

Introduction to Regulatory Environment in Banking

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Key concepts, major regulators, core principles, and practical implications

1. Why Regulation Matters in Banking

Reason	Explanation
Financial Stability	Prevents systemic crises that can spread across the economy.
Consumer Protection	Safeguards depositors and borrowers from unfair practices.
Market Integrity	Ensures transparent, fair competition and reduces fraud.
Monetary Policy Effectiveness	Enables central banks to control money supply and interest rates.
International Confidence	Builds trust for cross-border banking and investment.

2. Core Regulatory Objectives (The “Four Pillars”)

- 1. **Safety & Soundness** – Maintain adequate capital, liquidity, and risk controls.
- 2. **Consumer Protection** – Clear disclosure, fair lending, and dispute resolution.
- 3. **Market Conduct** – Prevent market abuse, insider trading, and manipulation.
- 4. **Financial Integrity** – Combat money laundering, terrorist financing, and sanctions evasion.

3. Main Regulatory Bodies (U.S. Example – Global Counterparts Listed)

Level	Institution	Primary Functions
Domestic (U.S.)	Federal Reserve (Fed)	Sets monetary policy, supervises systemically important banks, provides lender of last resort.
	Office of the Comptroller of the Currency (OCC)	Charters and regulates national banks.
	Federal Deposit Insurance Corporation (FDIC)	Insures deposits, resolves failed banks, monitors risk.

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Level	Institution	Primary Functions
International	Consumer Financial Protection Bureau (CFPB)	Enforces consumer fairness rules (e.g., Truth in Lending).
	National Credit Union Administration (NCUA)	Regulates credit unions.
	Basel Committee on Banking Supervision (BCBS)	Sets global standards (Basel III, IV).
	Financial Stability Board (FSB)	Coordinates macro-prudential policies across jurisdictions.
	European Central Bank (ECB) & European Banking Authority (EBA)	Supervision of Euro area banks, harmonized EU rules.
	Bank of England (BoE) – Prudential Regulation Authority (PRA)	UK banking supervision and prudential regulation.

4. Key Regulatory Frameworks

Framework	Scope	Main Requirements
Basel III	Global capital & liquidity standards	- Minimum CET1 ratio 4.5% (plus buffers) - Liquidity Coverage Ratio (LCR) ? 100% - Net Stable Funding Ratio (NSFR) ? 100% - Stress testing (CCAR, DFAST)
Dodd-Frank Act (U.S.)	Post-2008 reforms	- Volcker Rule – limits proprietary trading - Orderly Liquidation Authority
MiFID II / MiFIR (EU)	Market structure & investor protection	- Transparency of trading venues - Best execution obligations - Enhanced reporting
GDPR (EU)	Data protection	Consent, data minimization, right to be forgotten – impacts customer data handling.

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Framework	Scope	Main Requirements
Anti-Money Laundering (AML) / Counter-Terrorist Financing (CTF)	Global	Customer Due Diligence (CDD) • Suspicious Activity Reporting (SAR) • Sanctions screening
IFRS 9 (International)	Accounting for financial instruments	