

APEC REGIONAL SYMPOSIUM REPORT

Enhancing Financial Policy and Regulatory Cooperation — Responses to the Global Financial Crisis

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REPORT ON THE APEC REGIONAL SYMPOSIUM: ENHANCING FINANCIAL POLICY AND REGULATORY COOPERATION- RESPONSES TO THE GLOBAL FINANCIAL CRISIS

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INTRODUCTION

The global nature of the financial crisis and the fact that many financial and non-financial institutions operate across national borders make international cooperation a vital part of reforming regulation. Responding to the crisis, the G20, the Finance Stability Board, the Basel Group of International Supervisors, the Bank for International Settlement and major standard setting bodies have proposed far-reaching reforms to enhance global financial stability. They necessarily involve deeper and high level regulatory cooperation, both within economies and between economies and the international organisations themselves.

The purpose of the symposium was to assess the impact of proposed reforms on regional economies and to assess capacity building needs to respond to and implement reforms.

The symposium brought together specialists from international bodies, regional financial system policy makers and regulators, major private sector financial institutions and financial system academics to consider and exchange views on major reforms and their impact on national, regional and global finance. Around 70 people attended and the symposium was informed by high quality presentations and exchanges between presenters, moderators and participants. This report to APEC Financial system processes is presented as a record of the of the issues that arose and which are of relevance to the financial system reform agenda of the region, for the consideration of Ministers, policy makers, regulators and the business community.

A copy of the symposium program is attached, together with a list of participants. A research paper commissioned for the symposium and prepared by Professor Kevin Davis, Research Director, Australian Centre for Financial Studies, and Professor of Finance, University of Melbourne is available on the Centre's website. ([http://www.apec.org.au/docs/11_CON_GFC/Regulatory Reform Post GFC- Overview Paper.pdf](http://www.apec.org.au/docs/11_CON_GFC/Regulatory_Reform_Post_GFC-Overview_Paper.pdf))

SUMMARY OF KEY POINTS

The global financial crisis revealed major weaknesses in financial regulatory reach, supervision and governance, and an undermining of the light touch regulatory approach founded on the efficient market hypothesis.

The GFC has focused attention on the regulation and supervision of a network structure of finance and its constantly interacting market dynamics. It highlights the importance of systemic stability and the robustness of the system, as well as that of financial institutions. This is the challenge being confronted in reshaping the regulatory environment.

The reforms now being implemented impose higher capital requirements to support banking and are likely to require different requirements on insurance and securities.

These different requirements raise questions of regulatory arbitrage and there is no clear view on how that matter will be dealt with.

Implementing Basel III is a key obligation of proposed reforms and implementation will involve an intense commitment of resources to undertake relevant obligations.

National regulators are unlikely to take a consistent approach to proposals under Basel III. Some economies will maintain national discretions while others will lag in introducing new capital standards.

Changes to legislation and regulation are almost certain to be needed in some, perhaps many economies, to provide for stress testing and scenario building, as those measures apply both to individual financial institutions and to overall system stability.

It is important that emerging markets be brought into the regulatory reform process. The IMF will be providing a detailed report to G20 Leaders on specific financial stability issues that emerging markets confront.

Governance arrangements as they relate to supervisors and other relevant agencies are as important as those for commercial institutions they supervise.

Financial system regulators will be challenged by the fact that major global imbalances will impact on systemic stability. Excessive credit growth will continue as the perennial and major problem confronting financial systems.

National regulators will routinely confront destabilizing influences and will need to coordinate macro-economic prudential policies with other responsible agencies in their economies and with agencies in other jurisdictions. Squaring off the objective of financial stability with growth is not a simple trade-off

EXECUTIVE SUMMARY

A. Synthesis of reform developments and issues yet to be resolved

A consensus has been reached on financial reforms and reforms aimed at increasing capital adequacy, improving liquidity and containing leverage. These reforms are focused mainly on advanced market economies but even in these markets issues remain including in areas of surveillance, peer reviews of imbalances and governance of international financial institutions.

There are divergent interests between advanced and emerging economies in the G20. They include surveillance and resolution of globally systemically important financial institutions, the development and coordination of regional and international safety nets, the role of a regional financial system authority vis-a-vis the IMF, and the reform of the IMF mission and governance.

There is broad support for a phased-in timetable to implement Basel/G20 reforms, which is still some time away. This is essential to ensure that the reforms are undertaken in a measured, thoughtful and sequenced manner.

Caution on finalising the proposed liquidity standards reflects the fact that there is incomplete data and experience of liquidity regulation compared to capital regulation.

The Financial Stability Board and global standard setting bodies should be encouraged to develop standards and rules that can be implemented by national authorities in ways consistent with international practice. If local issues are not taken into account in framing international standards, national implementation of international standards is likely to become much more difficult.

National regulators will need to strike a balance in designing appropriate frameworks for regulatory interventions to suit domestic markets structures and benchmarking with those of international best practice.

The essential focus of macro-economic supervision is to ensure effective coordination among agencies in an economy to handle threats to financial instability. However, to do this effectively, economies will need to have processes in place and agreed to by all relevant agencies. This is an important challenge.

In contrast to the Financial Stability Board and Basel Group recommendations on banking reforms, reforms proposed for Over the Counter Trading and derivatives are seriously questioned. The Dodd-Frank Act of June 2010 legislated requirements in the US for standardised OTC derivative products to be traded on regulated exchanges and for the central clearing of trades. Europe has proposed similar reforms. These proposals reflect more of a political response rather than one grounded in sound finance.

Proposals for central counterparty (CCP) clearing create a number of subtle issues and it is critical that the risk of unintended consequences of some proposals be minimized.

The value of derivatives as a risk management tool is not in question. But the relevance of a central clearing requirement of OTC derivatives as a measure to mitigate risk is questioned. In terms of risk management, the case for a CCP solution is not equally strong for all OTC derivatives or indeed for all markets and their regulators

The implications of US and European proposals (reflected by reforms proposed by the G20) for matters such as the depth and liquidity of local-currency derivative markets and the vital role they play in hedging, need to be seriously considered before changes are contemplated to existing market infrastructures. These matters need to be raised to a higher level in the Asian region.

Since the crisis, major CRAs have revised their codes of conduct to focus on the quality and integrity of the rating process and to reduce conflicts of interest but, despite these efforts, there remains a potential for unmanaged conflicts of interest in the user-pays business model and this model continues as the predominant model of major agencies.

There are also serious misgivings about the approach to Credit Rating Agencies in the US Dodd-Frank Act. CRAs are likely to continue to serve an important role in the foreseeable future for funds managers and for rating corporates.

B. Impact of reforms

A 10 to 20% increase in capital requirements for those banks or financial systems that came through the financial crisis is regarded as about right. Increases of this magnitude have already been raised with Tier 1 capital as the primary source of capital. Banks' shareholders will face lower returns as a consequence of higher capital charges.

Banking business metrics are refocused on economic profit and return on earnings and on building sources of non-interest income rather than balance sheet activity.

Over the next 2 years, \$US 4 trillion of bank debt will be subject to refinancing, and this compares with estimated GFC related bank write-downs of just over \$US 2 trillion, raising prospects of material balance sheet and financial stability risks.

Investment banks could find core business lines profoundly impacted, particularly trading and securitisation and banks with substantial capital market and trading businesses will likely face significant business-model challenges.

A fundamental striking change that will occur as a consequence of increased capital charges is a fall in the return on earnings for banks; estimated to be in the range of a fall from 15/20% to 12/15% and lower.

Macro-prudential supervision and systemic risk

The high degree of inter-linkages of markets and financial institutions means that risks to the financial systems are real and will be easily transmitted, hence the increasing emphasis on reforms to strengthen macro-prudential supervision, cross-border monitoring of systemic risk and crisis prevention and management.

However, complex issues remain to be resolved: they include the application of macro-prudential supervision and the harmonization of regulatory practices and financial standards and information flows to facilitate effective cross-border coordination.

Various and complex measures are under consideration in relation to pro-cyclicality and macro-prudential supervision. They include those that would require banks to hold more capital in “good times”, dynamic forward provisioning, provisions against loan losses in a period of excessive credit growth and revaluations of collaterals over the course of an economic cycle.

Counter-parties and securitization/ Credit Rating Agencies

As noted above, the issues that flow from the G20 proposals as reflected in the Dodd-Frank Act and from Europe, regarding central clearing is less straight forward for smaller markets and remains a serious issue for markets in the Asian region.

Many financial institutions that are systemically important in smaller financial centres are not large enough to qualify for direct membership to existing CCPS. This poses difficulties for regional regulators – how can they require institutions to join a major global CCP when there is no incentive for them to do so.

The global expansion of CRAs occurred with limited regulatory oversight. Their influence has been powerful and ratings have acted as a passport to facilitate raising debt capital in international markets. Basel II ingrained ratings into the risk weighting of capital exposures. Regulators and markets in Asia will continue to use credit ratings for regulatory and commercial purposes.

Safety Nets

National safety net agencies have begun to address weaknesses in their role identified during the GFC through legislative initiatives.

Clear mandates are needed to set out the role, powers and specific mandates of each financial sector safety net player and these include central banks, prudential regulators and supervisors and depositor protection agencies. The interrelationship between these bodies is a national issue to be resolved if safety nets are to be effective and optimal.

Of particular importance is the responsibility for prompt corrective action (PCA) and intervention and failure resolution (IFR) of troubled banks.

The limits and scope of coverage of deposit insurance is a major public policy matter, as are the powers of regulatory and supervisory agencies in handling prospective system failures. The powers of a banking regulatory agency or a central bank and those of a deposit insurance agency in handling a prospective institutional failure and responsibilities for effective intervention and failure resolution pose significant issues for national policy.

Cross-border differences in deposit insurance mandates and a lack of convergence on the limits, scope of coverage, payout capabilities and funding could raise issues where regional coordination is necessary.

Accounting standards

The objective of ongoing work is to get a single set of high quality reporting standards in place and to complete the “convergence project” of IASB and FASB.

An emerging general view is that reforms to accounting standards will lead to rising charges on provisioning and to lower retained earnings by banks.

Disclosures for accounting and regulatory standards are subject to different audit requirements. Financial statements are audited but regulatory requirements vary across jurisdictions - contributing to an “audit expectation gap” with respect to regulators. The solution is unclear but the future may include the conduct of comprehensive risk management audits as part of or separate to financial audits.

For internationally operating banks, consistency of accounting rules across jurisdictions is vital for transparent and efficient operations, and for the global financial system.

Consistency in accounting rules, the definition of capital and the calculation of RWAs would go a long way toward simpler and more transparent financial systems.

Governance

Two streams of thought relate to governance; one considers governance from a cultural/behavioural perspective and the other from a structural perspective, ie, structure, quantification, escalation and reporting, methodologies – stress testing, scenarios, capital buffers, among others.

There is often a disconnect between governance, organisational structure, management decision-making, accounting, risk-taking and the incentive framework

Case studies show that misalignment of incentives and risk result in major collapses or systemic issues, for example, Barings, Enron, LTCM, and Bear Stearns. Models are useful tools in supporting risk management processes but they are tools only to inform boards and management.

C. Challenges for the region

Challenges for emerging market economies in the region include implementing Basel III reforms, enhancing macro prudential frameworks, increasing support for regional liquidity measures, broadening market infrastructure and expanding financial inclusion. Further work is required in areas of consumer protection, insurance protection, the classification of investment products and mark to market valuation.

Apart from regulatory reforms, emerging economies in Asia are also focusing on factors which contribute to regional vulnerabilities, including volatile capital flows, the limited capacity of local currency capital markets, the need to broaden the investor base across the region and to improve access to finance by SMEs.

There is a need to strengthen regional policy dialogue on macro-economic and financial conditions impacting on the region and in forging greater regional policy coordination. There is an urgent need to build on arrangements created after the Asian financial crisis, for example to respond to the proposal by the ADB for an Asian Financial Stability Dialogue.

As well, regional interests need to be fully reflected in deliberations in the IMF, G20 and the FSB and other standard setting bodies in shaping the regulatory and supervisory financial environment.

D. Capacity building

The lessons from the crisis for Asia as they relate to strengthening financial systems and macro-prudential supervision highlight the need for appropriate frameworks to undertake surveillance, monitoring and stress testing of financial systems. All layers of crisis management require development, at national, regional and global level. There is room in these areas of activity to share experiences in the region and with others in building capacities.

People with competence and skills are needed to support ongoing surveillance and management of emerging risks. Knowledge of the different sectors that compose the financial system and their functioning will be highly relevant and building capacities is a major challenge.

An overarching theme of the symposium is that more work is needed on a wide range of subject areas, much of which will require specialist inputs as regional economies and agencies seek to strengthen institutions and systems to minimize the impact of future crises.

FULL SYMPOSIUM REPORT

Key highlights of the research paper commissioned for the symposium included the relevance of reforms being made in response to issues confronting regulatory system in the northern hemisphere rather than to Asia Pacific economies with much less exposure to the underlying causes of the crisis apparent in North America and the Euro zone.

The question of regulatory models and approaches, developed under the Efficient Market Hypothesis, compared with a model of regulation which involved deeper intervention by regulators, was discussed in the paper and in the symposium. Many other underlying issues that have been identified by the G20, the Financial Stability Board and international standard setting bodies, such as the Basel Group of Banking Supervisors, the International Organisation of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS), the International Association of Deposit Insurers (IADI) and other groups were similarly discussed in the commissioned report and in the symposium.

This report is set out under the session headings shown in the symposium program. It attempts to highlight the major issues that were raised by moderators and presenters and by participants from international agencies, regional regulatory policy and regulatory agencies, financial institutions and academics.

OPENING ADDRESS

This session focused on reducing the probability of damage from future financial crisis.

Crisis are inevitable, partially predictable and therefore partially avoidable and the best approach for a regulator is not to be seen as a light touch to-day, or tomorrow, or ever. That is a mantra for a regulator. History shows that big systemic crises usually derive from a build up of credit growth and often it is excess in the private sector that fuels a crisis.

Several strategies might be employed by a regulator to avert or minimise a crisis. They include preparing the regulated sector for the next crisis and building a whole of public sector approach to support the necessarily intrusive supervision to defer and moderate the next crisis. If a prudential regulator is prepared for all the reasonably predictable crises and takes effective steps to ensure that industry is prepared to handle them, there is a good likelihood that the nation will likely survive an unpredictable crisis. As regards developing a whole of public sector approach, a regulator needs this to enable effective intervention. A regulator should advise ministries and ministers that too much laxity in the private sector, in particular in the banking sector, is a common prelude to a financial crisis. The Central Bank should be the natural ally of the prudential regulator.

SESSION 1: MANAGING THE CRISIS AND PROMOTING BEST PRACTICE PRINCIPLES

The session focused on the genesis of the crisis and where the global financial/economic system is at in terms of addressing the issues raised by the crisis. What kind of machinery is in place to manage

financial stability going forward, is it adequate in the context of what we now know, what assessment can be made of handling the unknowns and what level of coordination between major important financial groups and regulators is necessary to secure financial systems against future crises? What degree of confidence is there that the recommendations of the G20 and the Financial Stability Board and international standard setting bodies will be sufficient to contain the excesses that could occur from “shadow banking?”.

Some key lessons from the global financial crisis were that banks did not have enough capital, in terms of quantity and quality to manage the risk they had accumulated, particularly capital held against complex structured products. Off-balance sheet risk to conserve capital had to be brought back onto balance sheets and banks were unprepared for the consequences of market shocks that constrained liquidity. In some economies, the regulatory perimeter was too narrow and banks’ global operations were beyond national supervisory structures.

While banks in some economies were sufficiently capitalised the integration of capital markets meant that all economies were affected by the crisis. International efforts to coordinate responses through the G20 have focused on recommendations and tangible outcomes and a sense of purpose; this helped build confidence. Representation on the Financial Stability Forum (now the Board - FSB) was extended in an attempt to reach out to include more economies in considering recommendations. Significant transition periods were agreed to allow economies to implement new standards and FSB members have agreed to promote adherence to and implement strengthened regulatory standards. The FSB plans to promote adherence to standards by all jurisdictions, particularly those ranked highly in terms of financial importance. Consideration will be given to publishing a list of states that are defined as “non-cooperating”.

Australia has emphasised in the G20 and the FSB the need to recognise that differences in country circumstances will have an impact on how the objectives can be achieved. The impact of the reforms being implemented should be safer financial systems less prone to risk, but for some economies the cost of intermediation will be higher, banks will require more capital and shareholders should, because of lower risk in banking, accept a lower returns. Banks may return to traditional banking and more activity may flow to the non-banking sector; previous business models may not be viable in the post-crisis environment. It is important that emerging markets be brought into the regulatory reform process and with this in mind the IMF will be providing a detailed report to G20 Leaders on specific financial stability issues that emerging markets confront.

Lessons from the crisis point to the fact that markets do not necessarily function efficiently and that the focus of regulation on eliminating market imperfections had failed. Herd behaviour leads to market failure to inherent instability in financial markets and a tendency over time to produce crisis. A more interventionist approach is consistent with Asian regulatory practices. Intervention may also require actions by authorities to lean against the wind in monetary management. Some major challenges involve repairs to the financial system, reducing systemic risk, fixing dysfunctional incentive and compensation systems and eliminating moral hazard arising from “too big to fail”.

Failure in the US had resulted from the limited scope of regulation and the rise of shadow banking. Responses to the crisis generally, involved strengthened microprudential surveillance and regulation by expanding the regulatory perimeter, closing regulatory gaps and preventing regulatory arbitrage, raising the capital requirements on banks, the setting of liquidity standards and provisions and the setting of maximum standards for leveraging. Responses also involved enhanced macro-prudential surveillance and regulation, including a requirement that monetary policy frameworks should take account of financial stability and asset prices, the identification of risks that build up in the system as a whole and the development of prudential tools to manage risk. Increased coordination of global surveillance is a necessary component of financial system reforms.

Specific challenges for Asian economies in the contemporary environment include the need to increase resilience to external shocks and capital flow volatility, the strengthening of regulatory frameworks where needed and deepening financial systems and financial inclusion. Measures that Asian economies will have to consider include implementing Basel III reforms, enhancing macroprudential frameworks, increasing support for regional liquidity measures, broadening market infrastructure and expanding financial inclusion. Some economies are considering the use of capital controls and some maintain interest rate controls.

Most important for Asia is the need to deepen markets as a safeguard against financial instability. Asian banks are generally well capitalised with low loan-to-deposit ratios but the development of derivative markets, securitisation and innovative financial products will become important as Asian markets develop.

There are divergent interests between advanced and emerging economies in the G20. They include surveillance and resolution of globally systemically important financial institutions (some economies require incorporation rather than a bank branch), the development and coordination of regional and international safety nets, the role of a regional financial system authority vis a vis the IMF and the reform of the IMF mission and governance.

Common challenges that confront the region include currency cooperation and the development of the Asian Financial Stability Dialogue, proposed by the ADB, and the interaction between the region and global financial institutions such as the IMF and the FSB.

Australia's major banks have survived the crisis in relatively good shape but the crisis forced some strengthening of practices that had been in place prior to the crisis. These included funding strategies and there was a similarity in pre-existing crisis strategies to changes that result from Basel III. Pre the crisis there was greater focus on household and SME deposits, a reduction in short term offshore wholesale funds and increased diversification in funding sources. Balance sheet discipline was strengthened with a focus on central balance sheet planning, the tenor of debt issuance extended and increased focus on debt investor relations.

The crisis highlighted the importance of holding sufficient liquidity and the ability of banks to demonstrate liquidity strength to investors and rating agencies. Banks' capital positions have changed significantly; aggregate levels of capital have increased with a greater focus on Tier 1 capital as the primary source of capital. Business responses to the crisis have seen a reemphasis on economic profit and return on earnings as core business metrics and a focus on building sources of not-interest income rather than balance sheet activity.

Concerns were expressed that consistency in regulatory approaches under Basel III was unlikely to go far enough. Some economies will maintain national discretions while others will lag in introducing new capital standards. Any increased focus on protecting local currency deposits would impact adversely on the transportability of funds globally and more economies may require foreign branches to become incorporated subsidiaries, with the effect of diluting Group capital and reducing funding flexibility.

Under APRA standards Australian bank boards will have greater oversight of particular remuneration matters. The crisis points to the fact that business cycles are not dead, that leveraging is an important phenomena for an economy and that traditional bank risks remain the major source of loss. The crisis also showed that geographic diversification was not necessarily effective in mitigating risk; borrowers will borrow whatever they can in a boom environment and banks are the only group that can put a break on credit growth. There is an expectation by banks that regulatory supervisors would focus not just on stress testing but also on follow-up actions and this would mean that senior bank management would be required to articulate action plans. Understanding the nature of risk that a bank holds is critical.

Australian banks would need to respond to a unique set of challenges in the post-crisis era. These included the impact of high current account debt, low government debt paper, compulsory superannuation and mortgages funded on banks' balance sheets. A regulatory arms race is anticipated where stronger regulators would seek to impose new regulatory requirements quicker than others. Other challenges included those to do with global ratings technology changes, home/host relationships and the emergence of the RMB wholesale market. Remuneration and compensation standards varied across jurisdictions and there is little agreement on what the right approach should be.

Questions were raised on the inflation outcomes arising from fiscal stimulus actions taken by major economies and the prospect of contradictions between fiscal and monetary policies and measures to promote financial instability. Disruptions to oil supplies arising from political upheavals in North Africa could cause oil price spikes and this would also impact at the global level and the question was raised as to whether this had implications for macro-prudential supervision. The panel noted that economies were winding back on fiscal stimulus and that the essential focus of macro-economic supervision is to ensure effective coordination among agencies in an economy to handle threats to financial instability. However, to do this effectively processes have to be in place and agreed to. Supervisors and institutions are required to watch economic signposts; stress testing is an important tool both for supervisors and for banks. Both supervisors and banks need to draw lines in the sand to ensure financial system stability; signs are emerging in the US that conditions are becoming too lax.

SESSION 2: REGULATORY IMPACTS – OVERVIEW

The crisis exposed theoretical underpinnings of financial regulation and reliance on “light touch” regulation. Belief in the self-correcting nature of markets was exposed as was the interconnectedness between financial institutions. The importance of network analysis was highlighted. Various models of financial institutions and incentive structures created excessive short-term funding; the crisis revealed that banks were inherently subject to bank runs and fragile market liquidity conditions. The crisis pointed to a clear need to review again what is the right kind of financial supervision.

The expansion of the G20 was seen as a major step in incorporating the views of emerging markets but it also revealed very divergent interests and priorities. A consensus had been reached on financial reforms and reforms aimed at increasing capital adequacy, improving liquidity and containing leverage. These reforms were focused mainly on advanced market economies; but issues remain including in areas of surveillance, peer reviews of imbalances and governance of international financial institutions.

A different set of issues and challenges confront emerging markets. Asian emerging economies face capital flow volatility as a consequence of low interest rates in advanced economies. Sudden foreign exchange withdrawals can impact on regional money markets, credit availability and on trade finance. Views differ on handling capital flows. Some economies impose direct controls, others impose penalties on higher reserve requirements and restrict foreign currency loan exposures. Other emerging market issues include the capacity of regional regulators, governance arrangements and financial system deepening. Specific challenges arising from Basel III include the effect on economic growth of higher capital charges on banks, defining “significant interest”, the data requirements for liquidity coverage and the net stable funding ratio and defining the concept of a counter cyclical buffer and its role in risk management.

The G20 needs to focus more on improving asset quality and measures to prevent banks from making poor loans, so called “backward direct controls”, ways to incentivize regulators and to enhance home/host coordination. Further work is required in areas of consumer protection, insurance protection, the classification of investment products and mark to market valuation.

Modelling suggests that the new Basel requirements will mean that the capital needs of banks by 2019 will be equivalent to 60% of all European and US Tier I capital outstanding and the liquidity gap equivalent to roughly 50% of all outstanding short-term liquidity. The market impacts of Basel III could be a substantial decrease in short maturity debt due to the added cost of providing bank credit lines and meeting the Liquidity Capital Ratio. With higher costs of credit, banks will have an incentive to reduce credit and their borrowers may respond by increasing cash holdings at the expense of capital investment and employment.

Investment banks could find core business lines profoundly impacted, particularly trading and securitisation and banks with substantial capital market and trading businesses will likely face significant business-model challenges. While regulations are obviously important, they are only one component of

a properly functioning financial system; new rules may be seen as a quick political fix but they are not a panacea for problems and imperfections in financial systems. Regulatory interventions have costs and efficiency losses could be as substantial in economic terms as are the market imperfections they are supposed to correct.

The FSB and global standard setting bodies should be encouraged to develop standards and rules that can be implemented by national authorities in ways consistent with international practice. If local issues are not taken into account in framing international standards, national implementation of international standards becomes much more difficult.

The G20 November 2010 Seoul Summit requested the FSB to work with other bodies to develop recommendations to strengthen regulatory oversight of the “shadow banking system” by mid-2011. In 2010 IOSCO approved 8 new principles of securities markets regulation to respond to potential systemic risk. One intended effect will be to put the shadow part of market areas into the light.

In contrast to the FSB and Basel Group recommendations on banking reforms, those reforms proposed for Over the Counter Trading and derivatives were seriously questioned. The Dodd-Frank Act of June 2010 legislated requirements in the US for standardised OTC derivative products to be traded on regulated exchanges and for central clearing of trades. There is now an intense rule-making effort by the Commodities Futures Trading Commission (CFTC) and the Securities and Exchange Commission (SEC) to adopt related rules. The European Commission requires that all standardised derivatives be centrally cleared to ensure transparency and safety and to allow financial supervisors to measure potential systemic risks.

Reforms in the US and Europe will affect how OTC derivative business around the world will be structured given the importance of their trading activities and links to operations through groups and related entities in their markets. Given that Australia’s regulators have agreed to G20 commitments to see all standardised OTC derivatives centrally cleared by end 2012, Australian banks are challenged by access to the new CCP infrastructure and by the fact that central clearing of AUD interest rate swaps by clearing houses is still in the developmental stage.

A joint report by the FSB, the IMF and the World Bank will be presented to G20 Finance Ministers and Central Bank Governors in October. The report will discuss responsibilities among reporting institutions on their respective mandates to handle issues and how they will coordinate on cross-cutting issues. It will also consider some issues not being addressed presently by existing international initiatives and it should provide for a consistent approach across countries. The process will require regulators to review and reassess the mechanisms they have in place to determine their relevance and continued effectiveness. Regulators will need to strike a balance between tailoring mechanisms according to domestic markets structures and benchmarking with international best practice in designing appropriate frameworks for regulatory interventions.

The shift eastwards in global finance now means that Asian financial centres are key players in handling financial assets. Despite strengthened global cooperation, the G20 has noted that the FSB does not represent a path to a form of global financial supervision but recognises that the global network of financial markets needs a corresponding form of network oversight, which cannot be achieved by national regulators. As authorities are adopting a network approach at global level, there is good reason to think in terms of networks for those seeking to interact with them. As a region with a wide range of different characteristics, Asian economies have a strong common interest in global financial regulation and it is vitally important that Asian regional perspectives are taken into account in the FSB and in standard setting bodies. The “Asian Region Funds Management Passport” provides an example of how Asian markets might cooperate.

Symposium participants questioned the tendency to regulate functions that do not present as a problem, for example, the approach to require OTC derivative trades to be centrally cleared. It was observed that responses in the US and Europe to require central clearance of OTC derivatives were political in nature and they did not necessarily make economic sense. The value of derivatives as a risk management tool was stressed but the relevance of a central clearing requirement of OTC derivatives as a measure to mitigate risk was questioned.

These issues were seen in the context of measures to create safe regulation as distinct from measures to create an efficient regulatory system. Higher capital requirements on banks impact on the availability of trade finance in Asia; regulations need to reflect an economy’s development stage.

While Asian voices need to be heard in framing regulatory standards, the reality is that Asian representatives on G20 are not pulling their weight.

Summarising, political economy issues are an inevitable aspect of global regulatory approaches. Because economies are at varying stages of development, the drive for harmonisation of regulatory approaches does not necessarily fit with an economy’s specific priorities. While international standard setting bodies do focus on important principles that are relevant to all economies, different approaches to implementing them will need to be recognised. Only 21 economies are represented on the FSB; why isn’t membership broader than that?

SESSION 3: LIQUIDITY; EFFECTIVE, RELIABLE SECURITIES MARKETS - MEASURES TO BALANCE STABILITY AND FINANCIAL SYSTEM INNOVATION

The crisis has generated reforms to address systemic risk. The regulatory perimeter is being extended and in the area securitisation greater transparency is required to align the interests of participants along the securitisation value chain. G20 committed to ensuring that “Securitisation sponsors or originators should retain a part of the risk of the underlying asset, thus encouraging them to act prudently”. The commitment originated from an IOSCO recommendation.

In Australia work is ongoing to develop best practice standards for securitisation in respect of, “skin in the game”, disclosure, arrears reporting, asset pool diligence and model representations and warranties

as a means of restoring investor confidence and to ensure standards are in line with international standards. Australian authorities have committed to revitalising the securities market and reforms in the hedge fund sector are underway to enhance investor protection, particularly for retail investors. Measures include the registration of hedge funds, capital and prudential requirements and risk management requirements on prime brokers and banks in the services they provide to hedge funds. These follow closely recommendations emanating from IOSCO. In extending the perimeter of regulation, transparency and oversight are key tools being used.

The degree of regulatory intrusiveness has increased in relation to the need to acquire more information on risks concerning financial instruments, issuers and its effects permeate across sectors and geographic boundaries. In extending the perimeter, regulators should take into account the dynamic nature of financial markets and review risks posed by latest technological developments.

The June 2010 IOSCO revised principles relate to hedge funds, credit rating agencies, auditor independence and oversight, conflict of interest and misalignment of incentives in addition to broader areas of systemic risk. IOSCO also examined ways to address concerns relating to abusive short-selling, market transparency and disclosure. These impacts on emerging markets by raising issues of regulatory capacity, the need to review approaches to regulation, to strengthen frameworks in coordination with initiatives to liberalise markets and to promote inclusion of emerging market authorities on regulatory matters.

In line with IOSCO principles, regulators will be required to review the perimeter of regulation and to place greater emphasis on surveillance of capital markets to identify developments that have the potential for regulatory arbitrage. They must also foster greater supervisory cooperation with counterparts. Common challenges include whether regulations are sufficiently comprehensive and remain relevant, the cost of compliance, the dearth of industry expertise and consistency in disclosure requirements.

A recent CEO survey showed that the biggest risk to business is regulatory change.

The Asian financial crisis demonstrated the fact that deep and liquid financial markets are important for ensuring that private sector institutions have the capacity to manage risk around their day-to-day activities. Markets need to be diverse, as should be the strategies that participants pursue. The market infrastructure including clearing and settlement of trades has a strong influence.

Proposals for central counterparty (CCP) clearing create a number of subtle issues and it is critical that the risk of unintended consequences of some proposals is minimised. At the most basic level a CCP acts as the buyer to all sellers and the seller to all buyers and in effect becomes the counterparty to all transactions – known as novation. Through mark-to-market or variation margining as well as default funds, which includes initial margins and paid up capital, a CCP can significantly mitigate replacement cost risk. It is this risk mitigation of the novation process which led the G20 countries to require central clearing of all OTC derivatives and why the Dodd-Frank Act requires all OTC derivatives to be centrally

cleared by mid-2011 and why Europe is considering adopting similar legislation. Also of benefit is the proposal for multilateral netting positions because margins paid would be smaller than they would be in similar bilateral agreements.

There is debate whether or not foreign exchange swaps and forwards should be included or excluded from the Dodd-Frank legislation. FX markets are deep and liquid and pricing is generally transparent and immediate which allows CCPs to effectively manage the risks involved. In the vast majority of FX spot transactions there is no replacement cost risk and generally there is very low replacement cost risk in the case of FX swaps and forwards. Any risks in the form of settlement risk can be managed through payment vs. payment infrastructure. Evidence suggests that the FX interbank market is concentrated so the benefits of moving to multilateral netting from bilateral arrangements might not be as large as for other OTC derivatives. It is an open empirical question whether the benefits of netting across participants for a small set of financial instruments is greater than the benefits of netting across all OTC instruments on a bilateral basis. Evidence suggests that the case for private CCPs in the FX market is less clear-cut because there is no impetus for a CCP to emerge in FX markets.

However, there is a business case for a CCP to emerge in the interest rate swap market. Two different types of interest rate swap markets operate. One in \$US, Euro, yen, pounds and Swiss francs and most transactions either occur directly between the largest trades or indirectly through a CCP. Transactions in other smaller currencies, including the \$A, have smaller dealers as counterparties, suggesting that outside a few large markets, global dealers are less prominent and large global CCPs have not found it cost effective to operate outside large financial centres. Thus, the issue of how to implement the G20 commitments in smaller financial centres is proving to be less straightforward than it is for the US and Europe.

Many financial institutions that are systemically important in smaller financial centres are not large enough to qualify for direct membership to existing CCPS. This poses a difficulty for regulators – how can they require institutions to join a major global CCP when there is no incentive for them to do so. It may be that smaller local institutions can use a global dealer to clear indirectly but that raises issues because the global dealer is typically a competitor with local institutions and local institutions could become to be regarded as second tier, or lose their core customer business to global dealers. Another solution, to establish a local CCP, would also raise a number of issues. Such a CCP would be systemically important and that raises the question of access to central bank liquidity support as a condition for receiving a licence.

In summary, in terms of risk management, the case for a CCP solution is not equally strong for all OTC derivatives or indeed for all markets and their regulators. It is therefore important to consider the implications that the G20 proposals have for matters such as the depth and liquidity of local-currency derivative markets and the vital role they play in hedging, before changing market infrastructures.

The nexus between politics and responses to Dodd-Frank is seen as particularly acute. While the G20 had looked for quick responses, and solutions had been provided in a policy sense, the proposal on CCPs

is highly visible and it raises serious questions about whether Dodd-Frank is the right way to go. One aspect of Dodd-Franks is that exchange and settlement could be vertically integrated in one platform. It was observed that vertical integration had been successful in Brazil.

Regulatory agencies need to place more emphasis on systemic risk and there needs to be deeper conversations between regulators; there is concern that this is not occurring to the degree it should and securities regulators in the Asia Pacific region are not sufficiently focused on the impact that the Dodd-Frank Act could have on markets. These matters need to be raised to a higher level in the region. The College of Supervisors is still at an embryonic stage and needing further development.

Discussion pointed to concerns in securities regulatory approaches to high frequency trading arising from new technology platforms. A difficulty for regulators is balancing innovation with market development and regulators themselves have limited resources to develop the technology to monitor and undertake surveillance of markets that move in microseconds. Efforts are ongoing to find circuit breakers and pause mechanisms that might be used to halt trading.

The issue of a Tobin tax to provide a disincentive to speculative trading is not under serious consideration; the hedge fund sector was not seen as a major contributor to the financial crisis.

SESSION 4: ROLE AND REGULATION OF CREDIT RATING AGENCIES (CRAs) POST CRISIS

CRAs are a creature of the US debt capital market to serve a purpose in the disintermediation of credit markets and fragmented banking systems. Their role in the financial crisis has been severely criticised, particularly in the sub-prime mortgage-backed securities and in collateralised debt obligations markets. Deregulation of global financial markets saw the role of CRAs expand significantly and many regional governments have sought to promote the development of local credit rating agencies to support domestic bond markets. In many cases the global expansion of CRAs occurred with limited regulatory oversight. Their influence has been powerful and ratings have acted as a passport to facilitate raising debt capital in international markets. Basel II ingrained ratings into the risk weighting of capital exposures.

Policy debate has focused on whether action should be taken to strengthen the reliability of ratings or on creating alternative mechanisms and institutions that can more effectively perform the role traditionally played by agencies.

Even before the financial crisis, CRAs attracted heavy criticism in the US and Europe for failing to predict failures at firms such as Enron, WorldCom and Parmalat. Efforts to enhance oversight began in 2003 by IOSCO, leading to the Code of Conduct of Fundamentals for CRAs in 2004. The US enacted the CRA Reform Act requiring agencies to be registered and supervised by the SEC in 2007. CRAs contributed to the crisis through faulty assessments of structured products and their limited expertise to properly understand rated products. They have since designed new methodologies to smooth rating changes to avoid pro-cyclical impacts and have also emphasised the need for adequate human resources and expertise. Ratings and changes (downgrades) can have destabilising effects on markets and changes

have been exacerbated by over reliance on ratings in legislation, regulations and private sector contracts.

IOSCO agreed wholesale changes in the code of conduct of agencies, designed to improve accuracy and integrity of the rating process. They include prohibiting CRA analysts from making proposals or recommendations regarding the design of structured products that they rate, requiring formal reviews of models and methodologies, measures to discourage “rating shopping” and a requirement for the publication of methodologies and performance statistics. In 2010, G20 Leaders agreed to extend regulatory oversight and performance of CRAs to ensure they meet IOSCO Codes, particularly to prevent unacceptable conflicts of interest. In Australia CRAs are required to hold an Australian Financial Services Licence which requires them to manage conflicts of interest, have risk management systems, to lodge annual compliance reports and to comply with the IOSCO Code on disclosure procedures, methodologies and assumptions for ratings and for agencies providing ratings to retail clients to submit to external dispute resolution.

Since the crisis, major CRAs have revised their codes of conduct to focus on the quality and integrity of the rating process and to reduce conflicts of interest. Some have updated their fees policies to ensure a clear separation between core rating activities and other ancillary business activities. Despite these efforts, the potential for unmanaged conflicts of interest remains inherent in the user-pays business model and this model continues as the predominant model of major agencies because they would otherwise find it too hard to manage the free-rider problem of unauthorised circulation of their ratings.

In June 2010, the FSB issued principles to reduce reliance on external ratings in rules and regulations. Australia has taken a position that emphasis should be on reducing the “mechanistic” use of credit ratings. There is continued value in the non-mechanistic use of ratings by financial institutions and regulators because agencies do provide economies of scale to smaller institutions and investors. Investors can use ratings as an external comparator to their own assessments. Apart from the problem with structured products in the financial crisis, rating agencies maintained a solid record in assessing relative default risks for corporate and sovereign debt.

The use of credit ratings in the Australian banking system is limited to capital adequacy requirements, particularly in the standardised approach to measuring credit and market risk. While Basel III will utilise credit ratings with more stringent requirements for structured products, it is unlikely that Australia will depart from its regulatory approach on the use of ratings for capital adequacy purposes. APRA will continue to stress that banks undertake their own credit assessments, rather than mechanistically rely on external credit ratings.

Specific additional conditions to CRAs in Australia require that they review ratings affected by material change to rating methodologies within six months of the change, and a prohibition on “notching up” ratings for an anti-competitive purpose. CRAs must also have available financial, human and information technology resources that are adequate for the businesses they conduct and that analysts are trained and are competent.

Challenges arise because CRAs defend themselves against any assertion that they could be liable for investor losses resulting from reliance on poor quality ratings. In the US, CRAs argue that their opinions are protected by freedom of speech under the first amendment to the Constitution. That point was answered in Australia by a requirement that CRA opinions would be regulated as financial product advice. If ratings are used in prospectuses and in advertising to retail investors, CRAs will be accountable for those ratings. CRAs must not engage in misleading or deceptive conduct, they must offer external dispute resolution when ratings are for use by retail investors and where they consent to their ratings being included in a prospectus, the CRA is required to accept liability for that opinion. In a similar approach in the US, the Dodd Frank Act withdrew CRAs safe haven status from expert liability for ratings of asset-backed securities. The SEC now permits issuers to register securitised products for sale without ratings attached to the registration (and with no expert liability for ratings).

Some differences in approach to the level of prescriptive detail in respect of IOSCOs code exists between regulators, notwithstanding the desire of CRAs for a consistent global approach to regulation. Australia decided not to impose some prescriptive requirements adopted by the US and Europe; in relation to endorsement of ratings for specialist sectors, a 12 hour rule (as being inconsistent with continuous disclosure requirements), exemption from a rotation of analysts requirements (because of the limited pool of experienced credit analysts in Australia) and exemption from a rule regarding independent directors, given the processes in Australia for review of ratings methodologies and other standards. Hong Kong and Japan have required additional features to those under the IOSCO Code. Brazil decided not to enact CRA regulation but will rely on regulation by others.

The question was raised whether regulations are required to promote competition in ratings, or even if competition is desirable. Reforms in the US seek to increase competition for rating services but a recent review concluded that the quality of ratings did not improve following the entry of Fitch into the US market. CRAs compete on their methodology without interference from regulators. A fundamental problem is the inherent conflict in the issuer-pays business model which incentivises competition for higher ratings, not tougher ratings.

The role of ratings in market regulation particularly in relation to the retail investor market was raised. While FSB principles aim at reducing reliance on ratings by investment managers to what extent can ratings be used without being regarded as having a purely mechanistic role? In the retail market in Australia, ratings are not expressly required and consent of the rating agency must be obtained before a rating can be cited in a retail offer document and, because of the liability that attaches to a licenced CRA, consent is not easily obtained.

The quality of an investment manager's internal assessment of credit risk in an investment product will differ according to the size and complexity of the manager's business and the product to which the rating relates. In these circumstances it may be unrealistic to expect that a smaller investment manager has the skills to conduct a detailed and independent assessment that goes beyond making a critical evaluation of the analysis in the credit rating report. It was also noted that many retail investors couldn't understand and do not read and evaluate the detail in disclosure documents. New regulations

in Australia requiring shorter disclosure documents are in tension with IOSCO principles on additional disclosure.

Because few jurisdictions in the Asia Pacific region have implemented CRA regulations, it is too early to have a mutual recognition regime for the region. However, this will become a pressing issue as more companies look to sell bonds across borders using local ratings.

Australia supports globally consistent implementation of IOSCO principles and the Code for the regulation of CRAs and at the appropriate time mutual recognition would be supported where regulations meet the same objectives and goals, even though regulations in relevant jurisdictions may not be identical. A key objective in any review to support mutual recognition would be whether or not regulations are based on the IOSCO Code. Caution needs to be taken not to disrupt capital flows by implementing a rigidly applied regional endorsement regime.

In response to a question why Australia selected the IOSCO approach it was noted that a principles based approach provided flexibility and efficiency in maintaining market operations and this is preferred to one of building complex bespoke arrangements. A question was raised as to why there is differentiation between CRAs and broker analysts and what would be the effect of limits on the role of CRAs on developing economies still needing to utilise ratings to implement Basel II. In similar vein, it was pointed out that there is no mechanism under the Dodd-Frank Act that would replace CRA for investor grade paper.

Noting that it is not easy to move from dependency on ratings, it was observed that Malaysia has no current intention to decouple ratings from regulatory processes; pension funds do not want to see a removal of ratings. In Australia, APRA prefers a reliance on good quality ratings rather than resort to a “make it up themselves” approach. There are serious misgivings about the approach required under the Dodd-Frank Act and a concern noted that without benchmark ratings, financial sector innovation could be impeded. A general challenge is that the Dodd-Frank Act would be implemented by mid-year and there is limited time to find alternatives.

There are efficiency gains from fund managers using CRAs that are properly and adequately regulated. By and large, CRA ratings of corporates are of good quality. An issue of concern in Malaysia is that CRAs are involved in consulting and ways have to be found to deal with that matter without the regulator being too intrusive in rating agency business models.

While an overall decline in regulatory and private reliance on ratings is desirable, CRAs are likely to continue to serve an important role in the foreseeable future with robust continued oversight of their activities.

SESSION 5: MACRO PRUDENTIAL SUPERVISION; FRAMEWORK FOR COORDINATION, CRISIS MANAGEMENT; CROSS-BORDER COORDINATION; GLOBAL AND REGIONAL SAFETY NETS

The high degree of inter-linkages of markets and financial institutions means that risks to the financial systems are real and easily transmitted. As a consequence there is increasing emphasis on macro-prudential supervision. G20 leaders agreed that reforms of financial regulations are needed to strengthen macro-prudential supervision, reinforce cross-border monitoring of systemic risk and enhance crisis prevention and management. These matters raise a number of considerations: how to apply macro-prudential supervision in practice; how to adapt the supervisory approach for different countries; how to harmonize various regulatory practices and financial standards and how to fill in the information gaps to enhance cross-border exchange of information. The European Union established the European Systemic Risk Board (ESRB), the US established the Financial Stability Oversight Council (FSOC) and the UK created the Financial Policy Committee (FPC). These bodies collect and analyse information to assess potential threats and issue recommendations aimed at mitigating risk.

After the 1997 Asian financial crisis, Malaysia instituted processes to assess macro-level risk to complement micro-level supervision and to assess cross-institutional and cross-sector risk transmission. A Financial Stability Policy Committee (FSPC) in Bank Negara decides on macro-prudential policies including micro-surveillance and for emerging risks outside the regulatory perimeter of the Central Bank, it makes recommendations to the Financial Stability Executive Committee (FSEC) which has resolution powers.

The bulk of literature on macro-prudential surveillance and monitoring is centered on the bank sector. IAIS recently acknowledged that the insurance sector is susceptible to systemic risk but that there is little evidence of insurance either generating or amplifying systemic risk. There may be instances where life insurers may amplify risk when reacting to downturns in equity markets. Non-regulated entities of financial conglomerates and some specific insurance entities (financial guarantee insurance) can amplify systemic risk and contribute to contagion within conglomerates and sectors.

Macro-prudential supervision aims to safeguard system stability and compares with micro-supervision to promote individual institutional stability. Macro-supervision relates to the inter-connectedness of different financial markets and products. While there is a tendency for some to lump fiscal and monetary policy matters as aspects of macro-prudential supervision, it is essentially a focus on the stability and interconnectedness of markets that comprise the financial system. At the same time it is recognised that stability may be enhanced by close cooperation between financial regulatory authorities and fiscal and monetary authorities.

Tools for macro-prudential supervision include those to respond against pro-cyclical pressures, particularly as those pressures build over time. During a boom period, risk management tends to become lax and macro-prudential policies are needed to lean against adverse pressures arising during the cycle. Tools have to be cross-sectoral in that they have regard to some products and some markets that can lead to systemic risk. Monitoring to assess the build-up of imbalances that pose risks across the system is a necessary tool.

Various measures are under consideration in the ongoing debate on pro-cyclicality and macro-prudential supervision. For example, they may involve requiring banks to hold more capital in “good times” to build a buffer against downturns; dynamic forward provisioning and a requirement that banks hold more provisions against loan losses in a period where credit growth exceeds a “norm” or where credit growth is seen as contributing to an acceleration in asset prices; revaluation of collaterals over the course of an economic cycle; a maximum ceiling loan to value valuations; higher capital charges for significantly important financial institutions; additional capital charges for institutions which have complex inter-connectedness within the firm or with other financial institutions; measures to reduce mismatching of banks’ short term funding with long-term loans; liquidity coverage ratios; a levy on banks’ holdings of financial assets, and other measures.

Basel III reforms aim to broaden regulatory requirements beyond a firm-specific focus to reflect system wide risk and which could impact on the stability of national and global financial systems, including their systemically important institutions. Attempts to minimise risk arising from the connections and relationships within a financial system (endogenous risk) involve new ratio requirements that seek to internalise risks within the risk management frameworks of individual banks. In some cases, regulators are changing definitional requirements, for example the broad definition of “financial institutions” rather than “banks” when measuring risk and some regulators are directing banks to undertake certain types of business behaviour such as centralised clearing systems and the extension of restrictions on the permissibility of certain business/trading activities.

There is uncertainty around the appropriate balance of policy choices with many macro-prudential policy decisions of Basel III still not formalised. There is also uncertainty as to the extent to which macro-prudential policies aimed at achieving financial system stability should and can effectively be used to support broader macro-economic policy objectives of enhancing real economic stability. For example, the proposed Basel III counter-cyclical capital buffer whose expected use is infrequent, and its metric measurement (credit growth) for policy decision-making purposes is not a traditional risk measure.

The fact that more agencies are involved in addressing policy reform in the post crisis situation than there are involved in the Basel Committee means that the potential impact of their decisions on Basel III requirements may not be identifiable as having been expected within the construct of Basel III requirements. For example, changes to accounting standards will impact on provisions and/or the recognition of assets as part of the ratio requirements of the Basel Committee.

Basel III’s focus on macro-prudential regulatory risk has three broad components, model risk (to be addressed through the leverage ratio and the use of nominal accounting values rather than risk-weighted ones); pro-cyclicality (to be addressed through the imposition of a counter-cyclical capital buffer to limit excessive credit growth and the underestimation of credit risk over the course of a cycle), and systemic risk mitigation (to be addressed through possible capital surcharges for systemically important financial institutions and the the introduction of contingent capital requirements). Other measures, some the subject of further analysis, include discouraging OTC derivatives in favour of CCPs

and margin call arrangements, recalibrating risk weighted asset calculations, grouping banks with other financial institutions when considering financial counterparties for liquidity and credit risk calculations, and limiting permissible definition of liquid assets including the exclusion of bank paper.

There are important unresolved issues relating to the proposals to minimise systemic risk. And the date of implementation of Basel III is still some time away. Caution on finalising the proposed liquidity standards is put down to there being less complete data and experience of liquidity regulation compared to capital regulation. Other challenges include the fact that over the next 2 years \$US 4 trillion of bank debt will be subject to refinancing, and this compares with estimated GFC related bank write-downs of just over \$US 2 trillion. These figures point to the prospect of material balance sheet and financial stability risks.

In addition, the number of countries in the Basel Committee has expanded and the number of institutions within each country expected to implement Basel III reforms is much greater than those seeking to seek accreditation for advanced capabilities under Basel II, reflecting the fact that many of the changes apply to minimum rules to nominal values and not to outcome measurement of internal models. Basel III reforms are to commence on specified dates and there is no obvious default position, whereas under Basel II the use of “equivalent” standardised methodology is permitted.

There remain unanswered questions on the process of implementing Basel III including the lack of obvious incentives for banks to implement changes. There is a lack of clarity on the processes by which regulators will determine the minimum outcomes appropriate to the circumstances of individual institutions over and above the public minimum requirement, for example the LCR for a small institution compared with a systemically important institutions.

While Basel III addresses financial stability issues success will depend on its effective integration with other components of macro-economic policies and their formulation. At the same time new sensitivities may arise because of Basel III’s blurring of the previous distinction made between advanced and standardised banks – a key outcome of Basel II. And by narrowing the definition of regulatory capital to being largely common equity, banks’ prospective balance sheet growth will be closely tied to the availability and retention of profit through the cycle.

For emerging markets, where liberalisation of the capital account has occurred and where pressures arising from the global liquidity cycle are resulting in large capital inflows, which are impacting on credit growth and asset price growth, further measures are under consideration to maintain stability. They include capital gains on foreign investor earnings, limits on foreign exchange positions, requirements aimed at reducing foreign currency mismatching and on foreign borrowings.

The challenges confronting regional economies is that of implementing global guidelines and policies at the national level, particularly in those economies with less well-developed financial systems. The first challenge is to implement Basel III, the second is coordination with other jurisdictions of cross-border

financial oversight and thirdly, to work with the global community toward building solidified defences against future crises.

There are broad challenges for the Asian region; they include, promoting greater access to banking, the provision of credit to SMEs and entrepreneurs, the diversification of savings instruments, and the development of products to manage risk through deeper and broader capital markets

A successful transition to strong and stable growth will require globally comprehensive reforms to correct global macroeconomic imbalances. The reform of the global financial architecture is in Asia's own interests and as a consequence Asian economies ought to actively participate in designing new architecture to meet the challenges of global finance and to minimise the direct consequences arising from international economic and financial volatility. There is a need for more resilient financial systems in the region including to further develop local currency Asian bond markets and to strengthen policy dialogues on the region's macro-economic and financial conditions and forging greater regional policy coordination – the creation of a more formal dialogue perhaps via an ASEAN+3 initiated Asian Financial Stability Dialogue.

Discussion pointed to the avoidance of a serious impact of the global financial crisis on Indonesia because of insistence by the Central Bank that banks should hold good quality investment/asset portfolios. There is some ambiguity around macro-prudential supervision as a priority for emerging economies whose focus is more toward the development of financial systems and structural reforms rather than crisis management. Actions were taken by the Vietnamese authorities to prevent dual pricing in re-insurance as a means of maintaining system stability.

The Asian financial crisis brought a sense of urgency for cooperation among regional policy makers to support regional financial integration and this led to the framework for ASEAN+6 which builds on objectives in ASEAN+3 and the Chaing Mai Initiative. However, ASEAN+6 has not yet reached a level where the region can claim to have a focused regulatory policy forum and an institutional framework. More work and political will is necessary if a regional dialogue is to be established.

People with competence and skills are needed to support ongoing surveillance and management of emerging risks and with knowledge of the different sectors that compose the financial system. There is a scarcity of such resources and of people who understand how markets develop. Information technology and data and analytical skills are necessary ingredients but the benefits they bring need to be weighed against costs.

SESSION 6: BASEL III/III (REFORMS); ACCOUNTING AND VALUATION/IASB RECOMMENDATIONS AND CONTRAST WITH BASEL II

Convergence of the International Financial Reporting Standards and the US GAP is underway and the process began before the global financial crisis. The crisis led to a sharper focus on financial reporting and some politicisation of accounting standards and financial reporting. IASB agreed to change

standards as a consequence of European pressure on such matters as fair value and amortised costs. G20 sought to:

- Reduce the complexity of financial standards as they relate to financial institutions and reforms cover the classification and measurement of financial assets and financial liabilities and hedge accounting
- Strengthen accounting recognition of loan-loss provisions by incorporating a broader range of credit information
- Improve standards for provisioning, off balance sheet exposures and valuation uncertainty
- Increase efforts to achieve a single set of high quality, global accounting standards within the context of an independent standard setting process, and to complete the convergence of the IASB and FASB by 2011.

Provisioning is a core element of the accounting changes following the GFC and it has a direct link to Basel II and III requirements. The shift from an incurred loss approach to expected loss is more forward looking and more closely aligned with regulatory requirements. An exposure supplementary draft on provisioning responds to criticisms and operational complexity of an original exposure draft but a number of matters remain to be clarified. The draft is principles based rather than prescriptive, and more closely aligned with regulatory requirements

Some particular aspects of reforms to standards will require that special purpose vehicles for securitised loan entities will be consolidated to minimise reputational risk and that the entity that exercises control will be responsible for financial reporting. The objective of ongoing work is to get a single set of high quality reporting standards in place and the “convergence project” relating to IASB and FASB is well on the way to completion. 120 countries have or are moving to adopt IFRS. Japan has agreed to its companies using IFRS next year and the SEC will make a decision this year. It is expected that large US companies will have an option to move to IFRS by a specific date.

An emerging general view is that reforms to accounting standards will lead to rising charges on provisioning and to lower retained earnings by banks. The use of expected loss and a higher test is likely to reduce cyclicality; if the new provisioning requirements are insufficient for regulators it may be necessary to impose additional buffers which would render the accounting standards less relevant. The full extent of credit disclosures are unclear and there is potential for different disclosure requirements between accounting and regulatory standards. This may reduce transparency and cause confusion. Disclosures for accounting and regulatory standards are subject to different audit requirements. Financial statements are audited but regulatory requirements vary across jurisdictions.

A traditional financial statement audit focuses on financial records and historical information. A question arises as to whether the risk infrastructure and modeling for credit risk metrics like PD and LGD under the internal risk management system should be audited, and if so, what level of assurance could or should be provided over risk management and risk measurement models.

These issues increase the audit expectation gap with respect to regulators. The solution is unclear but the future may include the conduct of comprehensive risk management audits as part of or separate to financial audits.

From a banking perspective, strong governance from board level down through senior management and the inner workings of each financial institution is essential for ensuring effective risk management. A prerequisite for a sound bank is a strong capital base, a strong liquidity policy and a robust management framework. There is support for the longer timetable to implement Basel/G20 reforms which is seen as essential to ensure that the reforms are undertaken in a measured, thoughtful and sequenced manner.

The requirement for banks to hold more capital is a mechanism to reduce leverage and while the introduction of a leverage ratio is a blunt instrument, it should serve the purpose of constraining the absolute size of banks in the system. Post GFC, almost all banks have increased their capital levels. However, there is a fine balance between safety and soundness and for banks to play their basic role in society. A 10 to 20% increase in capital requirements for those banks or financial systems that came through the financial crisis would seem to be about right. Much of this increase has already been raised across the industry. A fundamental striking change that will occur as a consequence of increased capital charges is a fall in the return on earnings for banks; estimated to be in the range of a fall from 15/20% to 12/15% and lower.

For an internationally operating bank, consistency of accounting rules across jurisdictions is vital for a transparent and efficient global financial system. By way of example, for HSBC Australia, APRA is the principal local regulator while the Hong Kong Monetary Authority supervises the parent of HSBC Australia, and the FSA in the UK supervises the group.

The calculation of both Tier 1 capital and risk weighted assets is distinctly different under the three jurisdictions and these differences add to risk. Consistency in accounting rules, the definition of capital and the calculation of RWAs would go a long way to moving to a simpler and more transparent financial system.

To ensure liquidity it is critical to encourage banks to maintain viable sources in a stressed environment. Sources will vary given the composition of each bank's balance sheet but access to funding from a variety of sources must be contemplated and tested in a liquidity contingency plan. There should be a focus on long-term as well as short-term liquidity.

Discussions pointed to the major challenge for developing economies resided in the competency of regulators in implementing Basel III and accounting changes.

SESSION 7: SAFETY NETS; DEPOSIT INSURANCE; CONSUMER FINANCE AND PROTECTION

Options for governments in handling a bank failure are for bailouts or to have in place effective explicit limited depositor protection systems to substantially reduce government exposure. The latter should be funded by banks on the grounds that user fees are more equitable than using taxpayer's funds.

Troubled banks should be resolved promptly and in a way that minimises costs to the financial system without government bailouts.

The GFC was compounded by the lack of effective financial safety nets as well as the lack of coordination between government agencies. Limited mandates and powers, the lack of capacity and capability to act, limited resources and a lack of operational readiness to promote public confidence and to meet obligations to depositors were key reasons why deposit insurance schemes proved to be ineffective during the GFC.

Many national safety net agencies have now begun to address the weaknesses identified through legislative initiatives. The European Union has proposed sweeping amendments in its Deposit Insurance Agency (DIA) directive, by removing co-insurance, increasing limits and scope of coverage, introducing ex-anti funding, providing for new cross-border arrangements and for operational readiness.

Challenges include cross-border differences in deposit insurance mandates and a lack of convergence on the limits, scope of coverage, payout capabilities and funding. The absence of convergence and harmonisation creates cross-border contagion issues.

There is a lack of public awareness of deposit insurance and this contributed to the erosion of public confidence of stability in financial systems. Communication and coordination mechanisms need to be implemented among safety-net players at national and cross-border levels.

Temporary Government blanket deposit guarantee arrangements were introduced unilaterally during the crisis and a challenge now is to unwind the schemes as well as to provide for ways in which schemes may be utilised in future crises.

The Malaysian Deposit Insurance Corporation's approach to the general deposit guarantee – its design implementation, legal processes and comprehensive plans to exit – have been incorporated in a case study. Care was taken in Malaysia to mitigate moral hazard in design. Cross-border coordination with Hong Kong and Singapore worked well to support the exiting of their respective schemes.

Experience shows that clear mandates are needed to set out the role, powers and specific mandates of each financial sector safety net player in law and these include for central banks, prudential regulators and supervisors and depositor protection agencies. Their interrelationship is a national issue aimed at ensuring that the safety net is effective and optimal. Of particular importance is the responsibility for prompt corrective action (PCA) and intervention and failure resolution (IFR) of troubled banks.

A set of 18 core principles have been drawn up for use by deposit insurance agencies in assessing their effectiveness; they include coverage of policy objectives, mitigation of moral hazard, mandate and powers, interrelationships with safety net players, cross-border issues, legal protection, reimbursement of depositors and assessment by the IMF Financial Sector Assessment Program.

Future challenges include the need to build strong accountability and reporting regimes for each safety net player, the need to enhance corporate governance in financial institutions and to address cross-border issues to deal with the failure of regional financial institutions, convergence and harmonisation, the enhancement of intervention and failure resolution and to address the “too big to fail” issue. Ways to approach and mitigate moral hazard that may arise from failure of a SIFI will need to be considered both from a national and an international perspective.

Two issues in particular are noteworthy. First is the need to enhance IFR. Arguably there is a need to build expertise and skills to effect IFR in the Deposit Insurer, in part because of inherent conflicts in a banking supervisor being the resolution authority and the fact that supervisory forbearance can lead to time delays and to a substantial increase in costs of failures, or government bailouts with taxpayer funds. The second, PCA, requires that for a safety net to be effective to mitigate moral hazard, procedures ought to be in place to ensure full and effective compliance with supervisory requirements. These should be seen as minimum requirements, for example, capital requirements should be regarded as the threshold and respected at all times.

Some jurisdictions are moving to integrate financial consumer protection agencies to provide a level playing field for depositors and /insurers that could be impacted by institutional failure and recognition that the erosion of public confidence caused by troubled insurance can involve bailouts by governments. Korea and Malaysia have different financial consumer protection systems in one agency

In Australia, the National Consumer Credit Protection Act 2009 came into force in 2010, providing for nationally consistent regulation of lenders and brokers, including a new licensing regime, placing a responsibility on lenders to assess borrowers’ capacity to meet repayments under a proposed loan. The regime enables the exclusion of rogues and fringe players from the market and seeks to improve industry conduct by requiring competency standards to reflect innovations in product design and delivery.

Changes to the regulation of credit cards aim to enhance competition, make lending fairer and increase transparency between different products. An issue under consideration is that of specific regulation of investment lending and a need to develop regulatory options based on solid analysis of the issues. Regulations which are too prescriptive could impact on returns that consumers may expect or, if they do not address identified risks, they could lead to significant losses.

Discussion focused on laws and regulations to protect consumers. In Australia and elsewhere, regulations emanating from lawful powers enable the securities regulator to exercise supervision. The media, and complaints made to the regulator and feed back by other market participants are ways in which brakes can be put on predatory lending. On the issue of moral hazard, the temptation of governments to step in to bail out an institution continues to exist, as evidenced by the UK bail out of Northern Rock which was only a medium sized bank.

The limits and scope of coverage of deposit insurance is a major public policy matter, as are the powers of regulatory and supervisory agencies in handling prospective system failures. The powers of a banking regulatory agency or a central bank and those of a deposit insurance agency in handling a prospective institutional failure and responsibilities for effective intervention and failure resolution pose significant issues for national policy.

SESSION 8: GOVERNANCE AND RISK MANAGEMENT/INCENTIVES AND COMPENSATION

Established ways of thinking about economic policy, prudential policy and securities regulatory policy contributed to the crisis and without some rethinking, financial systems in the future will be exposed to a repeat of the crisis.

Some draw an analogy with networks in other spheres such as ecology, engineering, genetics, where the degradation of systems through complexity and diminishing diversity lead to disintegration. The challenge as seen by some is to consider the network structure of finance to improve its robustness and to consider network resilience a metric of success.

Such an approach focuses attention from static institutions to constantly interacting market dynamics and highlights the importance that systemic health is more important than the health of the individual institution. A network model highlights the importance of the orientation of governance, regulation, financial reporting, accounting and auditing at national and global level.

IOSCO has transformed itself from a network of securities regulators setting aspirational standards to being a lynchpin in the emerging global financial architecture as a recognised global standards setter. Its work plan covers the concept of systemic risk as it applies to markets; developing measures to monitor risk; extending the regulatory perimeter to previously unregulated or under-regulated areas such as credit rating agencies, hedge funds, dark pools, high frequency trading and complex products and setting standards; the interface between conduct and prudential regulators and enhancing cross-border supervision.

Two streams of thought relate to governance; one is from a cultural/behavioural perspective and the other is from a structural perspective, ie, structure, quantification, escalation and reporting, methodologies – stress testing, scenarios, capital buffers among others. Following the GFC, regulators responded to risk management needs for entities and systems but questions remain to be addressed concerning cultural and behavioural issues. The crisis challenged the nature of collaboration in capital markets and within organisations.

The history of case studies show that misalignment of incentives and risk result in major collapses or systemic issues, for example, Barings, Enron, LTCM, Bear Stearns. Often there is a disconnect between governance, organisational structure, management decision-making, accounting, risk-taking and the incentive framework. Recent events have had a systemic impact not isolated to an entity, for example, in areas of capital, liquidity, valuation and reliance on ratings, pro-cyclicality and institutions withdrawing bilateral support.

Governance in an organisation aims to set strategy, defines policy, and oversees implementation through processes and monitoring and intervention, if required. Both governance and risk management are bigger than numbers and numeric models. Four factors are critical in considering governance in a financial institution; purpose of and appetite for risk management; the values in undertaking risk management; incentive structures that influence risk management, and the use of estimates and judgement (and courage to make judgement calls). Models are tools to be used, a means to an end and not the end.

Supervisors face the same cultural challenges as those faced by a supervised entity. Supervisors work on a more diverse stage and supervise a bigger range of entities. Similarly, supervisors dealing with internationally operating institutions face cultural challenges but the order of magnitude of difficulty in supervision is considerably higher. Systems and processes (including models) are a necessary condition for successful system management and culture is the sufficient condition. It is the use of tools that is important, not the tools themselves and while models in a complex financial system are necessary for good management, they are not sufficient. Judgement, courage, balance and integrity are also necessary. This applies also to supervisors and to governments. The supervisory focus is on survival of the system under stress and this presents as a wholly different order of magnitude for managing risk to that applying on a business as usual basis for individual entities.

Discussion focused on the competence of directors in an institution being more relevant than the issue of compensation of executives. Boards should be less concerned with reporting and more focused on forward looking risks to businesses. It is also relevant that the Chief Risk Officer reports direct to a board. The role of internal audit should be enhanced and agreements reached between a board, management, external auditors, internal auditors and regulators on the reliability of information and reporting.

In determining a culture of good governance, much depends on the personal views of the chairman and CEO, and is ultimately reflected on how an organisation selects senior management and staff and whom they recruit. An IOSCO Committee on reporting standards has pointed to the relevance of social, governance and environmental factors in good governance outcomes as well as compliance with financial standards. The FSB in the UK is rigorously implementing fit and proper standards for appointments to financial institutions.

Given the fact that moral hazard has been hard wired into the system as a default backstop to stress testing, economies may be adopting a rather academic interest in whether banks should adopt the standardised approach under Basel II to risk management as compared with the internal risk model approach.

If remuneration is based on short-term outcomes, rational behaviour of management will lead to short-term gains and likely unsustainable longer-term results for the organisation. If the alignment of interests in governance fails, then the conditions are set for the socialisation of losses and the privatisation of gains.

Risk is a profession and the Risk Association formed a crisis committee post GFC that reported on what went wrong in risk management and governance in over 150 companies. A key finding was that management took different risks to those agreed by their boards. While progress is being made in aligning objectives in companies, there is a long way yet to go.

SESSION 9: CLOSING SESSION

The world economic system stood at the abyss only three years ago; since then world economic growth and trade is strengthening and despite the massive overhang of sovereign debt in Europe and the continuation of imbalances in major economies there is growing optimism about the future. This is due in large part to the response of the G20 and the FSB and relevant standard setting bodies, which demonstrated that under crisis, governments, business, policy makers and regulators did propose reforms that generated confidence.

Nonetheless, financial system regulators will be challenged by the fact that major global imbalances will impact on systemic stability and excessive credit growth will continue as the perennial and major problem confronting financial systems.

Destabilising influences will routinely confront economies and working with and coordinating macro-economic prudential policies with other responsible agencies in an economy and with agencies in other jurisdictions will be a priority for financial system supervisors.

The symposium highlighted the political economy nature of the reforming financial systems. For emerging markets in particular, pressures can be expected to arise from peer reviews of regulatory systems by the Financial Stability Board. An understanding of financial system networks and how they inter-relate is now the philosophic challenge to be confronted in reshaping the regulatory environment. The impacts of differing capital requirements to support banking and insurance and securities raise questions of regulatory arbitrage and how that will be dealt with. Regulators will be involved in designing the suite of regulations in an economy and they and others will need to provide for both safety and risk taking.

More work will be required to enhance the quality of information and the changes that will follow from reforms to accounting standards and reporting requirements.

Changes to legislation and regulation may be needed in some economies to provide for stress testing and scenario building, as those measures apply both to individual financial institutions and to overall system stability. Governance arrangements as they relate to supervisors and other relevant agencies are as important as those for commercial institutions they supervise. The costs and benefits of reforms will require careful analysis – a challenge for all economies. Legal and market infrastructures in Asia ought to enhance creditor rights, to provide for efficient clearing and settlement systems and to broaden the domestic investor base.

Also, within Asia, those economies which generally came through the crisis with financial systems undamaged, may see a greater need to focus on sources of vulnerability – such as volatile capital flows – as well as having to consider the distinct range of specific measures to enhance systemic stability. Specific other issues confronting regional economies relating to the real economy require a deepening of local currency bond markets, a broadening the investor base across the region and enhancing the financing of SMEs.

It is also worth recognising that squaring off the objective of financial stability with growth is not a simple trade-off. Implementing Basel III is a key obligation of proposed reforms and implementation will involve an intense commitment of resources to undertake relevant obligations. Capacity building will be needed to enhance understanding of the data required in monitoring and surveillance, of changes to accounting standards and reporting and in under-taking a check-list and analysis of resolution capabilities.

The lessons from the crisis for Asia as they relate to strengthening financial systems and macro-prudential supervision highlight the need for appropriate frameworks to undertake surveillance, monitoring and stress testing of financial systems. All layers of crisis management require development, at national, regional and global level. There is room in these areas of activity to share experiences in building capacities.

Cross-border issues present challenges for the region. They include ways to resolve issues relating to globally significant financial institutions, intensifying work on the development of Colleges of Supervisors and enhancing regional cooperation in the exchange of information and coordination of work relating to financial safety nets.

The formation of regional financial system architecture to reflect the increasing role of Asian economies in global economic affairs was identified as a matter needing further development. The concept proposed by the ADB for the establishment of an Asian Financial Stability Dialogue is one that ought to be fleshed out by both public and private sector institutions in the region.

An overarching theme of the symposium is that much more work is needed on a wide range of subject area, much of which will require specialist inputs as regional economies and agencies seek to strengthen institutions and systems in handling future financial crises.

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DAY ONE – TUESDAY 8 MARCH 2011

SYMPOSIUM CHAIR: Ken Waller, Director, Melbourne APEC Finance Centre

Lecture Hall, Emily Macpherson Building (13)

REGISTRATION

8:30am–8.45am

Multipurpose Room (Tea and coffee will be available on arrival)

OPENING ADDRESSES

8:45am – 9.10am

LESSONS FROM AFTER THE CRISIS; CHALLENGES AND RISKS FROM GREATER REGULATORY EMPOWERMENT

WELCOME:

Margaret Gardner AO, Vice Chancellor, RMIT University

OPENING ADDRESS:

Charles Littrell, EGM Policy Research and Statistics, APRA

SESSION ONE

9.10am – 10.30am

MANAGING THE CRISIS AND PROMOTING BEST PRACTICE PRINCIPLES

- Where are we in terms of heightened regulation, and why are we here?
- Cooperation on fiscal and monetary policy
- Regional issues and challenges
- Responses by impacted internationally operating banks and other financial intermediaries
- Critique of progress so far

SESSION MODERATOR:

Ken Waller, Director, Melbourne APEC Finance Centre

SPEAKERS:

Mike Callaghan, Executive Director, Macroeconomic Group (International), Australian Treasury

Masahiro Kawai, Dean, Asian Development Bank Institute

Graham Hodges, Deputy CEO, Australia & New Zealand Banking Group Ltd

10.30am – 10.45am

MORNING TEA – Multipurpose Room

SESSION TWO

10.45am – 12.15pm

REGULATORY IMPACTS – OVERVIEW

- Overview of regulatory impacts and proposed solutions
- Progress in Implementing reforms to supervisory standards – status
- **FINANCIAL STABILITY BOARD**
 - FSB mandate – recommended regulatory changes – banking and securities
 - Basel II and other reforms
- **BIS, BGBS, IOSCO, IAIS**
 - Regulatory responses; where to from here
 - Responses to systemic issues
 - Systemic issues and common problems

SESSION MODERATOR:

Professor Kevin Davis, Research Director, Australian Centre for Financial Studies

SPEAKERS:

Peter Morgan, Senior Consultant for Research, Asian Development Bank Institute

David Love, Director, Policy and International Affairs, Australian Financial Markets Association (AFMA)

DAY ONE – CONTINUED

12.15pm – 1.30pm

LUNCHEON & NETWORKING – Multipurpose Room

SESSION THREE

1.30pm – 3.00pm

LIQUIDITY; EFFECTIVE, RELIABLE SECURITIES MARKETS – MEASURES TO BALANCE STABILITY AND FINANCIAL SYSTEM INNOVATION

- Defining unregulated markets in post GFC environment
- Future of hedge funds
- Securitisation and credit derivatives
- Systemic Risks
- Credit Derivatives
- Transparency issues
- Central counter-party clearing systems/organised exchanges and OTC agencies

SESSION MODERATOR:

Chris van Homrigh, Senior Executive Leader, Investment Banks, ASIC

SPEAKERS:

Ranjit Singh, Managing Director, Securities Commission Malaysia
Alex Heath, Deputy Head, Domestic Markets Department, RBA

3.00pm – 3.30pm

AFTERNOON TEA – Multipurpose Room

SESSION FOUR

3.30pm – 5.00pm

CREDIT RATING AGENCIES

- Role and Regulation of Credit Rating Agencies (CRAs) Post-Crisis
 - Global regulatory approaches to CRAs
 - Role of ratings in market regulations
 - Role of domestic & global CRAs
 - Mutual recognition of CRAs by regional regulators

SESSION MODERATOR:

Chris Dalton, Managing Director, Australian Ratings

SPEAKERS:

Vicki Wilkinson, Principal Advisor, Corporations & Financial Services Division, Markets Group, Australian Treasury
Andrew Templer, Senior Manager Investment Banks, ASIC

6.30pm – 8.30pm

EVENING FUNCTION

The Italian Restaurant, 101 Collins Street (enter via Flinders Lane)

DAY TWO – WEDNESDAY 9 MARCH 2011

SYMPOSIUM CHAIR: Ken Waller, Director, Melbourne APEC Finance Centre

Lecture Hall, Emily Macpherson Building (13)

REGISTRATION

8:30am – 8.45am

Multipurpose Room (Tea and coffee will be available on arrival)

SESSION FIVE

8:45am – 10.15am

**MACRO PRUDENTIAL SUPERVISION; FRAMEWORK FOR COORDINATION;
CRISIS MANAGEMENT; CROSS-BORDER COORDINATION;
GLOBAL & REGIONAL SAFETY NETS**

- Macro prudential orientation of prudential policies
- Tools to adopt a macro prudential approach to regulation and supervision
- Surveillance and monitoring – regional developments
- Managing in a crisis
- Skills and resourcing needs
- Effective cross-border coordination

SESSION MODERATOR:

Yap Lai Kuen, Director of Insurance and Takaful Supervision, Bank Negara Malaysia

SPEAKERS:

Cyn-Young Park, Principal Economist, Office of Regional Economic Integration, Asian Development Bank
Bruce Le Bransky, Principal Advisor, Financial Risk Management Advisory, KPMG

10.15am – 10.30am

MORNING TEA – Multipurpose Room

SESSION SIX

10.30am – 12.00pm

**BASEL II/LLL (REFORMS); ACCOUNTING & VALUATION/IASB
RECOMMENDATIONS AND CONTRAST WITH BASEL II**

- Provisioning & Disclosure
 - IASB & BASEL key recommendations and standards, including Pillar 3
 - Banking provisioning
 - Regulators' expectations of auditors
- Hedge Accounting & Fair Value
 - History & context of changes
 - Classification and measurement
 - Leveraging & Valuation
 - Market vs Credit Risk issues
- Basel & Accounting reforms – practical implications for bankers – a CFOs perspective
 - Implementing the Basel/Accounting Standards, and addressing the dichotomies
 - Additional capital & term funding

SESSION MODERATOR:

Paul Lichtenstein, Financial Risk Partner, KPMG

SPEAKERS:

Prof. Warren McGregor, Accounting and Finance Department,
Monash University & Member of International Accounting Standards Board
John McKenna, CFO, HSBC Australia

12:00 – 12:20pm

PRE-LUNCH SPEAKER – Jane Diplock, Chairman Securities Commission, Chairman of the Executive Committee of IOSCO New Zealand

12.20pm – 1.30pm

LUNCHEON – Multipurpose Room

DAY TWO – CONTINUED

SESSION SEVEN

1.30pm – 3.00pm

SAFETY NETS; DEPOSIT INSURANCE; CONSUMER FINANCE AND PROTECTION

- Role & effectiveness of Deposit Insurance
- System liquidity management, lender of last resort; role of central bank
- Crisis management
- Core Principles for Effective Deposit Insurance Systems
- Assessment methodology
- Issues in retail financing
- Changes to enhance consumer protection

SESSION MODERATOR:

Professor Christine Brown, Monash University

SPEAKERS:

Jean Pierre Sabourin, CEO, Malaysia Deposit Insurance Corporation

Jim Murphy, Executive Director, Markets Group, Australian Treasury

3.00pm – 3.15pm

AFTERNOON TEA – Multipurpose Room

SESSION EIGHT

3.15pm – 4.45pm

GOVERNANCE AND RISK MANAGEMENT/INCENTIVES AND COMPENSATION

- Implementing recommendations to improve governance and risk management
 - in regulatory agencies
 - and financial institutions
- Incentives and compensation
- Responses taken to date (eg stress testing)

SESSION MODERATOR:

Jane Diplock, Chairman, Securities Commission NZ

SPEAKERS:

Tim Coyne, Partner Financial Services, Ernst & Young

Dr Jules Gribble, Director, Enterprise Metrics

SESSION NINE

4.45pm – 5.30pm

CLOSING SESSION

- Identification of capacity building needs
- Summary and conclusions

CLOSURE OF SYMPOSIUM – KEN WALLER

SESSION MODERATOR:

Ken Waller, Director, Melbourne APEC Finance Centre

SPEAKERS:

Professor Kevin Davis, Research Director, Australian Centre for Financial Studies

Peter Morgan, Senior Consultant for Research, Asian Development Bank Institute

Cyn-Young Park, Principal Economist, Office of Regional Economic Integration, Asian Development Bank

David Jones, Academic Coordinator

6.30pm – 8.30pm

CLOSING DRINKS – Investment Centre Victoria, Level 46, 55 Collins Street

GUEST SPEAKER:

Hon. Gordon Rich-Phillips MLC, Assistant Treasurer, Victorian Government