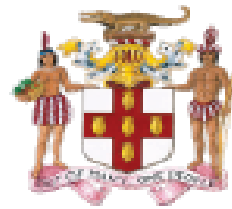
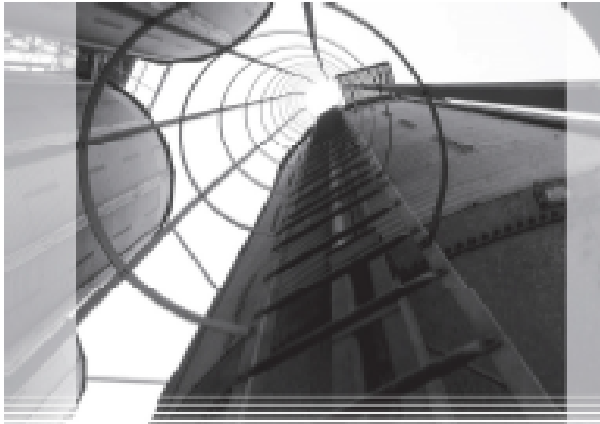




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Ministry of Industry, Investment
& Commerce (MIIC)



Caribbean Capacity-Building Workshop on Secured Transactions and Asset-Based Lending

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SIPPA and Financial Regulation: A Central Banker's Perspective

Avery Belka

Overview

- Secured Lending and Central Bank Objectives
- Concerns and Related Risks
- Central Bank Functions
 - Prudential Supervision and Regulation
 - Banking Services for Banks
- Striking the Right Balance

Central Bank Objectives

- **Economic Growth**
- **Financial Stability**
- Price Stability

Central Bank Objectives

- Promoting Economic Growth
 - Access to secured credit provides a key source of capital for economic growth
 - Expands the availability of credit
 - Lowers the cost of credit
 - Reduce the risks associated with credit
 - Particularly beneficial for MSMEs

Central Bank Objectives

- Ensuring Financial Stability
 - Maintaining a strong and resilient financial system
 - Minimize the probability and impact of bank failures
 - Promoting best practices and establishing minimum standards
 - Encouraging public trust in the banking system

Concerns and Related Risks

- **Macroprudential Concerns**
 - The risk secured personal property lending may present to the financial system as whole or a particular market segment
- **Microprudential Concerns**
 - The risk secured personal property lending may present to an individual financial Institution

Concerns and Related Risks

- Related Risks
 - ***Credit Risk***: the risk of loss associated with a borrower's failure to repay a loan
 - ***Operational Risk***: the risk of loss associated with failed internal processes or systems
 - ***Legal Risk***: risk associated with a failure to take appropriate measures to protect an interest in an asset or a change in the law or its interpretation
 - ***Reputational Risk***: the risk of loss associated with damage to a firm's reputation

Central Bank Functions

- Supervising and Regulating Financial Institutions
- Serving as a Bank for Banks
 - Providing Cash and Payment Services to Banks
 - Serving as a lender of last resort

Supervision and Regulation

- **Macroprudential Practices & Considerations**
 - Ongoing monitoring
 - Availability of accurate, relevant, and timely data
 - Targeted horizontal reviews of industry practices
 - Stress testing
 - Loan portfolio
 - Capital adequacy
- **Microprudential Practices & Considerations**
 - Supervision and examination programs and training
 - Laws, regulation, guidelines and supervisory expectations

Supervision and Regulation

- Regulations, guidelines, and supervisory expectations
 - Permissibility
 - Approval/licensing requirements to engage in ABL
 - Conditions, requirements, and expectations
 - Sound lending credit risk management guidelines and standards tailored to secured transaction ABL (receivable, inventory, IP, agricultural, etc.)
 - Loan grading and loss provisioning
 - Limitations on concentrations or risk
 - Capital requirements
 - Enforcement and remedial measures

Central Bank Lending

- Lending Practices and Considerations
 - Benefits and implications of accepting loans secured by personal property as collateral for central bank loans.
 - Risks that extensions of credit by the central bank may be subordinate to creditors under the secured personal property law
 - Benefits and drawbacks of the central bank availing itself of the protection and benefits provided by the secured transaction law.

Striking the Right Balance

- Understand the Environment
- Attune the supervisory framework
- Engage key stakeholders and continually reassess
- Active vs Passive lending
- Effective risk management
- Discipline
- Culture

Comments/Questions

Thank you!

The views and comments presented are those of the speaker and do not represent the views or opinions of the Federal Reserve Bank of San Francisco,
the Board of Governors, or the Federal Reserve System.