TC NOTES

PRACTICAL **LEADERSHIP** AND **GUIDANCE** FROM TORONTO CENTRE

MANAGING MULTIPLE SUPERVISORY OBJECTIVES

ESSAY WINNERS 2024

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MANAGING MULTIPLE SUPERVISORY OBJECTIVES

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MANAGING MULTIPLE SUPERVISORY OBJECTIVES

Preface

In late 2024, Toronto Centre accepted submissions for an essay contest in which participants were asked to describe how their supervisory authorities managed multiple supervisory objectives.

The competition received many high-quality entries from our international network. We are pleased to announce the winners of this contest to be **Firna Mahardika Salsabila** of the Indonesia Financial Services Authority (OJK) and **Flávio Almeida Paolinelli de Castro** of the Banco Central do Brasil.

Reflecting the high standards of the entries, we have also included in this Note four Annexes, based on submissions from **Amira Monier** of the Egypt Financial Regulatory Authority, **Harry Masina** of the Central Bank of Eswatini, **Christine Onyango** of the **Kenya** Retirement Benefits Authority, and **Robert Onyegbula** of the Nigeria Securities and Exchange Commission.

Toronto Centre congratulates these outstanding writers on their accomplished works and commends all those who submitted an essay.

Introduction[1]

The expanding scope of supervisory authorities and central banks in recent years reflects the complexity of modern financial systems and their growing importance in contributing to economic growth and stability. While there is extensive discussion on how central banks manage multiple mandates – such as price stability, economic growth, and full employment (IMF 2008) – less attention is given to how supervisory authorities and central banks adapt to new objectives and responsibilities, especially for authorities that combine economic policy and supervisory functions.

These additional responsibilities include financial inclusion, competitiveness, innovation, and sustainability. While this expanded agenda aligns with evolving societal needs, managing multiple objectives can strain resources, challenge prioritization, create tensions and even conflicts among objectives, and have an impact on institutional effectiveness.

Meanwhile, globalization and technological advancements have introduced new supervisory challenges. Cross-border transactions, digital assets, and algorithmic trading require supervisory authorities to possess specialized knowledge and establish adaptive frameworks. Supervisory authorities must adopt comprehensive strategies to effectively manage and prioritize diverse objectives.

This Toronto Centre Note focuses on two examples of these expanding scopes of supervisory authorities and how these scopes are managed – the supervision of investment management firms in Indonesia and the widening range of supervisory objectives of the Central Bank of Brazil. Four Annexes provide further examples from Egypt, Eswatini, Kenya and Nigeria.

Investment management supervision in Indonesia

Financial institutions play a pivotal role in fostering economic development by enabling the flow of money and capital within the economy. Among these institutions, investment management firms hold particular importance. Their primary role is to oversee and manage financial assets to achieve specific investment goals, balancing the objective of maximizing returns while minimizing risks. The essence of investment management lies in its ability to navigate the complexities of asset allocation, portfolio diversification, and risk mitigation.[2]

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[1] This Note was written by Firna Mahardika Salsabila of the Indonesia Financial Services Authority (OJK) and Flávio Almeida Paolinelli de Castro of the Banco Central do Brasil, with Annexes based on essays submitted by Amira Monier of the Egypt Financial Regulatory Authority, Harry Masina of the Central Bank of Eswatini, Christine Onyango of the Kenya Retirement Benefits Authority, and Robert Onyegbula of the Nigeria Securities and Exchange Commission. The views expressed in the Note are those of the authors and do not necessarily reflect those of their organizations. Please address any questions about this Note to publications@torontocentre.org.

[2] See Samuels (2024).

As economies grow and diversify, investment management evolves by introducing more sophisticated financial products and strategies to address the changing needs of investors. This evolution enhances market efficiency and optimizes capital allocation. However, it also adds layers of complexity to supervisory practices. The rapid pace of innovation in investment management underscores the need for continuous updates to supervisory methods to address emerging risks.

The Financial Services Authority of Indonesia, locally known as the Otoritas Jasa Keuangan (OJK), plays a critical role in regulating and supervising the country's financial institutions, including investment management firms. Its primary objectives include ensuring that financial activities are conducted in an orderly, fair, transparent, and accountable manner. These efforts aim to create a sustainable and stable financial services sector while safeguarding the interests of consumers and the broader public.

Each of these supervisory objectives is crucial for maintaining the integrity and stability of Indonesia's financial markets. However, these goals can sometimes overlap, creating complexity in regulatory enforcement. Actions taken to achieve one objective may conflict with or undermine the fulfilment of another. Overlapping financial regulations can lead to ambiguous policy goals, which can hinder the development of effective and coherent supervisory frameworks.[3]

For example, while fostering accountability, imposing high levels of transparency in investment management practices can place significant compliance burdens on investment managers. These additional requirements might slow operational processes and reduce their agility in responding to dynamic market conditions. Similarly, measures designed to protect consumers and public interests - such as strict disclosure requirements - could inadvertently affect market liquidity, potentially destabilizing the broader financial system.

The OJK regulates and supervises the activities of investment management in Indonesia across three dimensions:

Institutions - investment managers, mutual fund securities selling agents, investment product administration custodian banks, and investment advisors.

Individuals – investment manager representatives, mutual fund securities selling agent representatives, and individual investment advisors.

Products - mutual funds, limited participation mutual funds, asset-backed securities, fund management contracts, real estate investment funds, infrastructure investment funds, exchange traded funds, and people's housing saving program.

As of August 2024, there were 92 investment managers, 88 mutual fund selling agents, 34 investment advisor firms, 22 custodian banks, 3,217 investment manager representatives, 9,613 mutual fund selling agents, and 9 individual investment advisors. Funds under management totaled Rupiah 840 trillion, across 2,517 regulated products.

These institutions, individuals and products have their own sets of regulation and aspects of supervision. To maintain a comprehensive and balanced approach in overseeing the investment

[3] Robb, Candy, and Deane (2022).

management industry, OJK adopts a risk-based supervision approach. This method prioritizes supervisory efforts and resources towards entities, activities, or products that present the highest potential risk to financial system stability and integrity.

In employing a risk-based supervision framework for the investment management industry, OJK allocates its resources by systematically identifying and evaluating risks associated with various investment management entities and products. This includes assessing financial, operational, compliance, and reputational risks, as well as macroeconomic factors that may have an impact on the industry. By prioritizing these risks, OJK focuses its supervisory activities on areas of greatest concern, enabling a dynamic allocation of resources and adaptation to emerging risks or shifts within the investment management industry landscape.

Challenges in managing multiple objectives

The OJK is tasked with ensuring that the activities of the investment management industry are conducted in an orderly, equitable, transparent, and accountable manner. This oversight aims to foster a sustainable and stable financial services sector while protecting the interests of customers and the public. However, balancing these multiple supervisory objectives presents significant challenges, which can complicate regulatory and supervisory efforts in the investment management industry.

An orderly financial environment within the investment management sector seeks to establish a well-structured operational framework. This includes implementing clear regulatory guidelines, enforcing compliance, and addressing practices that could disrupt market efficiency. While these measures are designed to protect consumers and the public, they can inadvertently impose operational constraints on investment managers. Such constraints may affect market liquidity and stifle innovation. For example, stringent compliance requirements could discourage the development of innovative financial products or cause delays in market activities, potentially hindering industry growth.[4]

The investment management industry involves diverse stakeholders, including investors, fund managers, and policymakers. Each group has unique priorities, and aligning their interests within a unified supervisory framework is inherently complex. A critical aspect of this alignment is the need for complete disclosure of conflicts of interest. This transparency is vital for investment professionals to build and maintain trust with clients. However, the sector is rife with agency challenges and conflicts of interest, complicating efforts to prioritize and safeguard investor interests.[5]

Innovative strategies are essential to effectively address challenges arising from conflicting objectives in the regulation and supervision of the investment management industry. Three examples of this are:

First, as globalization integrates economies, the financial sector has become increasingly interconnected. This necessitates maintaining consistent regulatory and supervisory standards

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[4] See Acharya and Richardson (2009).

[5] See Jensen and Meckling (1976).

across jurisdictions. Disparities in regulatory frameworks between countries can lead to regulatory arbitrage, making cross-border investment activity supervision more challenging.

Regulatory harmonization is critical to ensuring a robust oversight framework that minimizes risks in a globalized financial environment. For example, IOSCO provide principles for collective investment schemes that outline standards for the eligibility and regulation of entities that market or operate collective investment schemes.[6] In Indonesia, the OJK has updated earlier regulations to align with international standards, promoting consistency and fostering a globally integrated regulatory approach.

Ensuring consistency in the supervision of the investment management industry across jurisdictions is another significant challenge. Cross-border supervisory cooperation and participation in international forums are also essential to harmonize supervisory approaches.

Second, regulatory compliance must be balanced with fostering innovation within the investment management industry. Open communication between supervisors and industry stakeholders is vital to create an environment that supports innovation while ensuring compliance. Supervisory authorities can introduce mechanisms that allow entities to test innovative financial products and services under supervision without initially imposing full regulatory requirements. For example, the United Kingdom's Financial Conduct Authority (FCA) introduced a regulatory sandbox in 2016, enabling firms to test innovative products in a controlled environment.[7] Similarly, Indonesia has adopted a regulatory sandbox since 2018, which, as of October 2023, includes 99 registered digital financial innovation providers under OJK's supervision.

Third, conflicts of interest among stakeholders must be mitigated in the investment management industry. Supervisory authorities can address this issue by mandating full disclosure of potential conflicts and enforcing robust internal controls. For example, the U.S. Office of the Comptroller of the Currency recommends that investment management firms adopt a code of ethics and establish clear conduct standards for employees to ensure ethical practices.[8] Similarly, in Indonesia, OJK has established a code of conduct for investment managers, thereby addressing potential conflicts of interest and reinforcing investor protection.

The dynamic and interconnected nature of the investment management industry underscores the critical importance of prioritization and adaptability in regulatory and supervisory practices. As financial markets evolve, driven by globalization, technological advancements and the increasing complexity of financial products, supervisors must remain vigilant in addressing diverse and sometimes conflicting objectives. This involves ensuring that financial activities are orderly, transparent, and equitable while simultaneously fostering innovation and safeguarding public interests.

A forward-looking approach is essential to this. By embracing innovation through mechanisms such as regulatory sandboxes and enhancing cross-border cooperation, supervisory authorities

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[6] IOSCO (2017).

[7] Financial Conduct Authority (2016).

[8] Office of the Comptroller of the Currency (2001).

can create a robust framework that balances compliance with flexibility. Furthermore, transparent communication and effective alignment of stakeholder interests will be pivotal in mitigating conflicts of interest and building trust in the industry.

Central Bank of Brazil: a framework to manage multiple objectives

The 1964 Banking Law established the National Monetary Council (CMN) as the highest macroeconomic and financial supervisory authority in Brazil, and created the Banco Central do Brasil (BCB). Under this institutional framework, BCB performs its functions as a monetary, regulatory and supervisory authority in accordance with guidelines issued by the CMN.

The primary mission of the BCB is to safeguard price stability, by ensuring the purchasing power of the currency, fostering a sound, efficient, and competitive financial system, and promoting the economic well-being of society. BCB is also legally in charge of ensuring financial stability.

Over time, the BCB's responsibilities have expanded to include financial inclusion, financial literacy, innovation, transparency, competitiveness, and sustainability.

To accomplish this mission and objectives, the BCB regulates and supervises regulated institutions. Other financial supervisory authorities in Brazil include the Securities and Exchange Commission (CVM), the Superintendence of Private Insurance (SUSEP), and the National Superintendence of Complementary Pension (PREVIC).

Despite its operational autonomy, the BCB lacks financial, budgetary, and administrative independence. It does not impose supervisory fees on the financial institutions it supervises, but relies on federal budget allocations. This funding model inherently ties the BCB's capacity to broader fiscal constraints, subjecting it to political and economic volatility and placing a disproportionate burden on its operational resources.

Since 2014, hiring restrictions have reduced the BCB's workforce from 4,078 to 3,276, despite an expanding financial system. Despite these limitations, the BCB has demonstrated creativity and resilience in addressing contemporary challenges. Initiatives such as PIX, the instant payment system launched in 2020, and the phased implementation of Open Finance have positioned Brazil as a global leader in financial innovation. These achievements underscore the institution's ability to maximize limited resources.

Managing multiple objectives requires a clear framework to prioritize and balance goals. The BCB employs several strategies to achieve this:

Strategic planning

The BCB follows a four-year strategic planning cycle of diagnosis, risk assessment, execution, monitoring, and evaluation. It is currently implementing the Institutional Strategic Plan (PEI-BCB) for the 2020–2025 period[9], based on strategic guidelines set by its Board of Governors.

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[9] The 2020-23 Plan was extended by two years.

In 2016, the BCB introduced the Agenda BC+, which later evolved into the Agenda BC#. This strategic framework organizes the BCB's objectives into six dimensions: Inclusion, Competitiveness, Transparency, Education, Sustainability, and Excellence. This structure is intended to ensure that the BCB's efforts are aligned with its overarching goals, and that resources are directed toward priority areas.

Governance framework

The BCB upholds corporate governance through the work of its Board of Directors and committees, its strategic orientation, its accountability mechanisms, its proactive transparency efforts, and its Integrity Program.

Board committees include the Monetary Policy Committee, the Financial Stability Committee (setting guidelines to maintain financial stability and prevent the materialization of systemic risk), and the Governance, Risk, and Controls Committee (setting guidelines and strategies for corporate governance and the management of internal risks and controls).

Dedicated directorates and departments

Specific objectives are managed by specialized directorates and departments within the BCB. For example, the departments under the Supervision Directorate oversee prudential supervision, whereas the Conduct Supervision Department, part of the Institutional Relations, Citizenship and Conduct Supervision Directorate, is responsible for market conduct supervision, reflecting the implementation of the "Twin Peaks" supervisory model at the BCB. Each directorate and department has clearly defined roles, as specified in the BCB's internal manuals and governance structure.

Interdepartmental coordination

The BCB fosters collaboration between departments to address overlapping objectives. For example, the implementation of Open Finance involves coordination between innovation-focused teams and those responsible for financial stability to ensure that technological advancements do not compromise systemic resilience.

Stakeholder engagement

The BCB engages with a wide range of stakeholders, including financial institutions, FinTechs, and international organizations and standard-setters, to ensure that its policies are comprehensive and reflect the needs of the broader financial ecosystem. For example, the introduction of PIX and Open Finance (see below) benefited from extensive consultation with market participants.

Monitoring and evaluation

The BCB uses key performance indicators (KPIs) and regular assessments to gauge its progress across various objectives. For instance, the success of financial inclusion efforts is monitored through indicators such as the Financial Health Index, which was developed by the Brazilian Association of Banks with technical support from the BCB.

Resource allocation and supervision

Due to budgetary constraints, the BCB must allocate resources strategically. This allocation is guided by a combination of strategic priorities, risk assessments, and operational requirements. Key principles for resource allocation for supervisory activities include:

Risk-Based Approach: Resources are allocated based on the potential impact of risks to the financial system. For example, systemic financial institutions receive greater supervisory attention due to their critical role in economic stability or potential harm to consumers and investors.

Strategic Priorities: The Agenda BC# provides a roadmap for prioritizing initiatives. For example, the launch of PIX required significant resources to develop the necessary infrastructure, reflecting its importance in promoting financial inclusion and innovation.

Regulatory Scope and Complexity: Activities with higher regulatory complexity, such as prudential supervision of large banks or implementation of PIX, require more resources compared to less complex tasks.

Data-Driven Decision-Making: The BCB leverages advanced analytics and data-driven tools to identify emerging risks and to allocate resources accordingly. For example, the adoption of a priority risk matrix of supervised entities helps optimize supervisory activities by identifying institutions with higher risk profiles.

Collaboration with Other Authorities: The BCB collaborates with other supervisory authorities to share resources and avoid duplication of efforts. This is particularly important for cross-cutting objectives such as financial stability and innovation.

Examples of managing multiple objectives with limited resources

Cooperative Audit

The credit union segment in Brazil is highly complex and extensive, even though it represents relatively lower risk from both prudential and market conduct perspectives when compared to the banking segment. As of December 2023, there were 768 credit unions in Brazil, serving 17.3 million members. However, the BCB faces significant challenges in supervising this segment due to resource constraints. To address this issue, the cooperative audit was established in 2015.

The cooperative audit consists of a network of accredited entities authorized by the BCB to perform annual prudential and market conduct supervision activities for credit unions. The scope of activities to be conducted by these entities is defined by both BCB regulations and supervisory priorities.

Cooperative audit entities perform tasks that support and complement the supervisory work carried out by the BCB. The BCB receives structured reports detailing the results of these activities, which are periodically assessed to ensure both the quality of the audits and the reliability of the information provided.

The cooperative audit serves as an additional line of defence, complementing traditional supervisory mechanisms. Its objective is to enhance specialization and integrate monitoring and control activities within the credit union system.

Through the insights obtained from cooperative audit entities, the BCB can supervise the credit union segment more effectively. This approach enables the BCB to allocate its supervisory resources more efficiently, focusing on institutions that pose higher risks while maintaining oversight of the broader cooperative financial system.

Financial Education[10]

Brazil has a National Financial Education Strategy (ENEF), established by a federal decree in 2010, in which the BCB plays a significant role. In collaboration with other institutions, numerous initiatives have been introduced since ENEF's inception. However, these efforts have not been sufficient to prevent high levels of indebtedness among the Brazilian population, especially following the COVID-19 pandemic.

In November 2023, a new edition of the Financial Citizenship Series was released, featuring a study on Brazil's over-indebtedness. As of March 2023, there were 15.1 million risky debtors in Brazil, equivalent to 14.2% of borrowers – the highest rate in the historical series.

To address this problem, the Brazilian government established the Emergency Debt Renegotiation Program for Defaulting Individuals ("Desenrola Brasil"). The program aimed to encourage the renegotiation of private debts held by individuals listed in default registries, thereby reducing their indebtedness and facilitating renewed access to the credit market. This law assigned the CMN and the BCB the task of regulating financial education measures as a means of preventing loan defaults and over-indebtedness.

Consequently, in December 2023, the CMN and the BCB issued a Joint Resolution outlining financial education measures to be implemented by institutions under the BCB's supervision. The resolution specifies key objectives for financial education initiatives and mandates the adoption of a financial education policy grounded in ethics, responsibility, transparency, and diligence. It also sets out guiding principles to ensure broad coverage, suitability, and personalization of services for clients.

As with the approach taken to consumer protection policies, financial institutions are required to establish monitoring and control mechanisms to support the implementation and effectiveness of their financial education policies. This includes using appropriate metrics and indicators to identify and address potential inefficiencies. Such provisions lead to more effective supervision by requiring institutions to develop effectiveness indicators, thereby streamlining supervision efforts. Instead of relying solely on formal compliance checks, supervisors can focus on objective indicators to verify whether the requirements are being met, making supervision less resource intensive and more effective.

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[10] Financial education is the process to achieve financial literacy and ultimately to support financial well-being, as set out in the G20/OECD High-Level Principles on Financial Consumer Protection.

PIX and Financial Inclusion

The introduction of PIX in 2020 marked a pivotal moment in Brazil's financial landscape, showcasing how the Central Bank of Brazil (BCB) effectively balanced its innovation mandate with its commitment to financial inclusion. PIX is a platform that revolutionized the way payments are processed in the country, allowing instant transfers 24 hours a day, seven days a week, at minimal or no cost to the user. With its implementation, the BCB took a significant step toward modernizing payment systems and promoting broader access to financial services. PIX quickly became the most widely adopted payment method in Brazil.

One of the primary objectives of PIX was to promote financial inclusion, particularly among underserved and unbanked populations. Before PIX, many individuals in remote or lower-income areas relied on cash or costly services to send and receive money. By offering a fast, secure, and virtually free payment alternative, PIX has made it possible for people from different socioeconomic backgrounds to enter the formal financial system.

The development of PIX required extensive collaboration across various departments within the BCB, as well as cooperation with regulated institutions. It required a concerted effort by several teams, relocation of staff and the expansion of the staff dedicated to this achievement. Security, interoperability, and regulatory compliance were central concerns. The BCB needed to oversee the creation of robust technological infrastructure capable of handling high transaction volumes while preventing fraud. By setting clear regulatory guidelines and working closely with financial players, the BCB successfully launched a platform that met rigorous security standards without compromising accessibility.

Overall, PIX has transformed the way people and businesses transact in Brazil, illustrating the Central Bank's ability to strike a balance between innovation and inclusion.

Valores a Receber system

The BCB's Valores a Receber system (SVR) is designed to help individuals recover unclaimed or forgotten funds held by financial institutions. It consolidates data from banks, credit unions, and other regulated entities, identifying accounts with dormant balances or overdue amounts that should be returned to customers. Users can check the system through the BCB's online portal and, upon confirmation of any outstanding funds, request the refund of money that rightfully belongs to them.

Under this arrangement, regulated entities bear the primary responsibility for maintaining and forwarding accurate data to the BCB. Once a claim is validated, it is the originating bank or institution – not the BCB – that processes the actual return of funds. By delegating these tasks, the BCB focuses on overseeing the overall process, thereby reducing its direct administrative burdens while ensuring transparency, compliance, and consumer protection.

By the end of 2023, this tool had enabled over 17 million people to recover nearly BRL 5.5 billion (approximately US$ 900 million) that had previously been left unclaimed with financial institutions, underscoring the effectiveness of the SVR in reuniting individuals with funds that might otherwise have remained lost in the banking system.

Open Finance

The implementation of Open Finance in Brazil demonstrates the BCB's capacity to manage multiple objectives with limited resources. Building upon the principles of transparency and collaboration, Open Finance encourages financial institutions to share customer data – strictly with their consent – to foster greater competition and innovation in the financial sector.

A key element of Brazil's Open Finance model lies in its governance structure. The BCB has established a framework in which private sector entities, such as banks, fintechs, and payment institutions, form governance bodies tasked with defining and enforcing rules and standards. By delegating responsibilities to these market participants, the Open Finance system benefits from industry expertise and agile decision-making processes. This also helps to align incentives, as participating institutions have a direct stake in creating an environment that is both competitive and secure.

Another notable feature of Brazil's Open Finance is its funding mechanism. Rather than placing the financial burden on the BCB, costs are borne by the market participants themselves, who collectively fund the technology infrastructure, data security measures, and operational expenses. This model spares the BCB from incurring large-scale operational costs, and encourages institutions to optimize resources and deploy the highest standards of cybersecurity and efficiency. The result is a robust ecosystem that promotes innovation, data protection, and value-added services for consumers.

Overall, Brazil's Open Finance initiative balances financial inclusion, competition, innovation, and consumer protection. By assigning a significant share of governance and operational costs to the private sector, the BCB aims to ensure that the system can evolve dynamically in response to market changes. At the same time, the BCB maintains oversight through regulations and monitoring, preserving financial stability and protecting the interests of consumers.

Conclusions

The success of investment management supervision in Indonesia lies in its ability to adapt proactively to the shifting landscape, prioritize critical risks, and implement comprehensive strategies that support sustainable growth and stability in the financial services sector.

Similarly, in Brazil the BCB successfully manages multiple objectives through strategic planning, specialized governance, and innovative supervisory approaches. However, its lack of financial and budgetary independence poses challenges, especially in workforce constraints and resource allocation. To maintain effectiveness, the BCB has adopted risk-based supervision, technology-driven solutions, and collaborative governance models to optimize resources.

Annex 1: Egypt Financial Regulatory Authority

The Egyptian Financial Regulatory Authority (FRA) has witnessed a shift in its supervisory objectives, driven by the increasing challenges posed by economic and technological transformations. This necessitates a re-evaluation of strategic priorities, including enhancing coordination with local and international regulatory and supervisory bodies and adopting global good practices to ensure the stability of non-banking financial markets. For example, the FRA seeks to develop its supervisory approaches by transitioning to risk-based supervision, maintaining a continuous focus on sustainable development and integrating sustainability dimensions into financial operations.

Core objectives

The core objectives of the FRA include ensuring the stability and integrity of non-banking financial markets. The FRA works to enhance transparency and efficiency in the capital market, insurance, real estate finance, and microfinance sectors, while also protecting the rights of participants in these markets.

Complementary objectives

In addition to its core objectives, the FRA strives to achieve complementary objectives that support sustainable development, such as promoting financial inclusion and mitigating climate-related risks. For example, the FRA encourages the use of innovative financial instruments such as green bonds and carbon markets, which contribute to reducing environmental impact and enhancing the sustainability of financial markets.

Managing multiple supervisory objectives

It is the responsibility of the FRA's senior management to define the policies necessary to achieve the FRA's objectives and to seek to ensure that resources are allocated in line with these policies. For example, senior management has adopted a policy of transitioning to risk-based supervision instead of traditional compliance-focused approaches. The FRA has also integrated sustainability dimensions into its strategies by introducing innovative financial tools such as green bonds and carbon markets. Furthermore, senior management decisions regarding competition, derivatives regulation, and market deepening are part of the strategic direction toward market stability and development.

The FRA's executive departments are responsible for implementing the policies set by senior management. Their tasks include supervision, inspection, licensing, and enforcing recommendations and decisions. These departments also contribute to developing and improving legislation in line with economic and financial developments. For example, if there is a need to amend laws to keep pace with modern financial technologies or enhance investor protection, the technical departments propose these amendments and implement the issued directives.

Resource allocation across supervisory objectives

Resources are allocated based on the strategic objectives defined by the FRA, taking into account changes in the economic and legislative environment. Required resources are periodically assessed to ensure they align with shifting priorities.

The FRA relies on continuous assessment of emerging risks in the markets to determine resource allocation priorities. For example, if financial or economic risks increase in a specific sector, additional resources are allocated to supervise that sector.

Financial technology is a fundamental part of resource allocation strategies, as it helps develop tools such as early warning systems and artificial intelligence for financial data analysis, enhancing the FRA's ability to make effective and timely supervisory decisions.

With the evolution of supervisory objectives and their increasing complexity, it has become necessary to restructure the FRA's organizational framework to align with modern requirements. This includes establishing new units specialized in areas such as financial technology, sustainability, and risk management, as well as developing the leadership and technical skills of employees.

The technical departments have been reorganized to reflect new priorities, such as creating a department dedicated to supervising financial technology and another focused on monitoring sustainability dimensions in financial markets.

Intensive training programs have been implemented to improve employee efficiency in areas such as data analysis, risk management, and modern financial legislation. Cooperation with academic institutions and international bodies has also been strengthened to exchange expertise.

New policies have been developed to attract talent with expertise in emerging fields, such as sustainable finance and artificial intelligence, to enhance the availability of the necessary skills to achieve multiple supervisory objectives.

Challenges and solutions in balancing multiple objectives

One of the most prominent challenges facing the FRA is the need to balance financial regulation and supervision with market development, especially given the multiple objectives and economic variables. To address these challenges, the FRA has adopted a flexible framework that allows adaptation to economic and legislative changes. Resources are allocated based on periodic risk assessments and shifting priorities.

Managing multiple supervisory objectives at the FRA requires a flexible approach that combines risk-based supervision, effective resource allocation, and the promotion of financial inclusion and sustainability. Despite the challenges, the FRA continues to strive for the stability and sustainable development of non-banking financial markets, emphasizing the importance of cooperation with local and international regulatory and supervisory bodies. Additionally, restructuring the organizational framework and enhancing competencies are essential steps to ensure the efficient and effective achievement of these objectives.

Annex 2: Central Bank of Eswatini

Objectives

Numerous objectives that are essential to the stability and expansion of the financial sector are assigned to the Central Bank of Eswatini (CBE). These objectives include:

- **Monetary policy** - keeping inflation under control and maintaining currency stability to encourage economic expansion.
- **Financial stability** - preventing systemic risks and preserving trust in the financial sector by ensuring the stability of the financial system.
- **Consumer protection** - preserving the rights of customers in the banking industry.
- **AML/CFT compliance** - enforcing strict regulations to prevent money laundering and terrorism financing.
- **Financial inclusion** - encouraging the general public to have access to financial services to facilitate inclusive economic growth.

Strategic approach

Managing these many objectives necessitates a strategic approach that balances priorities and ensures efficient resource allocation. To do so, the CBE implements different strategies:

Integrated supervision framework: The CBE has created an integrated supervision framework that incorporates market and conduct monitoring together with prudential supervision. This all-encompassing strategy is intended to ensure that every facet of market integrity, consumer protection and financial stability is handled simultaneously.

Risk-based supervision: The risk profile of monitored firms determines how resources are distributed. While lower-risk companies are observed through off-site monitoring and recurring evaluations, higher-risk institutions are subject to more stringent oversight. This strategy allows the CBE to concentrate its resources where they are most needed.

Cooperation and coordination: To address overlapping objectives and pool resources, the CBE works with other national and international regulatory and supervisory organizations. This cooperation guarantees a cohesive approach to financial oversight and helps to prevent duplication of effort.

Innovation and technology: Utilizing technology, such as regulatory technology (RegTech) and supervisory technology (SupTech), improves the efficacy and efficiency of supervisory tasks. The CBE's capacity to oversee several objectives at once is enhanced by these technologies, which allow for real-time monitoring and analysis.

Resource Allocation

The CBE allocates resources based on risk assessment, strategic objectives, and supervisory obligations. The primary elements impacting resource allocation are:

Risk assessment: Regular risk assessments decide how resources are allocated to different supervisory operations. Higher-risk locations are given additional resources to address possible challenges to financial stability and integrity.

Priorities: The CBE's strategic plan describes the institution's top priorities, which guide resource distribution. For example, if increasing financial inclusion is a strategic objective, greater resources may be directed toward efforts that enhance access to financial services.

Statutory requirements: Compliance with statutory and regulatory requirements is an important factor in resource allocation. Ensuring that the CBE satisfies its legal duties is crucial to the organization's reputation and performance.

Performance metrics: Using performance metrics and key performance indicators (KPIs) to assess the efficacy of resource allocation. Regular reviews and adjustments ensure that resources are used efficiently to achieve the CBE's objectives.

Challenges and solutions

Managing numerous objectives involves several challenges, including resource restrictions, competing agendas, and the requirement for specialized knowledge. The CBE addresses these challenges through:

Capacity building: Investing in training and development for employees to improve their skills and expertise, so that the CBE has the necessary skills to handle complicated supervision activities.

Stakeholder engagement: Collaborating with stakeholders, including financial institutions, consumers, and international organizations, to gain insights and reach a consensus on critical problems. This collaborative method aids in aligning objectives and resolving competing priorities.

Flexible policies: Creating policies and frameworks that are adaptable to changing conditions. This enables the CBE to efficiently address growing risks and increasing regulatory requirements.

Efficient use of technology: Simplifying procedures and increasing supervisory efficiency. This involves the use of data analytics, artificial intelligence, and other innovations.

The CBE’s experience demonstrates the complexities and difficulty of handling several objectives as a supervisory authority. Strategic planning, risk-based supervision, teamwork, and effective technology utilization enable the CBE to balance its different objectives. Continued investment in capacity building, stakeholder engagement, and technology innovation will be critical to preserving this equilibrium and securing the stability and expansion of Eswatini's financial industry.

Annex 3: Kenya Retirement Benefits Authority

The Kenya Retirement Benefits Authority (RBA) is a key supervisory authority established in 1997 through the enactment of the Retirement Benefits Act to regulate and supervise pension schemes in Kenya.

Objectives

Initially, the RBA's role focused on compliance with the requirements set out in the Act to safeguard contributors' funds within the pension sector. However, the RBA's mandate has evolved over the years to encompass a broader strategic framework to improve the pension system's sustainability and stability, promote financial inclusion, and enhance governance practices across pension schemes. The RBA's key objectives are:

Supervision – monitoring whether pension schemes comply with the Retirement Benefits Act and adhere to regulatory requirements. To protect contributors' interests, the RBA conducts regular inspections, audits, and risk assessments to check that pension schemes are well-managed, financially healthy, and transparent. The RBA also emphasizes transparency, to enable pension members can access real-time data on their contributions and account balances, which enhances trust in the system.

Governance and accountability - strengthening governance structures within pension schemes, to increase accountability, integrity, and transparency among trustees and administrators of pension schemes. The RBA enforces strict governance standards for pension schemes, including on Board composition; transparency and disclosure of financial reports, investment strategies, and the scheme's overall health; risk management; and internal controls.

Financial inclusion and public education and awareness - expanding pension coverage, particularly among informal sector workers who have traditionally been excluded from formal pension systems. This involves promoting micro-pension schemes and leveraging mobile money platforms such as M-Pesa to facilitate easy access to pension savings. The RBA also undertakes financial literacy initiatives, including engaging with the public through educational campaigns and initiatives encouraging retirement planning, to raise awareness of the importance of retirement savings, so that more Kenyans understand and actively participate in pension schemes.

Evaluation

The Government regularly appraises the RBA's performance through several mechanisms designed to assess its effectiveness in meeting its objectives and executing its mandate. These include annual performance reports; audit and inspection reports; policy reviews and reforms; and government performance contracts.

The RBA, as a government agency, is subject to performance contracts, where it agrees to meet specific targets aligned with the country's development objectives. These targets are reviewed periodically, and the RBA's performance is evaluated based on its ability to meet or exceed these goals. This holds the authority accountable to the government and the public, fostering a results-driven culture within the authority.

Through these mechanisms, the government aims to ensure that the RBA remains effective in achieving its strategic objectives, particularly in enhancing the pension system's stability, expanding coverage, and improving the governance and management of pension schemes. The government's evaluation of the RBA's adaptability to emerging challenges, including implementing new policies related to financial inclusion, pension governance, and economic stability, plays a key role in the authority's continued evolution. This fosters continual improvement within the RBA, helping it respond to changing needs and align with broader national goals, including financial inclusion, economic development, and the long-term security of retirees in Kenya.

The RBA also actively engages with stakeholders - pension scheme members, trustees, administrators, and other financial supervisory authorities - through consultations, surveys, and feedback mechanisms. This interaction helps the RBA gauge the effectiveness of its initiatives, such as improving governance, expanding pension coverage, and enhancing financial literacy. Public satisfaction, particularly among pension scheme members, is a critical indicator of the RBA's performance and success.

Managing multiple objectives and resource allocation

The RBA manages its multiple objectives through a combination of strategic planning, targeted resource allocation, and the use of specialized supervisory tools. Key strategies include:

Strategic planning: The RBA formulates a Strategic Plan, typically spanning five years, that outlines key priorities. Resources are allocated to these priorities based on urgency and importance. For example, if financial inclusion or micro-pensions become a key priority, more resources are dedicated to expanding these initiatives.

Risk-based supervision: The RBA implements risk-based supervision to monitor and manage risks effectively, prioritizing high-risk schemes (for example those with poor governance, underfunding, or financial instability) for greater scrutiny (including more frequent audits and closer scrutiny), and intervening early to stabilize high-risk schemes. This allows the RBA to identify which pension schemes are most at risk and to focus the RBA's efforts where they are most needed.

Collaboration with other supervisory authorities: The RBA partners with other supervisory authorities, including the Central Bank of Kenya, Capital Markets Authority, and Insurance Regulatory Authority, to facilitate the effective and efficient supervision of pension schemes by addressing overlapping issues across financial sectors, and by pooling resources and coordinating efforts. The RBA is also a member of international organizations such as the International Organization of Pension Supervisors and the International Social Security Association, which provide access to international good practices, technical assistance, and alignment with global standards.

Public education and outreach: A portion of the RBA's resources is dedicated to public education campaigns. These campaigns involve funding programs, seminars and workshops that help educate the public about the importance of retirement savings.

The RBA is committed to improving the governance, sustainability, and inclusivity of Kenya's pension system. By focusing its resources on high-risk schemes, promoting good governance, and working collaboratively with national and international supervisors and regulators, the RBA aims to ensure that pension schemes operate effectively and securely. Through continued reforms and strategic planning, the RBA will continue to play a pivotal role in safeguarding the financial future of Kenyan workers.

Annex 4: Central Bank of Nigeria

Managing multiple objectives

Supervisory authorities cannot give equal weight to all objectives at all times. For example, in periods of financial distress stabilizing the banking system may take precedence over consumer protection or fostering competition. This requires flexibility in resource allocation and swift decision-making. The Central Bank of Nigeria (CBN) has shifted its focus to stabilizing the financial sector during economic downturns, which sometimes necessitates temporary reductions in consumer protection efforts.

Effective management of multiple objectives requires close and seamless coordination between different departments within a supervisory authority. For example, the risk management department and the consumer protection department must work together to ensure that risk mitigation measures do not negatively impact consumers. Regular meetings and shared platforms for information exchange can enhance this coordination, leading to more holistic supervisory strategies. This interdepartmental collaboration helps avoid silos that could hinder effective supervision.

One of the primary challenges of managing multiple objectives is the trade-off in resource allocation. A risk-based allocation framework allows supervisory authorities to focus their efforts on areas that pose the greatest risks. Institutions deemed "systemically important" often receive the most attention. Resource allocation reports indicate that 60% of the CBN's supervisory budget is directed towards financial stability and prudential regulation efforts, reflecting the priority placed on maintaining financial stability and the safety and soundness of financial institutions. However, allocating significant resources to addressing financial stability risks may reduce the resources available for consumer protection or market oversight.

The CBN adopts a risk-based approach to allocate resources efficiently. By focusing on systemically important banks that are crucial to the economy's stability, the CBN optimizes its limited budget to try to ensure that key financial institutions remain stable. This approach helps authorities allocate their finite resources efficiently and effectively and is common in emerging markets where resource constraints limit the supervisory reach. However, focusing on the systemic risks posed by large banks might come at the cost of less attention to smaller institutions. This imbalance could lead to blind spots that threaten the broader financial system. The CBN has recognized this challenge and is working on strategies to ensure that smaller banks also receive adequate oversight.

A supervisory authority's budget is usually allocated according to priorities that shift as a result of changing economic conditions and risks. Personnel are assigned based on expertise and the urgency of specific issues. The CBN, for example, has specific divisions dedicated to financial stability, prudential regulation, and consumer protection, each receiving a portion of the overall budget based on current priorities. The allocation process often involves detailed assessments of the economic landscape to identify where resources are most needed.

As supervisory authorities increasingly rely on big data, artificial intelligence, and machine learning to detect and mitigate risks, investments in technology are becoming vital. The CBN has implemented technology-driven supervision tools that allow real-time monitoring of financial institutions, enhancing its ability to allocate resources proactively rather than reactively. For example, the use of data analytics helps the CBN identify emerging risks and address them before they escalate.

The CBN provides a useful example of how supervisory authorities manage multiple objectives in practice. It has a clear mandate to ensure the soundness of the banking sector, promote financial inclusion, and drive economic development. The CBN adopts a risk-based approach to supervision, focusing on systemic banks and high-risk areas, while also nurturing fintech innovation. Through initiatives such as the e-Naira digital currency and partnerships with fintech start-ups, the CBN demonstrates how supervisory authorities can balance traditional regulatory duties while fostering innovation. Moreover, the CBN's commitment to financial literacy and consumer education reflects its understanding of the importance of empowering consumers in the financial system.

Challenges

Supervisory authorities in EMDEs often face resource constraints, making it difficult to fully meet all objectives. This can result in overburdened staff and insufficient funding for technology investments. A potential solution is greater collaboration with international organizations such as the IMF or World Bank to supplement resources and provide technical assistance. Such partnerships can help build capacity and improve the effectiveness of supervisory frameworks.

Another challenge is the danger of supervisory capture, where supervisors become too close to the institutions they are supposed to supervise. Regular internal audits and rotations within supervisory teams can help mitigate this risk by ensuring impartiality and a fresh perspective on supervisory matters. Additionally, fostering a culture of transparency and accountability within supervisory authorities can deter capture.

In an increasingly globalized financial market, cross-border risks require international cooperation. Supervisory authorities must work together to share information, coordinate actions, and manage global risks. Strengthening international frameworks for collaboration can enhance global financial stability.

Nigeria's fintech ecosystem has grown rapidly, with the CBN introducing regulatory sandboxes to encourage safe innovation. This approach has positioned Nigeria as one of Africa's fintech leaders. However, the challenge remains to support innovation while safeguarding the financial system against emerging risks from digital currencies and crypto assets. Nigeria's fintech sector attracted over $600 million in investment between 2014 to 2019, a testament to the country's rapidly growing financial services market.

The growing responsibilities of supervisory authorities require a deliberate balancing of multiple objectives. To address this conflict, it is important to prioritize tasks, allocate resources based on risk, and promote a strong coordination between departments. Challenges such as limited resources and the risk of supervisory capture add another layer of difficulty that must be addressed. As financial sector supervisors adapt to ever-changing economic and technological landscapes, their strategies must also evolve, ensuring they remain effective in maintaining oversight and achieving their goals.

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