that will be explored in the short term.

Concerns about data. The Comisión para el Mercado Financiero de Chile (CMF) (Financial Market Commission of Chile) delineated its country's prevailing design for data residency and control. Participants discussed the convenience of having the normative frameworks that rule data supervision, protection, and access in all the different jurisdictions, converge in one shared regulatory system that can follow the roadmap set by international standards. They also commented on how concentrating information in only a few providers represents a series of risks, so such concentrations should be points of special interest for financial authorities. It was recommended that protocols and regulations be established that allow confronting risks emerging from their use by third parties. Among the mentioned norms were to back data up within the jurisdictions, and the possibility of having both on- and off-site supervision.

Financial stability problems. The Comisión Nacional Bancaria y de Valores de México (CNBV) (Mexican National Banking and Securities Commission) shared the fact that cloud services have delivered a considerable decrease in the expenditures of financial institutions and authorities, besides making certain processes more efficient, as communications (mail), data storage (cloud services), and the supply of financial services (with the arrival of fintech businesses). Despite this, they consider that caution is warranted and they should keep alert to significant events affecting either critical operations or specific companies. In the case of Mexico, help confronting these types of scenarios can be found in the Grupo de Respuesta Inmediata ante Ciberincidentes (Immediate Response to Cyber-incidents Group) and in the set of predetermined requirements triggered by data leaks originating with providers of critical services, including cloud suppliers.

V. REGULATORY PROSPECTS FOR FINANCIAL INSTITUTIONS

According to the answers of the Survey participants, 9 of 21 jurisdictions foresee substantial changes in their general banking laws (figure 7). In general, these changes are related to the processes of adherence to international standards in terms of solvency and capital requirements, supervisory and regulatory faculties, financial groups supervision, and resolution frameworks.

Amid the expected modifications to general banking laws is the possible widening of regulatory and supervisory perimeters. In particular, this pertains to the arrival of new financial services competitors: for example, providers of financial services regarding payment solutions or virtual assets, among others. With respect to this, some countries mentioned that they are evaluating the convenience and technical challenges of introducing open-banking schemes in their financial systems.

A large portion of the participating jurisdictions are in the process of implementing some of the accords emanating from Basel II or Basel III.[7] It should be mentioned that given the situation posed by the SARS-CoV-2 virus, several countries saw their regulatory agendas notably affected, so, in some cases, original plans may be delayed until 2022 or even 2023.

In the region, efforts towards implementing the Basel framework are centered on pillar I and, to a lesser extent, pillars II and III. With regards to pillar I, on capital requirements (figure 8 and table 5), the region has made advances and continues working on aspects such as the definitions of capital and risk-weighted assets, minimum capital requirements, additional capital, and indicators of levering and liquidity. To a lower degree, some jurisdictions are planning to introduce requirements over capital conservation buffers and countercyclical capital buffers, as well as additional capital requirements for entities of systemic importance.

7/ As shown in the report presented by ASBA in 2018 on the implementation of regulatory and supervisory standards, the majority of the countries in the region is implementing a combination of elements from Basel II and III.

FIGURE 7. PERCENTAGE OF AUTHORITIES EXPECTING CHANGES IN THEIR GENERAL BANKING LAWS.

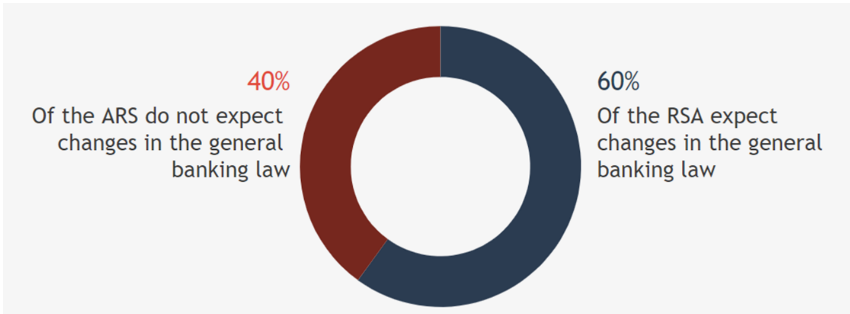
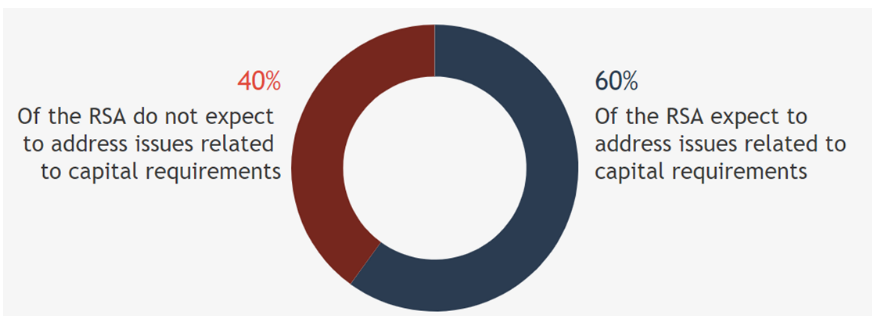


FIGURE 8. PERCENTAGE OF AUTHORITIES THAT EXPECT TO ADDRESS ISSUES REGARDING CAPITAL REQUIREMENTS.



Some authorities mentioned the possibility of establishing on a permanent basis some of the regulatory measures that were introduced to increase the flexibility of credit risk management: for example, lowering the weight of credit risk factors for retail exposures (consumer, SMEs, and mortgage credits).

With respect to the disclosure of regulatory information (pillar III), there are only a few countries expecting relevant changes. For example, in Spain, Brazil, and Colombia, disclosure obligations are seen as varying in accordance to the size and complexity of the entity in question. In Colombia in particular, such differentiation is directed towards issuers of securities. Meanwhile, in Brazil, the classification for proportionality prepared by the Banco Central do Brasil (BCB) (Central Bank of Brazil) directs the largest institutions to submit new formats of disclosure of financial statements, so as to adhere more closely to the International Financial Reporting Standards (IFRS).

In Peru, on the other hand, all actions regarding pillar III have been suspended, though a resumption is contemplated during 2022 and 2023. Uruguay included pillar III in the regulatory agenda, but with a low priority.

Finally, some countries are evaluating the implementation of the requirements for disclosure regarding climate-change related risks. This will be further explored at the end of the present section.

TABLE 5. CHANGES IN CAPITAL REQUIREMENTS BY THE ASSOCIATED MEMBERS.

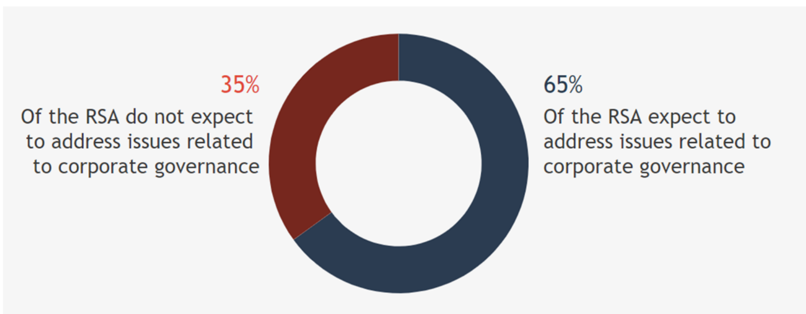
COUNTRY	NEWS REGARDING CAPITAL REQUIREMENTS
Bolivia	Research and analysis of how internal models are used for the application of smaller weights. Also, there is a plan to issue regulation regarding net-worth requirements and the weighting of assets and contingencies of financial groups.
Brazil	Specialized supervisory teams will be working on the new norms for credit and market risks that arise from the Basel III framework.
Colombia	During 2020, new regulations were issued that contemplated a transitional period of adjustment before becoming compulsory from January 2021. Main innovations of the norms relate to the adoption of the Basel III criteria, among which are highlighted the basic solvency ratio (4.5%), the additional basic solvency ratio (6%), the leverage ratio (3%), the capital conservation buffer (1.5%), and the systemic importance buffer (1%). An operational risk capital requirement of 100/9 is added. Finally, another of the significant changes brought about by the new regulation relates to risk-weighted assets (RWA), so as to shift towards the guidelines derived from the Standardized Approach to Credit Risk.
Costa Rica	The definition of *regulatory capital* under Basel III will be adopted. Besides, capital buffers will be applied and the indicator of leverage adopted. Also, regulation on net-worth requirements for financial groups and conglomerates is under review, given legal changes due to consolidated supervision.
Ecuador	Taking on account the restrictions affecting the Ecuadorian economy (dollarized) and the effects of the health crisis, the Superintendencia de Bancos del Ecuador (Superintendency of Banks of Ecuador) issued a set of technical proposals, including: 1) technical studies involving stress tests on credit-risk and liquidity, to measure how resistant the solvency of banking institutions proves to be in scenarios concordant with local norms; and 2) that determined by Basel III (ordinary capital + profits).
Guatemala	The development of regulation dealing with the requirements for market-risk capital and operational-risk capital is expected.
Guyana	Full implementation of pillar I of the Basel II/III framework is expected, under Supervision Guideline No. 14. Minimum capital requirements for the industry were issued.
Mexico	For 2021, the expectation is to continue with the application of regulation prepared for 2020, so as to incorporate the implementation of international standards within the Mexican Financial System. These adjustments center on capital requirements and risk-weighted assets.
Panama	The Superintendencia de Bancos (Superintendency of Banks) updated its regulatory framework to set it in line with Basel III standards, for the purpose of establishing the definition of regulatory capital, the ordinary primary capital components and secondary capital components. In a likely manner, these regulations updated the governing framework on credit risk weighted assets, which incorporated the regulatory guidelines for counterparty risks, as well as the leveraging coefficient. In addition, the regulatory framework concerned with operative and market risks was also brought to date.
Peru	An evaluation on implementing the new credit risk-based effective net-worth requirement was launched during 2020, along with another one focused on the modification of the requirements for additional net-worth, and both are expected to continue on 2021. Likewise, the applicability of the counterparty credit risk (CCR) and central counterparties (CCP) standards will be studied in the course of 2021.
Spain	The applied modifications affected, among other matters, credit-risk capital requirements, a new standard method for counterparty risk, the coming into force of the leveraging requirement, the introduction of a net stable funding requirement (NSFR), a new definition of the limit to large risks, and an update on the reporting of alternative finance and market risks.
Uruguay	New regulation is under development, concerning the criteria that shall govern equity instruments that are computed as common capital, supplementary capital, and complementary net-worth; market-risk capital requirements, including the definition of trading book; market value counterparty risk requirements; settlement risk; securitizations and high-risk exposures; and adjustments to the interest rate risk requirement (specific risk for instruments rated under B- or nonrated, and within the factors of horizontal adjustment of general risk). In addition, adaptations to the Basel III framework still pending, will be addressed.

Various countries reported expecting changes on the regulation and supervision of matters relating to corporate governance (figure 9). In several cases, these changes derive from a recent adaptation to models of risk-based supervision. In other cases, the changes seek to reinforce supervisory criteria and guidelines, in order to inspect these aspects in a more homogeneous and objective manner.

Among the notable changes reported are those seeking to improve management of internal controls, the structure of senior management bodies, compensation, technical and moral suitability, the functioning of councils and advisers, and others. In addition, countries such as Mexico and Colombia analyze possible adjustments to governance in terms of social and environmental risks.

It should be noted that ASBA is developing a study to identify relevant elements of regulatory regimes and practices of supervision in questions related to corporate governance, through a working group of members with important progress on those matters.

FIGURE 9. PERCENTAGE OF AUTHORITIES EXPECTING TO ADDRESS ISSUES OF CORPORATE GOVERNANCE.



At the same time, a considerable number of authorities is still evaluating the viability and best practices of a model for the proportional regulation of financial institutions (figure 10). As noted in the report of expectations for 2020, three proportionality schemes are identified:

i) Proportional treatment, with respect to the type of institution (for example, different rules for banks, crowdfunding companies, other fintech credit firms, etc.).

ii) Segmented licensing of banks (or other financial institutions) for a differential regulation based in institutional size and complexity (for example, bank segmentation and differential regulation according to size and operational complexity).

iii) Special requirements for institutions that fulfill specific characteristics, without the need for formal segmentation. This approach is of a modular or block type (for example, depending on its size, complexity and activities, a particular financial institution may have to fulfill certain special requirements, in addition to those established on its license).

Table 6 depicts the different frameworks that jurisdictions are evaluating, preparing for regulation, or implementing, with respect to a proportional regulation structure.

FIGURE 10. PERCENTAGE OF AUTHORITIES EXPECTING TO ADDRESS ISSUES OF PROPORTIONALITY SCHEMES IN REGULATION.

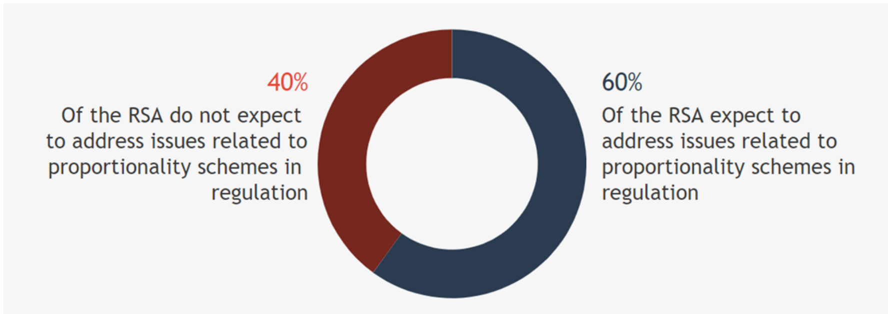


TABLE 6. PROPORTIONAL REGULATION SCHEMES AMONGST ASBA MEMBERS.

COUNTRY	BY TYPE OF FINANCIAL INSTITUTION	BANK SEGMENTATION (LICENSING OR AUTHORIZATION, AS PER PREDEFINED SEGMENTATION)	MODULAR (SAME LICENSE OR AUTHORIZATION, WITH SPECIFIC APPLICATION OF STANDARDS)
Bolivia	X		
Brazil	X	X	
Colombia	X		
Costa Rica	X		
Ecuador	X		X
Honduras	X		X
Mexico	X		X
Peru	X	X	X
Spain	X	X	X

In regard to other matters, the great majority of the members of ASBA plan to continue with anti-money laundering and countering the financing of terrorism (AML/CFT) (figure 11). An important number of jurisdictions contemplate updating their regulations, in some cases to adapt them to a risk-based supervision adhering to the international recommendations by the FATF (Honduras, Guatemala, Dominican Republic, Curaçao, Turks and Caicos); in other cases, to update the regulation or incorporate other institutions to the norms framework.[8]

On other sides, different countries seek to adapt their frameworks in accordance with the most recent modifications to the international recommendations regarding AML/CFT. For example, the SBS from Peru and the BCB from Brazil mentioned that, during 2021, they shall continue with the evaluation process of virtual assets, as well as of their reach, risks and threats.

In addition, several jurisdictions are taking into account the risks related to AML/CFT, with convey technological innovations in the financial system.

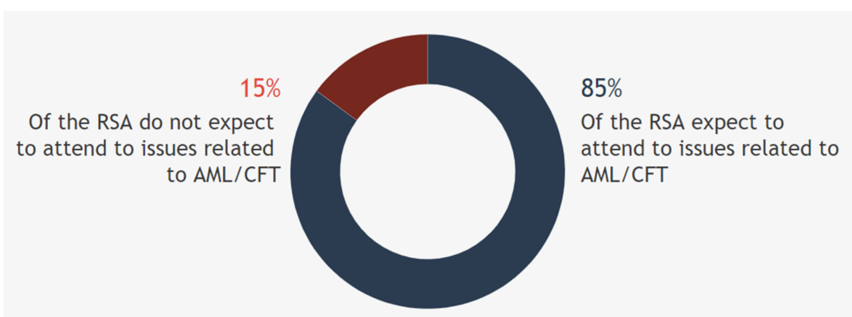
For example, in 2020 in Colombia, an external handbill was circulated seeking to generate an environment fostering innovation, as well as enhancing financial inclusion through digital onboarding. Besides, the SBS from Peru plans to continue with the analysis of AML/CFT risks associated to the use of new fintech technologies: analyses referring to electronic payment means, regtech, and suptech, will be developed.

It should be noted that ASBA is updating the document "Best Financial Regulatory and Supervisory Practices on AML/CFT" published in 2014.[9]

8/ For example, during 2021 the Banco de España (Bank of Spain) will continue participating in both the Standing Committee on AML, as in the EBA working groups, in order to contribute to the development of the EU legislation. Concretely, in 2021 the Banco de España will participate in establishing EBA guidelines on information exchange between supervisory authorities. Also, an update is planned for the methodologies related to assessing AML/CFT risks in credit entities and the development of methodologies for payment service providers.

9/ Report available in http://www.asbasupervision.com/en/bibl/publications-of-asba/working-groups/305-laft02

FIGURE 11. PERCENTAGE OF AUTHORITIES EXPECTING TO ADDRESS ISSUES RELATED TO AML/CFT.

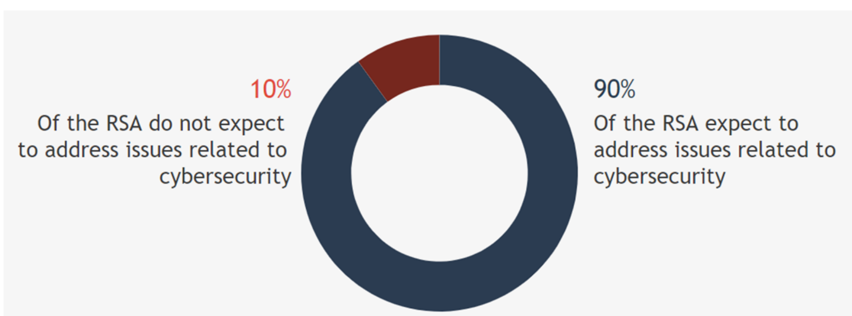


The health emergency brought an increase in the use of digital means for providing financial services, both because financial institutions (FI) expanded their use themselves and due to the entry of new competitors. Given this, the Association members consider that technology-related risks will be more worthy of attention during 2021.

In particular, members have noticed a bigger exposure to operational risk, especially in terms of business continuity and technological risk, because of the relevance of third-party non-interruption of technological services during the situation, as well as its cybersecurity implications. Also, they consider that the disordered entry of new competitors may carry important implications for both financial stability and in terms of abuses to users of financial services. Next, particular matters related to technology issues are listed.

There are questions regarding operational risk, in particular cybernetic risks. Most members mention they shall broach matters related to cybersecurity through analysis and research, regulation development, or the updating of supervisory methodologies (figure 12).

FIGURE 12. PERCENTAGE OF AUTHORITIES EXPECTING TO ADDRESS ISSUES OF CYBERSECURITY.



In particular, the regulatory and supervisory focus can be seen in the following aspects:

Infrastructure Mapping. For the regulators and supervisors of the region, it is a priority to have the complete picture of the information technology systems at work in supervised entities, given that it affords supervisors with a better understanding of the vulnerabilities of the financial sector. On one hand, the supervisor must have a profound knowledge of the business model and the technological -risk management of individual companies; on the other hand, the supervisor must map the technological and financial connections in the whole sector, so as to identify potencial systemic risks derived from interconnection and the concentration of third parties operating as service providers.[10]

Models or strategies for measuring or quantifying cyber risk. For supervisors, this would imply being able to gather information from industry sources. This information may include, for example, technical indicators (as malicious internet addresses, domains, indicators of compromise, etc.), mitigation best practices from banks, threat analysis and cyber-incident details.

Related to the previous point, a fundamental source of information for generating a clearer view of cyber-risks are incident reports. The exchange and reports are essential in combating cyber-threats, be them between industry players, because of supervision, or among authorities (even in a trans-border situation). Reaching this will require devising reporting formats with a shared lexicon or taxonomy. Other challenges related to this matter include the need of establishing bonds of trust with the supervised entities,[11] achieving report interoperability and automatization, and creating mechanisms to verify the quality of the received information.

On a more recent aspect, regulators and supervisors have involved themselves more closely with incident simulation or penetration testing exercises, to evaluate the response and recovery plans of the different entities. In this sense, Europe is one of the most advanced regions, thanks to its cybersecurity testing framework TIBER (Threat Intelligence-Based Ethical Red-teaming), in which tests simulate the tactics, techniques, and procedures of real-life attackers, based on tailor-made threat intelligence. Notwithstanding, an important challenge for supervisors rests in finding a balance between costs and benefits when delineating minimal expectations from security probes. Penetration testing and simulation exercises are inherently costly, because very specialized equipment and extensive on-site work are required. Small companies are incapable of affording associated costs. Some alternatives exist, though, that represent less onerous exercises: for example, vulnerability scanning or simplified schemes for penetration tests.

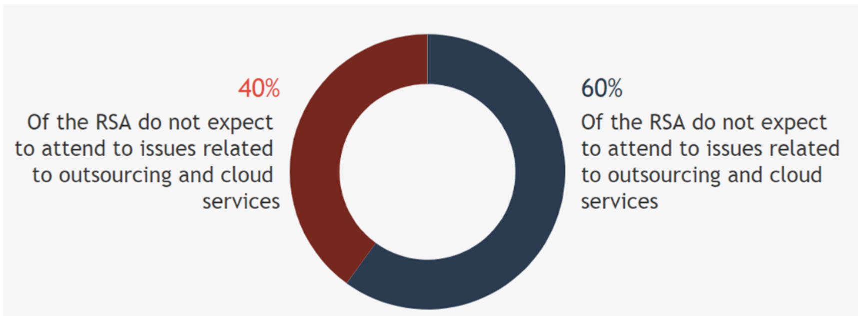
In the global sphere, International Regulatory Harmonization is pursued through conducting more exercises on both national and trans-border scales, specially in order to build bridges between the executives, within the financial stability and cybersecurity communities, that are in charge of high-level response to incidents. On a related matter, according to the financial authorities that took part in the Survey, some of the mentioned activities regarding cybersecurity will also encompass issues related to outsourcing, particularly of cloud services (figure 13).[12] To delve in this matter, authorities were asked about their plans for implementing specific actions on outsourcing.

10/ For example, the SFC from Colombia mentions that it will continue adjusting the protocol for the management and follow-up of cyber-incidents in the cloud architecture, as well as methodologies for the identification of critical cybernetic infrastructure. For its part, the BCU from Uruguay constructed in 2020 a questionnaire on information-security that should be circulated to all banks during 2021, in a study of self-appraisal.

11/ According to some experts, the main impediment to the efficient reporting of incidents, is fear of legal retaliation.

12/ For example, the regulation on information security management that will be implemented in Peru will update the requirements for third-party suppliers of technology services and information security requirements, for the companies in the financial system. Likewise, it will include specific requirements regarding technology services from abroad, in particular, those carried out through the cloud.

FIGURE 13. PERCENTAGE OF AUTHORITIES EXPECTING TO ADDRESS ISSUES OF OUTSOURCING AND CLOUD SERVICES.



More than half of the authorities participating in the Survey mentioned that they shall broach the subject of outsourcing and cloud services in the short-term. Of those members that answered that they expect no regulatory changes on these matters, the majority reports that this is because they have recently emitted regulation on that regard. Other members consider that their current regulatory framework is sufficient to manage the associated risks.

In general, the requirements for outsourcing that have been put into action or are in the process of being implemented, tend to the following concerns from the authorities:

- ***Regulatory reach:*** most supervision authorities have adopted definitions for outsourcing, but these definitions may not contemplate all the relationships with third parties that have the potential to affect the financial stability or the security and solidity of the institution. In this sense, some authorities, abiding by international recommendations,[13] have extended their regulatory reach to encompass more kinds of third-party relationships, from hardware or software acquisition, to common outsourcing. Likewise, authorities also take under consideration those technology companies that, because of their size and global footprint, might merit special attention.[14]

- ***Data protection:*** a large number of jurisdictions has introduced, or is planning to introduce or revise, the requisites they hold for protecting the data that the FI transfer or share with third parties. These include data location, accessibility, cybersecurity, among others. These requisites complement, and link with, national or regional legal regimes concerning the protection of personal data that are needed in other matters, not just financial services.

13/ See: Basel Committee on Banking Supervision, *Principles for Operational Resilience*.

14/ The CNBS of Honduras plans research and analysis works geared towards the construction of a network of "systemic providers", that can establish supervision and monitoring guidelines by virtue of their importance for business continuity in the supervised institutions.

- ***Rights to audit and access information:*** in the majority of jurisdictions, FI must guarantee that their contractual agreements with third parties grant them (and in some cases, grant the authorities) the right to access, audit and obtain information of said third parties. Regardless, these may be difficult to negotiate and exert in practice. For example, in situations in which the data or location of a given third party exist within multiple jurisdictions, under different legal and regulatory frameworks, the prompt access to pertinent information by the supervisory authority may be delayed or obstructed, resulting in an impediment to the effective exercise of their supervision activities. With respect to this, in some of the jurisdictions located out of the region, supervisors have been granted the legal powers to conduct on-site inspections of third parties, when they deem it convenient.

- ***Supply-chain management:*** despite there being specific requirements and supervision expectations on outsourcing (outsourcing agencies), in many jurisdictions it can be very difficult to manage in practice all the risks arising from complex outsourcing supply chains and agreements with third parties. Even when contractual agreements include clear dispositions and safeguards regarding the management of third parties, these are often not directly binding for said subcontractors.

- ***Operational resilience:*** finally, operational resilience is an important element in terms of relationships with third parties. Regardless, this is a much broader matter that includes other issues, such as cybersecurity, that should also be considered as priorities.

In terms of supervision, some authorities mentioned that they will perform inspections specifically directed towards matters of outsourcing. For example, the SFC of Colombia will implement supervision exercises on monitored entities, in order to verify the way in which they evaluate the financial and operative conditions of critical third parties that are facing adverse situations, like those arising from the health emergency. In addition, the BCB started during 2020, and will continue in 2021, with the evaluation of those that provide critical services to the supervised entities, in adherence to the document *Assessment Methodology for the Oversight Expectations Applicable to Critical Service Providers*,[15] by the CPMI.

Finally, in the last technology-related topic, most jurisdictions mention that they will address the matter of new entrants to the financial sector (figure 14). In this case, jurisdictions from the region have seen substantial progress, though with a variety of orientations. For example, whilst in Mexico the creation of a comprehensive legal framework that would encompass different kinds of financial technological innovations was sought, most jurisdictions have preferred adopting a gradual approach, focusing on the entry of new providers depending on observed market dynamics.[16]

Despite this, a common denominator can be identified. Given the accelerated digitalization visible in the region, an increased entrance of new competitors has been observed among payment service providers. Despite the fact that matters concerning systems of payment and payment service providers have usually been the duty of specific areas of central banks, supervisory authorities have been increasingly acquiring more responsibilities in overseeing this kind of providers. Table 7 recounts some of the actions taken by ASBA members regarding payment services.

Lastly, several ASBA members have also adopted "test and learn" schemes. This includes the implementation of, or plans for introducing, innovation hubs or regulatory sandboxes, to monitor developments more closely and design suitable norms based in observations and experiences. Table 8 shows some developments on this respect by members of the Association.

15/ Available at https://www.bis.org/cpmi/publ/d115.pdf.

16/ There are cases in which a regulatory framework has been created to address a specific concern, without achieving the desired results. For example, the Banco Central del Uruguay (Central Bank of Uruguay) is planning to perform a diagnostic in the regulation governing companies that manage peer-to-peer lending platforms, because there have been no submissions for the granting of licenses to date.

FIGURE 14. PERCENTAGE OF AUTHORITIES EXPECTING TO ADDRESS ISSUES RELATED TO FINTECH.

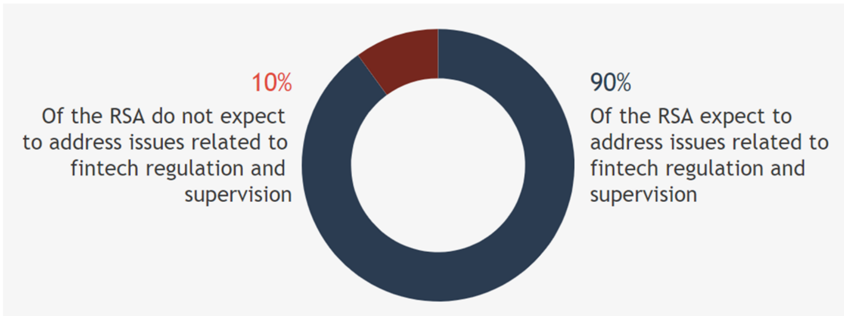


TABLE 7. EXPECTATIONS RELATED TO PAYMENT SERVICES.

COUNTRY	EXPECTATIONS
Argentina	The BCRA has been developing and implementing regulation regarding the fintech environment, in the sector oriented towards transaction services (specially payment service providers or PSP), as well as on credit granting (other private non-financial corporations or PNFC). In addition, there will be ongoing follow-up by the BCRA of the development of transactions with crypto-assets and their effect in the financial system. The BCRA will monitor the evolution of this market and evaluate, if necessary, the development of new policy actions.
Belize	The Banco Central (Central Bank) is developing regulation for payment systems, to formalize criteria regarding access for providers of these services and to operate the use of third parties.
Honduras	For 2021, the CNBS expects to work in coordination with the Banco Central de Honduras (BCH) (Honduras Central Bank) in the project to reform the legal codes governing non-bank e-money issuers, in order to extend their regulatory reach to cover electronic payment service providers, and adjust its provisions according to criteria of proportionality and complexity.
Mexico	Plans are ongoing to issue regulations regarding electronic payment fund institutions, in terms of electronic means, cybersecurity, third-party hiring, and external auditing, in the context of the Ley Fintech (Fintech Law).
Panama	The Superintendencia de Bancos (Superintendency of Banks) is working on structuring a project of law to regulate the payment system in Panama by establishing the rules that participants will have to obey. This would include banking entities and any other corporation participating in the payment system, including any payment platform belonging to a fintech company. This will set the legal basis allowing the financial technology companies to participate in an orderly manner, adhering to adequate prudential rules.
Peru	An update is planned for the norms ruling electronic money. Also, the analysis is ongoing of the effects on the financial system of providing services that employ cyber assets.

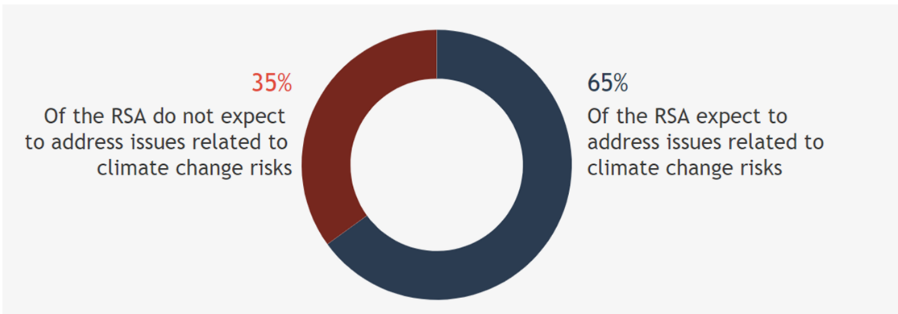
TABLE 8. ACTIONS REGARDING THE IMPLEMENTATION OF REGULATORY HUBS OR SANDBOXES.

COUNTRY	ACTIONS
Brazil	The BCB started the process of adopting a regulatory sandbox, which will give rise to a regulatory update.
Colombia	In Colombia, progress in these matters had already been achieved through the creation of Innova SFC. Additionally, in 2020, starting with the norms issued in Decree 1234, the Constitución de Empresas de Desarrollos Tecnológicos Innovadores (Constitution of Enterprises of Innovative Technological Developments) was approved, allowing the creation of fintech corporations. Specific aspects of regulation are still under development, which take into consideration fintech companies' need of experimenting and nimbly going to market.
Honduras	Among the actions programmed by the Comité Fintech (Fintech Committee) is a study on the feasibility of establishing an innovation hub.
Mexico	The Ley Fintech (Fintech Law) contemplates the temporary authorization on the operation of novel models, also known as regulatory sandboxes. Only models involving an action that requires a concession, authorization, or registry, in accordance to financial laws, are allowed into the sandbox.
Peru	The creation and enactment of new norms for the development of pilots (sandboxes) are under consideration.
Spain	The Ley 7/2020 (7/2020 Law) for the digital transformation of the financial system, regulating the controlled environments of tests (regulatory sandbox), assigns certain tasks to supervisors: the approval of sandbox projects, the establishment of testing protocols and trial follow-up.
Turks and Caicos	The writing of legislation governing fintech supervision and regulation is planned, in order to facilitate the financial inclusion and innovation in a controlled and regulated environment, so the financial sector suffers no interruption and emerging risks are mitigated.
Uruguay	Within the BCU, an innovation observatory was recently created, with objectives that include facilitating internal coordination, exchange, and analysis, for more opportune decision making; promoting an analysis agenda; and proposing, in matters of innovation, legal or regulatory adjustments; as well as coordinating with the innovation node, along financial system and analogous institutions (software, public institutions and other interested parties).

The role of the financial sector in addressing climate change matters has gained support within the region in the last two years. In this respect, in the 2020 Survey, over half of the participating institutions declared to have no plans, in the short term, for dealing with climate-associated risks.

In sharp contrast, the current Survey shows that an important number of authorities are undertaking research and analysis regarding these issues, even if no regulatory changes have been introduced yet (figure 15).

FIGURE 15. PERCENTAGE OF AUTHORITIES EXPECTING TO ADDRESS ISSUES OF CLIMATE-CHANGE RELATED RISKS.



One of the most important challenges being analyzed is the lack of data to evaluate financial exposures more precisely. In this sense, several international organizations are working conjointly in the creation of harmonized disclosure frameworks related to climate, in service of the financial sector. Despite of the efforts of organizations like the Task Force on Climate-Related Financial Disclosure (TCFD), the Network for Greening the Financial System (NGFS), and the Partnership for Carbon Accounting Financials (PCAF); there is, to date, no agreed-upon common set of metrics or mandatory requisites to inform about, and disclose, corporate and financial carbon-footprints. There are several reasons why this has failed to happen.[17]

For example, the existence of unresolved problems regarding methodologies, accounting, and data, have turned the creation of a shared framework into a considerable challenge. Besides, a dependency matter goes beyond the financial sector. That is to say, the metrics that the financial sector can include are only as trustworthy as the corporate information on which they are based.

There is a series of actions on the part of financial institutions, international organisms, and authorities; that seeks to nonetheless include, in an orderly fashion, social and environmental risks in the framework of more commonplace risk management.

For example, some financial companies have taken actions towards approaching their clients more closely, in order to motivate them to reduce their emissions or their use of non-renewable energy sources; developing of metrics based on the TCFD recommendations; including climate risks in their credit granting evaluations; among others.

Some authorities show great progress in respect to establishing generalized metrics and standards for information disclosure and transparency. In particular, the European Banking Authority (EBA) recently published its strategy for implementing an integral framework for pillar III that considers matters of sustainability, and social and environmental risks.[18]

17/ De Nederlandsche Bank (2021), "Misleading Footprints Inflation and Exchange Rate Effects in Relative Carbon Disclosure Metrics" .

18/ Moody's Analytics (2020), "EBA Assesses Pillar 3 Disclosures, Issues Pillar 3 Framework Strategy".

In the region, for 2021, progress is led by the Banco Central do Brasil, which plans to introduce the recommendations of the TCFD in the regulatory framework. Also, in terms of monitoring, there are plans to i) improve the evaluation of socio-environmental risks; ii) structure and expand the reach of the gathering of information regarding social and environmental risks; iii) conduct follow-ups on climate risks and stress tests; and iv) to include climate-risk scenarios in new and improved stress tests conducted by the BCB, in line with international recommendations and best practices.

On a different side, the CNBS of Honduras, which forms part of the Sustainable Banking Network (SBN), approved the "Normas para la gestión del riesgo ambiental y social de las instituciones del sistema financiero" (Norms for the Management of Environmental and Social Risks to Financial System Institutions), which include a 24-months implementation plan, starting in January 2021.

Likewise, in Mexico, the Comité de Finanzas Sostenibles (Sustainable Finances Committee) was constituted within the Consejo de Estabilidad Financiera (Financial Stability Council), in order to foster the transition to sustainable finances and adoption of international best practices.

For their part, several international organisms, like the International Monetary Fund, the Bank for International Settlements, the Financial Stability Board, and the World Bank, among others, are also making great efforts in terms of research, analysis, recommendations, and initiatives, pursuant to include these matters in a more internationally standardized manner. In particular are notable:

- The announcement by The Trustees of the International Financial Reporting Standards (IFRS) Foundation, which should aid in establishing a Sustainability Standards Board (SSB), within the IFRS framework.
- The International Organization of Securities Commissions (IOSCO) will work with The Trustees of the IFRS Foundation to develop a plan for establishing an SSB that is in line with the International Accounting Standards Board (IASB), operates under the current governance structure, and aspires to offer a system architecture that is effective in delineating standards of sustainability disclosure.

VI. CLOSING REMARKS

In response to the Covid-19 emergency, the region's financial authorities were forced to reorganize their priorities and modify their regulatory agendas, in order to implement temporary measures to mitigate the effects of the health crisis on the economic activity and financial systems, as well as minimizing the risks of market fragmentation. In addition, given the restrictions to mobility and the measures of social distancing, supervisors had to adjust their methodologies of inspection of, and communication with, the supervised entities; so they increased their use of digital channels.

Regulators and supervisors are conscious of the fact that, despite the implemented measures, potential risks will endure for years to come.

First of all, there are the risks surrounding the economic recovery. A slower-than-expected recovery would entail more modest incomes for businesses and homes, and an increased financial vulnerability. The financial entities would see diminished profits, having to assume higher costs because of asset deterioration.

The above would imply an increased debt load for the business sector, affecting smaller companies to a larger extent, specially those that operate in the sectors worst affected by the pandemia. In this context, there is the danger of precipitating a slowdown in consumer spending and investment, and an increment in debt delinquency that may directly affect the financial results of banking entities and public accounts.

Secondly, as the expiration dates of temporary regulatory measures get nearer, banks and supervisors have to face the difficult decision of whether to extend the temporary measures, modify them for a more gradual lifting, or make them altogether disappear at the moment of reaching the established deadlines. Each of these options convey different implications for banks and financial stability in general.

In third place, the supervised entities, and their supervisors, have to confront larger than normal exposure in terms of operational risks, in particular in matters related to business continuity, and in terms of technological risks, given the special relevance of the non-interruption of technological services by third parties, as well as the implications for cybersecurity. In addition, the health emergency has brought a considerable uptick in the use of digital financial services and precipitated the entrance of new competitors. Because of this, it is expected that the authorities accelerate their regulatory plans regarding technology issues.

Finally, the role of the financial sector in questions related to climate-change has gained support in the last couple of years. This involves, as a matter of course, both financial and regulatory institutions. In contrast to past editions of the Survey, a much larger number of authorities of the region is expecting to address subjects related to the risks that climate-change pose to the financial sector.

TERMS, ABBREVIATIONS AND ACRONYMS USED IN THIS REPORT

GAFI	Grupo de Acción Financiera Internacional
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ASBA or Association	Association of Supervisors of Banks of the Americas
BCB	Banco Central do Brasil - Central Bank of Brazil
CNBS	Comisión Nacional de Banca y Seguros de Honduras - Honduran National Banking and Insurance Commission
CPMI	Committee on Payments and Market Infrastructures
EBA	European Banking Authority
FATF	Financial Action Task Force
FI	Financial Institutions
IT	Information Technology
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
RSA	Regulatory and Supervisory Authorities
SMEs	Small and mid-size enterprises
SUPEN	Superintendencia de Pensiones - Superintendency of Pensions
SFC	Superintendencia Financiera de Colombia - Financial Superintendency of Colombia
SUGEF	Superintendencia General de Entidades Financieras - General Superintendency of Financial Entities
SUGESE	Superintendencia General de Seguros - General Superintendency of Insurance
SUGEVAL	Superintendencia General de Valores - General Superintendency of Securities
Survey	Survey on the Prospects for Bank Supervision and Regulation in the Americas 2021
TCFD	Task Force on Climate-related Financial Disclosure
WB	World Bank

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

BANKING REGULATION AND SUPERVISION EXPECTATIONS IN THE AMERICAS 2021

May 2021

For additional information: asba@asbasupervision.org

asbasupervision,com

C. Picacho Ajusco #238, office 601

Col. Jardines en la Montaña, Tlalpan, C.P. 14210

Mexico City, Mexico

(+52) 55 5662 0085

ASBA

ASBASUPERVISION.COM