
Global Banking

Module application

Are the governance arrangements, risk management apparatus, compliance assurance function, and financial crime prevention mechanisms of your bank strong enough to operate anywhere in the world?

Do your bank's capital structure, leverage ratios, and other prudential metrics meet international standards?

Are your bank's systems and procedures hardened against cyberattacks, insider trading, embezzlement, bribery and corruption, and other criminal activity in accordance with global best practice?

Is your bank's anti-money laundering and counter-financing of terrorism (AML/CFT) program sufficiently comprehensive and effective to meet the world's most stringent AML/CFT requirements?

Does your bank collect and disclose all information required by international banking disclosure regimes?

Is your bank prepared to participate in the global movement towards environmental, social and governance (ESG) transparency?

Module scope

The activities of banks are regulated closely under national banking supervision regimes.

In addition, supranational banking authorities create rules and standards designed to promote the stability and trustworthiness of banks around the world.

These supranational authorities include:

The Basel Committee on Banking Supervision (BCBS), which publishes frameworks of prudential standards and governance recommendations designed to enable banks to withstand significant financial shocks

The Financial Action Task Force (FATF), which develops policies designed to protect the global financial system from criminal activity including money laundering and terrorism financing

The Financial Stability Board (FSB), which develops policy recommendations for the global financial sector and identifies banks whose size and importance warrants enhanced prudential requirements, and

The European Commission (EC), which develops directives and regulations that represent international best practice in a range of areas, including information security and privacy

The Global Banking module addresses the key output of all of these authorities. Banks that meet the recommendations contained in this module will achieve compliance with the best practice rules and standards that underpin every national banking regime.

The module breaks its recommendations into the following core obligations:

1. Bank Governance

Bank governance consists of the internal systems, programs and policies that determine how the bank is controlled by its stakeholders.

Effective governance is crucial to the ongoing success of a bank. To maximise the quality of its governance, each bank should:

Define and document a set of governance arrangements

Design and implement minimum standards for its governing body

Develop and implement a code of conduct

Establish a remuneration policy that governs the payment of the most senior personnel, and

Establish and implement an independent compliance function

In addition, each bank should incorporate programs designed to address critical compliance issues facing banking businesses as a component of their governance. Money laundering and the financing of terrorism represents the most significant compliance risk of banks worldwide today.

2. Banking Standards

BCBS publishes frameworks of prudential standards designed to enable banks to withstand significant financial shocks. The current framework is known as the Basel III Standards.

The prudential standards contained in the Basel framework represent international best practice for banks. Compliance with the Basel framework is not a direct legal obligation for any bank. However, all major jurisdictions require banks operating in their territories to comply with the Basel III Standards as interpreted in their national laws and applied by national banking regulators.

To ensure full compliance with the Basel framework, each bank should:

- Apply Basel III Standards on both an individual and consolidated basis
- Calculate the bank's global systemic importance, and
- Measure the bank's domestic systemic importance

3. Capital Requirements

The Basel III Standards establish a comprehensive set of capital requirements. These requirements are reflected in the prudential regimes of every major jurisdiction.

The bank should maintain sufficient capital amounts to cover their obligations under the framework. While accurate calculation of capital requirements is important, the key obligation of all banks is to ensure the bank retains sufficient capital to ensure the requirements are always met.

4. Leverage and Liquidity Requirements

The Basel III Standards establish leverage and liquidity requirements designed to ensure the ongoing stability of banks. The requirements comprise:

- A minimum leverage ratio of 3%
- A minimum liquidity coverage ratio (LCR) of 100%, and
- A minimum net stable funding ratio (NSFR) of 100%

Each of these requirements is the subject of a dedicated standard in the Basel III framework. The standards establish the minimum ratio requirements, determine how banks must calculate each ratio, and establish reporting obligations.

The bank should maintain all three minimum ratios at all times. Each bank should monitor each ratio on an ongoing basis regardless of the applicable reporting schedule.

5. Exposures and Margins

Banks with an excessive concentration of exposure to a single counterparty risk collapse when that counterparty fails.

Banks that exchange insufficient collateral with institutional counterparties to derivatives transactions risk losing significant capital when the value of the derivatives falls.

To address these risks, the Basel III Standards contains:

- A large exposures framework, and
- A set of margin rules.

The bank should develop exposure and margin controls that meet the recommendations contained in these standards.

6. Supervision and Risk Management

The Basel III framework is structured around three pillars. The three pillars are:

- Pillar 1, which sets mandatory baseline capital requirements, leverage and liquidity ratios, exposure limits, and margin rules for banks
- Pillar 2, which requires banks to maintain the capital and liquidity necessary to support all risks in their business under the supervision of banking authorities, and
- Pillar 3, which requires banks to disclose qualitative and quantitative prudential information to ensure transparency

Pillar 2 complements pillar 1 by requiring banks to identify and address risks that are ignored or underserved by pillar 1.

To meet pillar 2 requirements, the bank should implement:

- An internal capital adequacy assessment process (ICAAP)
- A risk management framework, and
- Risk-sensitive remuneration policies.

7. Bank Disclosures

The pillar 3 requirements of the Basel framework consist of a broad range of mandatory disclosures. These disclosures encompass every facet of risk management data.

To meet pillar 3 requirements, the bank must prepare pillar 3 reports containing all applicable mandatory disclosures. Generally, banks must meet all pillar 3 disclosure requirements on a consolidated basis at the group level.

8. Anti-Money Laundering Measures

All banking activities carry a risk of enabling customers to commit money laundering and terrorism financing (ML/TF) offences.

Addressing ML/TF risk is a priority of governments, financial crime prevention authorities and law enforcement agencies around the world. Every major jurisdiction is home to a unique anti-money laundering and counter-financing of terrorism (AMF/CFT) regime.

The bank should develop and implement a written AML/CFT program. The program should govern how the bank:

- Assesses AML/CFT risks
- Performs customer due diligence (CDD)
- Monitors customer transactions
- Identifies and reports suspicious matters
- Manages correspondent banking relationships, and
- Keeps AML/CFT records.

Banks that are part of a banking group should coordinate their AML/CFT measures across group and individual AML/CFT programs. A group-level AML/CFT program should contain policies and procedures for sharing information within the group.

9. Administration and Operations

The administration and operations of a bank consists of the procedures and mechanisms that govern how the bank carries out its activities.

When developing these procedures and mechanisms, each bank should consider:

- The conditions of its banking licence
- Input from government banking authorities
- The security of data
- The privacy of personal information
- The bank's role in national freedom of information (FOI) regimes, and
- The prevention of fraud, insider trading, and other financial crimes

The bank should also establish dedicated mechanisms for the protection of whistleblowers.

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