

## **Implementing Macro Prudential Supervision & Regulatory Change leading to Greater Financial Stability in the Region**

**CAPACITY BUILDING TRAINING PROGRAM FOR APEC REGIONAL POLICY MAKERS AND FINANCIAL SYSTEM REGULATORS – MELBOURNE, 29<sup>TH</sup> AUG/2<sup>ND</sup> SEPT 2011**

**Organised by the Australian APEC Study Centre and the Melbourne APEC Finance Centre at RMIT University and sponsored by AUSAid and the Asian Development Bank Institute.**

### **Introduction**

This training course is the last of three components of a program financed by the Australian Commonwealth Government's Public Sector Linkages Program organized by Ausaid. The program aims to help APEC economies in understanding the complex nature of proposed reforms as a consequence of the global financial crisis, and their impact and to implement best standards and practices as appropriate for regional economies. This third component is also sponsored by the Asian Development Bank Institute.

The first component of the program was a research paper commissioned by the Centre and prepared by Professor Kevin Davis, which reviewed major recommendations arising from the G20, the Financial Stability Board and major standard setting bodies in response to the global financial crisis. The paper [“Regulatory Reform Post the Global Financial Crisis: An Overview”](#) is available on the Centre's web-site.

The second component was the convening of a major APEC regional symposium convened in Melbourne on 8/9<sup>th</sup> March 2011 which 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. The research paper noted above informed the symposium. The report of the symposium is entitled [“Enhancing Financial Policy and Regulatory Cooperation— Responses to the Global Financial Crisis”](#) and is available on the Centre's web-site. A key objective of the symposium was to assess capacity needs in the region to strengthen regional financial and regulatory systems. The report noted that implementing Basel III is a key obligation of proposed reforms and implementation will involve an intense commitment of resources; the need to enhance understanding of the data required in monitoring and surveillance, of changes to accounting standards and reporting and in undertaking a check-list and analysis of crisis resolution capabilities. The lessons from the crisis “highlight the need for appropriate frameworks to undertake surveillance, monitoring and stress testing of financial systems.” Cross border issues present challenges for the region including ways to resolve issues relating to globally significant financial institutions and “much more work is needed on a wide range of subject areas to strengthen institutions and systems in handling future financial crises”.

### **This Training Program**

Senior and middle level representatives of policy areas of government and financial system regulatory agencies responsible for banking, insurance and securities will be invited to participate in the program from APEC economies, China, Indonesia, Philippines, Thailand, Vietnam, Mexico and Peru and these will be funded under the Ausaid PSLP finance. The ADBI will fund representatives from other regional economies and, in consultation with the Asian Bankers' Association, a number of private sector bankers from the region will also be invited on a self-funded basis.

Building on the research paper and the report of the symposium, this training program is designed to support policy makers and financial system regulators in enhancing their understanding and their capacities of the following 3 general themes:

- defining and implementing Macro Prudential Supervision frameworks, surveillance and crisis monitoring / management appropriate for economies in the region
- stress testing and modeling techniques as a means of strengthening risk management
- continuing financial system development generally within the region (including ongoing Basel implementation)

The following course syllabus reflects these identified priorities and themes, and is organized into a sequence of presentations and panel sessions delivered over a period of 5 days.

### **Faculty & Course Delivery**

The Academic Coordinator for this program is Mr David Jones, who has had over 40 years experience in the finance industry, particularly in the banking sector.

A faculty of highly experienced presenters and panelists has been assembled from Australian and international regulatory agencies; accounting firms, academia and the finance industry.

To ensure maximum relevance to those attending, all presentations and panel sessions will be highly interactive, with participants encouraged to ask questions and to raise issues pertinent to their countries and their respective job roles.

In addition, each day will conclude with a participant leading a discussion and review of the topic material covered during that day, and will facilitate the development of a summary of the key learnings generated. Outputs from this activity will be used, in conjunction with an introductory session on the first day, to help participants identify and prioritize actionable initiatives on return to their home countries.

### **Key Briefing papers**

Attendees should familiarize themselves with the 2 following key background reports:

1. Report on the APEC Regional Symposium held in March 2011, by MAFC Director, Mr. Ken Waller.

[http://www.apec.org.au/docs/11\\_CON\\_GFC/APEC%20Financial%20Symposium%20Report%20%20.pdf](http://www.apec.org.au/docs/11_CON_GFC/APEC%20Financial%20Symposium%20Report%20%20.pdf)

2. An Overview of Regulatory Reform post the GFC by Professor Kevin Davis.

[http://www.apec.org.au/docs/11\\_CON\\_GFC/Regulatory%20Reform%20Post%20GFC-%20Overview%20Paper.pdf](http://www.apec.org.au/docs/11_CON_GFC/Regulatory%20Reform%20Post%20GFC-%20Overview%20Paper.pdf)

Additional pre course reading material will be made available for some sessions.

### **Course Syllabus**

The following Course Syllabus describes the specific topics, dates and times of all sessions in this training program.

## Day 1: Monday 29<sup>th</sup> August 2011

**Systemic Stability – why is it important?:** This module reflects upon financial crises of the past, critical causal factors and the significant regulatory reforms now proposed in response to the GFC. Participants will also articulate their aspirations for attendance on the program, and will outline key initiatives they hope to focus specifically upon and implement in their respective home countries/institutions.

<b>8.15 – 9.15</b>	<b>Registration, Welcome and Orientation</b>	
<b>Topics:</b>	<ul style="list-style-type: none"> <li>• Welcome to participants. Introduction of the APEC Centre Staff.</li> <li>• March 2011 Symposium – summary of Symposium report.</li> <li>• Overview of the course program, the objectives.</li> </ul>	<b>Presenters:</b> Ken Waller (Director APEC Study Centre) David Jones (APEC Centre Program Facilitator)
<b>9.15– 10.45</b>	<b>Session 1.1: Participant Self Introductions and their Specific Objectives from attending the Program.</b>	
<b>Participant Presentations:</b>	Each participant will provide a 3-4 minute overview of their respective roles, and will outline the 2 or 3 main objectives they have set for themselves from attendance, including what they hope to be able to achieve and implement on return to their home countries.	<b>Facilitators:</b> Ken Waller David Jones
<b>10.45–11.15</b>	<b>Morning Tea</b>	
<b>11.15– 12.15</b>	<b>Session 1.2: Risk Management &amp; Governance deficiencies identified as contributing to the GFC</b>	
<b>Presentation:</b>	The Institute of International Finance (“IIF”) undertook a detailed analysis of the deficiencies in risk management and governance which collectively were substantial causal factors of the GFC. This session examines the key factors and consistent themes emerging from the 150 recommendations contained within this report.	<b>Presenter:</b> Dr. Mark Lawrence, Managing Director Mark Lawrence Group.
<b>12.15 – 1.30</b>	<b>Lunch</b>	
<b>1.30 – 2.45</b>	<b>Session 1.3: Key messages and implications for Supervisors from the GFC</b>	
<b>Presentation:</b>	Continuing from the previous session, key learnings and messages for supervisors. Contemporary supervisory practices and the direction in which supervision should be heading.	<b>Presenter:</b> Dr. Mark Lawrence
<b>2.45 – 3.15</b>	<b>Afternoon Tea</b>	
<b>3.15– 4.45</b>	<b>Session 1.4: Key regulatory Reforms post the GFC</b>	
<b>Presentation and discussion:</b>	The GFC has prompted a myriad of global regulatory reforms highlighted in overview paper. Participants will be requested to rate the comparative importance of the regulatory reforms on a scale of 1-10, and to advise this information prior to attendance. This session will provide an overview and facilitate two way discussions in relation to the reforms.	<b>Presenter:</b> Prof Kevin Davis (Research Director, Australian Centre for Financial Studies & Professor of Finance, University of Melbourne)
<b>4.45 – 5.00</b>	<b>Session 1.5: Daily Reflection and Open Forum</b>	
<b>Participant overview:</b>	A participant will provide an overview of the key learnings from the day’s sessions which will be documented. Open forum questions in relation to sessions conducted during the day.	<b>Facilitator:</b> David Jones
<b>5.00-5.15</b>	<b>Group Photo</b>	

## Day 2: Tuesday 30<sup>th</sup> August 2011

**Early Warning Signals of Crises; Managing a Crisis; Macro Prudential Supervision:** An examination of the early warning signals of crises; how to manage a major crisis; the role and key tools to consider when implementing effective Macro Prudential Supervision; Implementing effective Capital Flow & Management policies.

<b>8.45 – 9.00</b>	<b>House Keeping</b>	
Information regarding the day.		Centre Staff
<b>9.00 – 10.30</b>	<b>Session 2.1: Early Warning Signals of Financial Instability. Managing a Crisis</b>	
<b>Presentation:</b> What early warning signals should policy makers and supervisors be alert to in order to responsively address and best mitigate potential financial instability – including examples from the past. How to manage a major crisis if/when it occurs.		<b>Presenter:</b> Geof Mortlock, Senior Policy Manager Policy Development, APRA
<b>10.30 – 11.00</b>	<b>Morning Tea</b>	
<b>11.00 – 12.15</b>	<b>Session 2.2: Macro Prudential Supervision.</b>	
<b>Presentation:</b> The role Macro Prudential Supervision should play in achieving financial stability. Differentiating Macro Prudential Supervision from other forms of Supervision. Macro Prudential Frameworks. Balancing financial stability with growth.		<b>Presenter:</b> Mangal Goswami, Deputy Director of the IMF Singapore Regional Training Institute.
<b>12.15– 1.30</b>	<b>Lunch</b>	
<b>1.30 – 2.30</b>	<b>Session 2.3: The Tools of Macro Prudential Supervision.</b>	
<b>Interactive Workshop:</b> A facilitated workshop during which the participants will discuss the tools and techniques of best practice Macro Prudential Supervision; current status and the major challenges to implementation in the region.		<b>Facilitator:</b> Geof Mortlock, APRA, Mangal Goswami, IMF.
<b>2.30-3.30</b>	<b>Session 2. 4: Safety Nets</b>	
<b>Presentation:</b> Regulatory agencies that form safety nets; their roles in monitoring system financial health and stability. Clarity of mandates.		<b>Presenter:</b> Professor Kyung Soo Kim, Sungkyunkwan University, Korea
<b>3.30-4.00</b>	<b>Afternoon Tea</b>	
<b>4.00–5.00</b>	<b>Session 2.5: Capital Flows and Capital Management</b>	
<b>Presentation:</b> Policies which facilitate effective capital flows and capital management/controls within the region. Avoiding regulatory arbitrage. LVRs, haircuts, term funding, and liquidity.		<b>Presenter:</b> Peter Morgan, Senior Consultant Research ADBI Tokyo.
<b>5.00 – 5.15</b>	<b>Session 2.6: Daily Review and Open Forum</b>	
<b>Participant overview:</b> A participant will provide an overview of the key learnings from the day’s sessions which will be documented. Open forum questions in relation to sessions conducted during the day.		<b>Facilitator:</b> David Jones
<b>7.00-9.00</b>	<b>Dinner – The Tearoom @ The European, 161 Spring St</b>	

## Day 3: Wednesday 31<sup>st</sup> August 2011.

### **Implementation Challenges; Regulatory Structures and Perimeters; Regional Coordination:**

Examining implementation challenges associated with some of the main Macro Prudential Supervision techniques including a detailed discussion on Deposit Insurance; applicability in this region; Dodd Frank developments and potential impacts. Improving cross border cooperation between regulators, and enhancing the Region's voice at international forums.

<b>8.45 – 9.00</b>	<b>House Keeping</b>	
Information regarding the day.		Centre Staff
<b>9.00-10.30</b>	<b>Session 3.1: Deposit Insurance – MDIC a case study</b>	
<b>Presentation/Case Study:</b> The Malaysian Deposit Insurance Corporation's approach. Its role, statutory authority, readiness planning measures (incorporating a case study), relationship and interaction with other agencies nationally and internationally.		<b>Presenter:</b> JP Sabourin, Chief Executive Officer MDIC.
<b>10.30-11.00</b>	<b>Morning Tea</b>	
<b>11.00-12.30</b>	<b>Session 3.2: Macro Prudential Policies – Key Implementation Challenges</b>	
<b>Presentation:</b> Identifying and implementing effective surveillance techniques; identifying and monitoring the activities of SIFIs and Global SIFIs (banks and non banking entities)		<b>Presenter:</b> Eric Wong, Senior Manager Market Research, Hong Kong Monetary Authority (HKMA)
<b>12.30-1.45</b>	<b>Lunch</b>	
<b>1.45-3.15</b>	<b>Session 3.3: Governance</b>	
<b>Presentation:</b> Practical measures in implementing good governance. What tangible evidence of good governance should regulators be looking for in the financial institutions they supervise. Are G20 and FSB guidelines likely to result in better forms of governance?		<b>Presenter:</b> Tim Coyne, Partner Ernst & Young, Oceania Leader of Banking and Capital Markets
<b>3.15 – 3.45</b>	<b>Afternoon tea</b>	
<b>3.45-5.00</b>	<b>Session 3.4: Regional Regulatory Coordination</b>	
<b>Panel Session &amp; discussion:</b> Structures and organization to facilitate effective in country and cross border regulatory cooperation; ensuring the region has an appropriate voice at key international forums; harmonization of regional regulation to minimize regulatory arbitrage (including of capital controls).		<b>Facilitators:</b> JP Sabourin, MDIC; Peter Morgan, ADBI; Tim Coyne, Ernst & Young
<b>5.00 – 5.15</b>	<b>Session 3.5: Daily Review and Open Forum</b>	
<b>Participant overview:</b> A participant will provide an overview of the key learnings from the day's sessions which will be documented. Open forum questions in relation to sessions conducted during the day.		<b>Facilitator:</b> David Jones

## Day 4: Thursday September 1<sup>st</sup> 2011

**Continuing Regulatory Change Management & Developments in the Region:** Cultural and governance change aspects associated with the continuing implementation of regulatory reforms including BASEL 2. Accounting reforms; challenges faced in preparation for BASEL III commitments

<b>8.45 – 9.00</b>	<b>House Keeping</b>	
Information regarding the day.		Centre Staff
<b>9.00-10.30</b>	<b>Session 4.1: Related Regulatory Challenges – Expanding the perimeters of regulation</b>	
<p><b>Presentation and discussion:</b> Global trends and applicability to regulators in this region – including regulation of shadow banking activities; Hedge Funds; increased regulation of OTC markets; CCPs; Securitization; CRAs. Aligning with international regulation – including a reflection on proposed USA’s Dodd Frank Act reforms. (Detailed Dodd Frank implementation plans are planned to be announced in July).</p>		<p><b>Presenters:</b> Andrew Templer, Senior Manager ASIC. Alex Heath Deputy Head Domestic Markets RBA</p>
<b>10.30 -10.45</b>	<b>Morning Tea</b>	
<b>10.45 – 12.00</b>	<b>Session 4.2: Ongoing implementation of Basel II – Principles vs Rules based regulation.</b>	
<p><b>Presentation:</b> Achieving the right balance between Principles based and Rules based regulation in a BASEL 2 implementation context.</p>		<p><b>Presenter:</b> Rona Morgan, Head of Enterprise Risk Strategy, ANZ Bank</p>
<b>12.00-1.15</b>	<b>Lunch</b>	
<b>1.15-2.45</b>	<b>Session 4.3: Key Accounting and Disclosure Developments</b>	
<p><b>Presentation:</b> Provisioning; accounting &amp; valuation reforms; convergence of global accounting standards – status and implications. Key issues for emerging markets.</p>		<p><b>Presenter:</b> Paul Lichtenstein, Partner KPMG</p>
<b>2.45-3.15</b>	<b>Afternoon Tea</b>	
<b>3.15-4.15</b>	<b>Session 4.4: Basel III</b>	
<p><b>Panel Session:</b> Implementing Basel III will require an intense commitment of resources and effort to implement. Discussion on the challenges facing the region and the current state of preparations including in relation to Regulatory staff competencies/skills. Attendees will be expected to prepare ahead of the course for their inputs to this session.</p>		<p><b>Facilitators:</b> Ken Waller and David Jones. Two course members will be selected to co-facilitate.</p>
<b>4.15 – 4.30</b>	<b>Session 4.5: Daily Review and Open Forum</b>	
<p><b>Participant overview:</b> A participant will provide an overview of the key learnings from the day’s sessions which will be documented. Open forum questions in relation to sessions conducted during the day.</p>		<p><b>Facilitator:</b> David Jones</p>

## Day 5: Friday 2<sup>nd</sup> September 2011

**Models & Stress Testing; Program finale:** An overview of, and then a “hands on” session dealing with modelling and stress testing. Program concludes with participants providing feedback on their learnings and re-confirmation of the actions they intend to mobilise on return to home countries.

<b>8.45 – 9.00</b>	<b>House Keeping</b>	
	Information regarding the day.	Centre Staff
<b>9.00-10.30</b>	<b>Session 5.1: Models and Modeling – an overview of the associated issues.</b>	
	<b>Presentation:</b> Stress testing and scenario building – modeling which underlies good risk management. Examples of “Good and Bad models”; expertise and levels of understanding required in the financial institutions supervised, and within regulatory agencies. A case study / workshop will be included. Key issues for supervisors.	<b>Presenter:</b> Jules Gribble (Director Enterprise Metrics Pty Ltd).
<b>10.30-11.00</b>	<b>Morning Tea</b>	
<b>11.00-12.30</b>	<b>Session 5.2: Stress Testing Retail lending portfolios – a Case Study</b>	
	<b>Interactive Case Study:</b> A working example of how to understand and critique a Bank’s retail lending models; types of models and features; robustness in measuring macroeconomic shocks.	<b>Presenter:</b> Lisa Schutz – Director In Fact Decisions.
<b>12.30-1.30</b>	<b>Lunch</b>	
<b>1.30-3.30</b>	<b>Session 5.3: Workshop – review of the morning’s Models &amp; Stress Testing Sessions, then a Summary of Key Learnings</b>	
	<p><b>Panel session &amp; Discussion:</b> Questions and answers coupled with a review of the preceding sessions on Models and Stress Testing. Discussion and agreement on the key questions supervisors should be asking in relation to Models and Stress Testing.</p> <p><b>Participants – review of key learnings and action plans:</b> Participants will identify the learnings most relevant to their own job roles/countries, and will compare and update these as appropriate, relative to their initial objectives at the commencement of the program. Proposed implementation and action plans.</p>	<p><b>Facilitator:</b> Christine Brown Professor Monash University, Jules Gribble, Lisa Schutz.</p> <p><b>Facilitators:</b> David Jones, Kevin Davis.</p>
<b>3.30-4.00</b>	<b>Afternoon Tea</b>	
<b>4.00-5.00</b>	<b>Session 5.4: Program Review</b>	
	<p><b>Facilitated Group Discussion</b></p> <ul style="list-style-type: none"> <li>(a) issues arising from previous presentations</li> <li>(b) participant feedback on the program</li> <li>(c) Open Forum - issues</li> </ul>	<b>Facilitator:</b> Ken Waller
<b>5.00-6.00</b>	<b>Closing ceremony and cocktail function</b>	