

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Meeting Paper 7-A

Summary of the 7th Public-Private Dialogue for the Asia-Pacific Region

Office of the Advisory Group Chair

<i>PURPOSE</i>	For information.
<i>ISSUE</i>	Summary of the 7th Public-Private Dialogue for the Asia-Pacific Region
<i>BACKGROUND</i>	The Advisory Group coordinated the preparations for the 7th Public-Private Dialogue for the Asia-Pacific Region, which was held on July 5-6 in Colombo, Sri Lanka. This was undertaken in cooperation with the South East Asian Central Banks (SEACEN) Centre.
<i>PROPOSAL</i>	N.A.
<i>DECISION POINT</i>	Note the report.

THE 7TH SEACEN/ABAC/ABA/PECC PUBLIC-PRIVATE DIALOGUE FOR THE ASIA-PACIFIC REGION

THE IMPACT OF GLOBAL FINANCIAL REFORMS AND CHALLENGES FOR ASIAN EMERGING MARKETS

Colombo, Sri Lanka, 5-6 July 2011

Since 2005, this annual dialogue involving key institutions representing financial regulators and the private sector in the region has been held in conjunction with the annual meeting of SEACEN member central banks' directors of bank supervision. ABAC has been a driving force of this dialogue, coordinating with other co-organizing and participating institutions through the Advisory Group on APEC Financial System Capacity Building.

The theme of the dialogue focused on balancing new regulations to promote stronger financial systems with the need to facilitate growth and develop efficient and liquid financial markets in the region. Topics also include issues where G20, FSB and BCBS have indicated interest in receiving regulators' and the private sector's views from the region's emerging markets.

The dialogue was attended by around 80 participants from central banks, international institutions and the private sector. Key highlights from the dialogue were as follows:

- ❑ The discussions on the economic environment reflected various concerns about the growing risks in the global economy and financial markets. Fundamentals are clearly pointed to a new downtrend, with declining industrial production particularly in developed economies and rising commodity and consumer prices, against a backdrop of increasingly limited fiscal and monetary policy options.
- ❑ Asian central bankers stressed the importance of going back to first principles, including the priority that should be given to promoting confidence in the system, avoiding short-term measures that can be destabilizing and focus on strengthening one's own economy first as a necessary building block for international cooperation.
- ❑ There was a prevailing sentiment that the G20's efforts to reform global financial systems have focused too much on the needs of developed economies, with reforms being seen as not taking enough consideration of the situation of emerging markets. Asia's needs should also be addressed by global regulatory reforms, in the sense of promoting inclusive growth.
- ❑ Most banks in emerging Asian markets do not see themselves negatively affected by Basel II and Basel III, as most of their regulatory capital requirements are more stringent than Basel and the positions of banks even more so. For example, a survey by ABA showed that 86% of Asian banks had a CAR exceeding 12% and Tier 1 capital exceeding 8%. Asian banks view Basel III positively according to the survey, but there are concerns that it may not suit smaller banks with simpler business models, discourage lending to SMEs and may be inadequate for monitoring behavioral and contractual maturity mismatches.
- ❑ From an Asian central banker's perspective, Basel III stands to induce a sharper analysis of financial risks and a more holistic view of financial markets, brings liquidity risk finally to the forefront and brings needed focus to market infrastructure risk and risk channels. However, it is seen to also bring a lot of challenges to emerging market supervisors, because Basel III must go hand in hand with other reforms, including accounting, governance and market infrastructure reforms, if it is to bring about greater financial stability. Thus, the task of undertaking all these will require a great deal of capacity on the part of supervisors.
- ❑ On financial integration, the challenge for Asia is great due to its diversity. Integration requires a lot of cooperation and coordination among financial regulators and financial institutions. For banking supervisors and banks, it would require home-host agreements. For securities markets, it would require cross-border legal frameworks for investments and development of clearing and settlement systems. Critical auxiliary arrangements for financial literacy, consumer protection and redress mechanisms are needed. A viable infrastructure is a minimum necessary condition of regionally integrated financial markets. In the end, reaping benefits from integration rests on the ability to contain risk, and so integration would require substantial cooperation among regulators in the region.