

# Contemporary Issues in Finance - Lecture 10

**Lesson Title:** Regulatory Reforms and Compliance Challenges

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# Course Overview

1

Explore evolution of financial regulation

2

Examine global reforms and their objectives

3

Discuss compliance frameworks and challenges

4

Evaluate new risks from digital and sustainable finance

5

Review emerging market perspectives



# Learning Objectives

By the end of this lecture, students should be able to:

- Understand why financial regulation is needed
  - Analyze major global regulatory reforms
  - Evaluate compliance and risk management functions
  - Identify new regulatory challenges in fintech and ESG finance
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# Learning Outcomes



By the end of this course learners will be able to:



Critically assess financial regulatory frameworks



Apply compliance principles to real cases



Innovation and stability trade-offs



Formulate policy improvement ideas



# Outline

- Introduction
  - Evolution and Rationale for Regulation
  - Major Global Reforms
  - Compliance and Risk Management
  - Technology and RegTech
  - ESG and Sustainable Finance Regulation
  - Emerging Market Challenges
  - Future Trends and Policy Directions
  - Conclusion
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# Introduction

- Financial crises exposed deep regulatory weaknesses
- Reforms seek to ensure stability, transparency, and trust
- Digitalization and sustainability add complexity
- Compliance now strategic, not just procedural

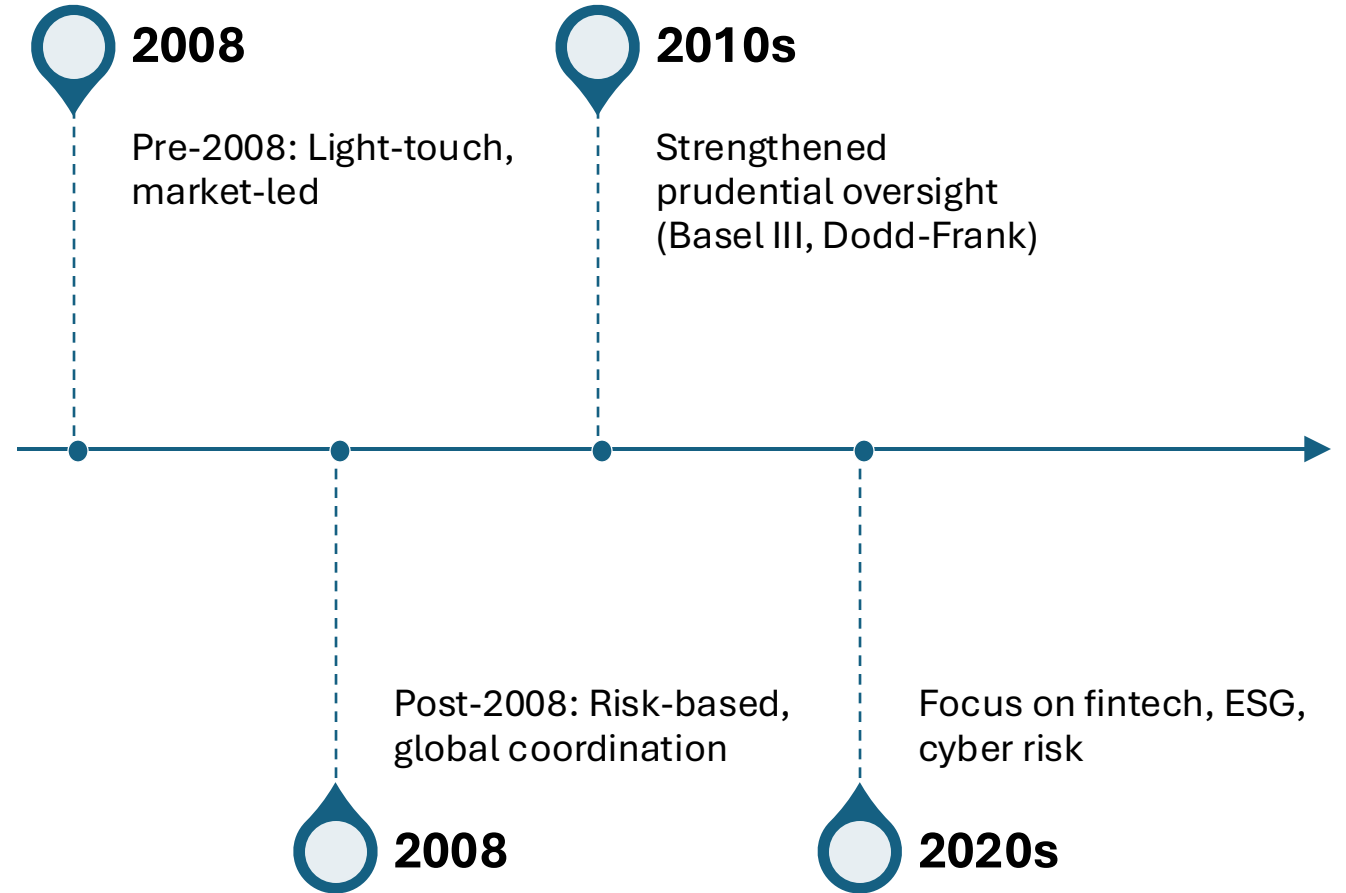


# The Rationale for Financial Regulation

- Maintain market confidence
- Protect consumers and investors
- Prevent systemic risk
- Promote financial stability



# Evolution of Financial Regulation




# Major Global Reforms

Basel III / IV: Capital adequacy, liquidity, leverage

Dodd-Frank Act (US): Systemic risk oversight


MiFID II (EU): Market transparency and investor protection

IFRS 9: Forward-looking risk recognition



# Basel III / IV – Capital Adequacy, Liquidity, and Leverage

- Introduced post-2008 by the Basel Committee on Banking Supervision (BCBS)
  - Strengthens capital quality and quantity (Common Equity Tier 1)
  - Introduces Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)
  - Limits excessive leverage through the leverage ratio
  - Basel IV refines risk-weighted asset calculations
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# Dodd-Frank Act (US) – Systemic Risk Oversight

- Enacted in 2010 in response to the 2008 financial crisis
  - Established the Financial Stability Oversight Council (FSOC) and the Consumer Financial Protection Bureau (CFPB)
  - Introduced the Volcker Rule – restricting proprietary trading by banks
  - Enhanced derivatives regulation (central clearing, reporting)
  - Increased stress testing and living will requirements
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# MiFID II (EU) – Market Transparency and Investor Protection

- Implemented in 2018 across the EU
  - Aims to enhance market transparency and investor protection
  - Expands trade reporting and disclosure obligations
  - Tightens rules on high-frequency and algorithmic trading
  - Strengthens suitability and product governance rules for retail investors
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# IFRS 9 – Forward-Looking Risk Recognition

- Introduced by the International Accounting Standards Board (IASB) in 2018
  - Replaces IAS 39 to enhance financial instrument reporting
  - Introduces the Expected Credit Loss (ECL) model
  - Requires earlier recognition of credit losses
  - Aligns accounting with prudential supervision and transparency
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# Compliance and Risk Management



# The Compliance Cycle



# Technology and Compliance (RegTech & SupTech)



RegTech for automation and data analytics



SupTech for regulatory supervision



Cybersecurity and data privacy (GDPR, PSD2)



Challenges: algorithmic bias, regulatory lag

# Digital Finance and Crypto Challenges

- Cryptocurrencies and DeFi outside traditional oversight
- Risks: volatility, fraud, AML evasion
- FTX and Terra-Luna collapses as regulatory lessons
- Emerging frameworks: MiCA (EU), FATF guidance



# Sustainable Finance and ESG Regulation

ESG integration  
into risk  
management

Disclosure  
frameworks:  
TCFD, SFDR,  
ISSB

Green taxonomy  
for classification

Climate-related  
stress testing

# Greenwashing and Compliance

- Misleading ESG claims that can lead to reputational risk
- Need for standardized disclosures
- Example: Volkswagen emissions scandal
- Enforcement through ESG audits and penalties

# Emerging Market Challenges



Limited regulatory  
capacity



Informal and shadow  
financial systems



Fintech innovation  
outpacing regulation



Examples: Kenya's M-  
Pesa, Nigeria's mobile  
lenders

# Balancing Innovation and Stability



Sandboxes for fintech experimentation



Collaborative regulation (“co-regulation”)



Dynamic supervision using data analytics



Principle-based vs. rule-based  
approaches



# Global Financial Governance

- Coordination among BIS, FSB, IMF, and World Bank
  - Cross-border consistency vs. fragmentation
  - Post-Brexit divergence issues
  - G20's role in macroprudential standards
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# Case Studies

2008 Global  
Financial  
Crisis: Lessons  
for systemic  
oversight

Wirecard  
Scandal (EU):  
Audit and  
supervision  
failures

FTX Collapse  
(2022): Crypto  
and  
governance  
gaps


Kenya's Fintech  
Boom:  
Regulation vs.  
innovation  
balance




# Future Directions



Central Bank  
Digital  
Currencies  
(CBDCs)



Climate-related  
prudential  
policies



Integrated ESG  
and cyber risk  
regulation



Data-driven  
compliance  
cultures

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# Policy and Ethical Dimensions



From compliance to corporate ethics



Governance accountability and transparency



Stakeholder trust as a competitive advantage



Need for ethical leadership in finance



# Conclusion

Regulation must evolve with innovation. Compliance is a strategic enabler of resilience. Balance needed: innovation, inclusion, integrity. Future: tech-driven, ethics-oriented, global cooperation

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# Discussion Questions

- Can regulation keep pace with fintech innovation?
- How can regulators avoid stifling sustainable finance?
- What ethical responsibilities go beyond compliance?





# Recommended Readings

Bank for International Settlements (BIS). (2023). Annual Economic Report 2023. Basel: BIS.

Financial Stability Board (FSB). (2022). Global Monitoring Report on Non-Bank Financial Intermediation.

International Monetary Fund (IMF). (2023). Global Financial Stability Report: Safeguarding Financial Stability amid High Inflation and Market Volatility.

World Bank. (2022). Regulatory Frameworks for Financial Resilience and Inclusion.

Basel Committee on Banking Supervision (BCBS). (2022). Principles for the Effective Management and Supervision of Climate -Related Financial Risks.

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# Useful Online Resources

- BIS – [www.bis.org](http://www.bis.org)
  - FSB – [www.fsb.org](http://www.fsb.org)
  - IMF – [www.imf.org](http://www.imf.org)
  - World Bank – [www.worldbank.org](http://www.worldbank.org)
  - UNEP FI – [www.unepfi.org](http://www.unepfi.org)
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Thank You

“Effective regulation is not about rules alone, but about restoring and maintaining trust.”

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