

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Room S221, Hong Kong Convention and Exhibition Center
Hong Kong SAR, People's Republic of China

Meeting Paper 3-A

Forum on the Asia-Pacific Financial Markets Integration Project, 13 March 2012, Melbourne, Australia

Australian APEC Study Centre at RMIT University

- PURPOSE** For information.
- ISSUE** Forum on the Asia-Pacific Financial Markets Integration Project, 13 March 2012, Melbourne, Australia
- BACKGROUND** The proposed Forum will commence multi-year work on an action plan to contribute to the efficiency and resilience of financial systems in individual economies in the APEC region and the financial structures that link them, as agreed by the Advisory Group and by FEWG in Honolulu in 2011. APEC business see this work as contributing to more efficiency in markets and to enhancing innovation in financial services. It responds to pledges made by APEC Finance Ministers and Leaders to reinforce financial sector stability, maintain open markets and build a foundation for strong, sustainable and balanced growth regional integration.
- PROPOSAL** N.A.
- DECISION
POINT** Note the program.



THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

**ASIA PACIFIC FINANCIAL MARKETS INTEGRATION PROJECT
FORUM AT RMIT UNIVERSITY, MELBOURNE, 13TH MARCH 2012.**

BACKGROUND NOTES AND OBJECTIVES

Background

APEC Finance Ministers and Leaders support proposals to enhance regional economic and financial integration and enhanced cooperation to build toward an environment of open markets to allow for the flow of trade, investment and capital. These are not just political aspirations; they reflect community expectations across the region as the benefits of growth and closer economic and financial ties demonstrate their worth to individuals who are caught up in the vision of the Asian 21st Century. At a broader level, regional financial integration would contribute to global rebalancing. Financial integration would be consistent with the development of international financial standards and promote Asian inputs into the work of G20, FSB, BCBS and other standard setting bodies.

In their Joint Ministerial Statement in Honolulu on 10th November 2011 Finance Ministers pledged to take coordinated actions to strengthen the global recovery, reinforce financial stability, maintain open markets and build a foundation for strong, sustainable and balanced growth. They welcomed inputs from ABAC on improving collaboration among financial market regulators in view of increasing regional financial integration and for enhancing the efficiency of capital markets. Ministers recognized the role of ABAC and the private sector in supporting the concept of an Asian Regional Funds Passport and anticipated further development of that concept.

The Asian financial crisis of 1997 led to major shifts in thinking in the region in support of greater financial market integration and cooperation between economies. Major changes have occurred since in the form of enhanced regional cooperation through the development of the Chiang Mai Initiative and successor groupings, for example the Economic Policy Review and Dialogue, the Asian Bond Market Initiative, the Credit Guarantee and Investment Facility and the Multilateralisation of the Chiang Mai Initiative (CMIM) and the creation of the ASEAN+3 Macroeconomic Research Office (AMRO). Through its Public Private Sector financial capacity building initiatives, ABAC has strongly supported the development of local bond markets in the region.

The global financial crisis has revealed serious flaws in global financial markets, caused major rethinking by international standard setting bodies on risk and capital needs, governance and financial market inter-linkages, including the impact of systemically important institutions, volatile capital flows and the interdependence of markets on global liquidity (and the paucity of liquidity). Sovereign debt vulnerability of major European institutions has been superimposed on an already complex global environment.

Interdependence of Asia with other major regions has its plusses and minuses and these are being starkly highlighted as the present crisis unfolds. Trade and investment interdependence are clearly evident by the impact of lower growth in major industrial markets as they grapple with massive adjustment problems. Financial interdependence is demonstrated by volatility in financial flows and in equity and property prices, by credit availability and in risk premiums for finance. The ADB has noted that the integration of regional economies globally is greater than the integration within the region, while both global and regional integration have been increasing. (*)

It is against this complex background that the Advisory Group on APEC financial system capacity building has proposed this project to enhance the efficiency and resilience of the financial systems of individual APEC economies and the financial structures which link them. There is no question that the APEC region, and in particular, the Asian regional members of APEC, will by necessity have to respond individually and increasingly collectively in securing their own financial systems. Much has been achieved and much is being done to shore up financial stability in the region's economies. This has occurred in major part in response to the lessons learned following the Asian financial crisis, but also from increased regional efforts to strengthen regional finances, including, as noted earlier, deepening regional bond markets and credit guarantees and to enhance prudential standards. All of that said, the ADB, the ADBI and others note the need for deeper institutional regional integration.

The business community of ABAC supports that view and considers that it is timely and opportune to review what can usefully be done to supplement ongoing work in regional and international groups which would increase the robustness of financial systems and improve the efficiency of markets in individual economies and across the region. ABAC and the Advisory Group see this as a multi-year project and this view derives from experience in ABAC in work it has undertaken to strengthen the region's financial systems, including bond markets, to support financial inclusion and the development of proposals to encourage public private partnerships in infrastructure financing.

It is an APEC business view that APEC is entirely appropriate to develop proposals that would improve financial systems and that would enhance market efficiencies. APEC's voluntary and consensual processes, its established cooperative assistance approach, the private sector's active ongoing engagement in its work, and its focus on capacity building make it ideally suited to achieving incremental but significant gains.

The composition of the Forum

Through the Advisory Group, ABAC has maintained well established linkages with businesses across the region and with business associations, with government agencies responsible for finance, both policy and regulatory, with multilateral and regional agencies and standard setting bodies and with academia. The proposal for the multi-year work to be discussed at the Forum will seek to involve all of these groupings and to be highly collegiate in nature, building on and utilizing the experiences and wisdom of all of them.

Other items to be discussed include the need to draw on the research resources of public and private sector Forum members and others; to avoid duplication of effort while at the same time ensuring that the work addresses contemporary public policy regulatory and market issues; and to contribute to thinking in other forums, nationally, regionally and globally.

Objectives

There are three main objectives:

- *to review current developments in financial and regulatory reforms*
- *to identify opportunities, challenges and bottlenecks, including policy and regulatory impediments that are relevant to regional economies and to regional financial integration*
- *to identify measures that could enhance regional financial integration*

We intend to discuss the outcomes of this Forum with the APEC Finance Ministers and other interested bodies involved in regional regulatory developments and integration.

A central objective will be to see opportunities and challenges where public and private sectors can meaningfully collaborate – what measures can be developed and proposed that will add to financial market efficiencies, competitiveness and innovation and at the same time ensure stable and prudent market structures. The identification of policy and regulatory impediments in meeting these objectives in an economy and as viewed through a regional prism will therefore be important priorities.

The objective should also be to generate in a proactive way, issues that ought to be addressed to ease existing bottlenecks in market structures. These may or may not be entirely due to consequences, unintended or otherwise, of policy and regulatory measures but to deficiencies in market structures and the lack of competition, in terms of entry and participation or pricing barriers, or for other reasons.

Similarly, the Forum should consider measures that could enhance regional financial integration. This would recognize the value of emerging structures and the work being undertaken by multilateral, international and regional bodies, standard setting organizations and other groupings. It would not be the intention of the Forum to duplicate in any way the work and responsibilities of these varied groupings. Rather, the Forum could develop perspectives drawing from public-private discussions on how collaborative approaches might further enhance the work of those groupings and whether some additional structures are needed to more fully engage business in collaboration with agencies and regulators to achieve common goals.

Some APEC economies, because of size, location and development, are likely to have more direct and larger systemic impact on regional financial integration than others. This may require some prioritization in the work undertaken by the Forum and its members to address matters which might yield early dividends of greater benefit to regional financial integration. But a constant should and would be to develop ideas and proposals that would yield benefits to all in delivering on the concept of regional financial integration.

Finally, the Forum provides an opportunity to:

- Discuss approaches to the proposed objectives

- Discern, review and throw light on priorities and define them
- Consider the development of a programming schedule
- Provide guidance on how the various components of the project schedule may be handled and which person, group or institution might take responsibility for initial preparatory work



Asia-Pacific
Economic Cooperation



THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

ASIA PACIFIC FINANCIAL MARKETS INTEGRATION PROJECT

Tuesday, 13th March 2012

Council Chamber, Francis Ormond Building

RMIT University

Level 1, 124 La Trobe Street
Melbourne

(All moderators, speakers, discussants to be confirmed)

08.30 – 08.45 Registration/coffee

Session 1

08.45 - 09.15 Welcome and introduction to purposes and objectives of the Project

Mr Mark Johnson AO, Forum Chair (member ABAC Australia)
Representative, ABAC Russia

Session 2

09.15- 10.30 Overview of implementation of reforms and initiatives in the Asia Pacific region, with a focus on outstanding challenges

Moderator: Mr Jim Murphy, Executive Director, Market Groups
Australian Treasury

Lead speakers:

IMF: Domestic reforms in regional economies' financial markets

BOJ: Asian bond market development and integration efforts:

- Asian Bond Fund, recent developments in EMEAP

State Street: Asia Regional Funds Passporting and UCITS

HKMA: Payments and Settlement System/s

10.30 – 10.45 COFFEE BREAK

10.45 - 11.15 Open discussion

Issues to consider:

Can the pace of change be enhanced, if so how?

Is there adequate “outreach” to policy and regulatory and to private sector institutions in the region by international standard setting bodies; if not, how may this be improved

Can businesses play a role?

Is there adequate official coordination with the finance industry in promoting market integration: how may coordination at economy and regional level be strengthened?

Are businesses in the region sufficiently engaged in “cross-border” regulatory coordination of systemically important financial institutions?

Session 3

11.15 -12.45 Regulatory and policy constraints on efficiencies and innovation in economies’ financial systems and regional structures

Moderator:

Lead speakers: The Bank of Tokyo Mitsubishi UFJ
ICBC
ASIFMA
ANZ Banking Group
FSA Japan
Malaysian Securities Exchange Commission

Issues to be considered:

What key challenges can be identified which may not be being implemented in economies’ policy and regulatory reform programs – and in regional forums – which if they were addressed could provide significant gains to business and economic growth and regional integration. The following may be examples of issues that speakers may wish to raise :

- Recalibrating capital requirements recommended under Basel III
- Proposals for Central Clearing Counterparties
- Market structures to support pensions, retirement incomes, and health
- Deepening capital markets
- Managing volatile capital flows
- Private financing for economic and social infrastructure
- Improving competition and innovation in financial services

Open discussion

Issues to consider:

Participants may wish to identify “other” challenges that regional economies should consider to promote financial market efficiencies and how policy makers, regulatory agencies and business might promote effective action to advance them.

12.45 – 14.45 LUNCH

Host: Mr John Denton, (member ABAC Australia)
Partner & CEO, Corrs Chambers Westgarth
Bus to 600 Bourke Street, Melbourne, Level 36

Session 4

14.45-15.45 Policy and supervisory perspectives on promoting regional financial system integration

Moderator:

Lead speakers: APRA
Bangko Sentral ng Pilipinas
MAS
HKMA
Goldman Sachs

Issues to be considered:

Noting the emerging structures in place and/or being developed in the region to promote financial market integration, what issues/challenges do speakers consider should be included in this project that would help to:

- i) Strengthen, support or complement emerging regional structures and specifically which structures are considered most relevant to meet the objectives of the project
- i) Promote the involvement of financial businesses to support work on emerging structures through an Asian Financial Markets Integration Forum in which business may have a respected voice in discussions and decision-making in promoting regional financial system integration
- ii) Identification of needs to improve statistical and analytical data to enhance regional financial integration

Open discussion

Issues to consider:

What incentives would be most appropriate to involve business engagement in existing and any proposed structures to promote regional financial integration?

How can market financial analysis and data and academic research be best utilized in the project?

15.45-16.00 COFFEE BREAK

Session 5

16.00-17.00 Ways forward to develop objectives of the project

Moderated Open Discussion: Mark Johnson AO

Issues to be considered:

- Identification of measures that could be incorporated in the work program of the project to meet key objectives
- An ordering of priorities that might usefully be considered in the early phase of the work
- Views on longer-term components of the project
- Review and discussions with ABAC and APEC Finance Ministers and other interested bodies

17.00 – 17.15 Summary and Conclusions

Mr Mark Johnson AO

17.30 – 18.30 COCKTAILS:

Host: Professor Ian Palmer, Pro Vice Chancellor Business, RMIT University
Walk to the Siglo Bar at the European
159 -161 Spring Street, Melbourne



THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

February 2012

Via Email:

Dear

INVITATION TO PARTICIPATE IN A FORUM ON THE ASIA PACIFIC FINANCIAL MARKETS INTEGRATION PROJECT.

As Chairman of the Advisory Group on APEC Financial System Capacity Building, which is led by the APEC Business Advisory Council (ABAC), I am very pleased to invite you to participate in this Forum to be held at RMIT University, Melbourne, on Tuesday 13th March 2012.

This Forum aims to commence discussions on prospects for a multi-year action plan to enhance the efficiency and resilience of domestic financial systems in the APEC region and the financial structures and institutions linking those systems.

It responds to the APEC Leaders 2010 Seoul Declaration endorsing stronger and deeper regional economic integration and the APEC Finance Ministers' pledge in 2011 to reinforce financial sector stability, maintain open markets and build a foundation for strong, sustainable and balanced growth. Ministers welcomed ABAC's recommendations to improve collaboration among financial market regulators in view of increasing regional financial integration.

This project is being developed by the APEC Business Advisory Council (ABAC) and the Advisory Group supporting the Council will report the outcomes of the initial phase of the project to APEC Finance Ministers and APEC Economic Leaders at their meetings in August and September 2012.

The business communities of APEC are strongly committed to support the deepening of financial systems in the region's economies and across the region so as to allow businesses, small and large, to trade and invest more efficiently in the region. Drawing on the APEC frameworks for facilitating trade and investment, the project would contribute to further stimulating regional economic growth and integration.

Business is committed to the project, acknowledging that its ultimate objective may take some time to realize. We believe however that by bringing together the expertise and experiences from the public and private sectors and international and regional agencies and academia we can achieve measures that will enhance financial market efficiencies and innovation.

With that thought in mind, it is our intention to bring together at the Forum representatives of the region's financial community, senior policy officials and financial regulators, relevant international and regional organizations and academic specialists to develop a phased work program that will advance the purpose of this project.

We see the Forum as an opportunity to ***develop thinking on a road map or structured program to advance the initiative, through consideration of:***

- Possible objectives, such as those outlined below, and ways to achieve them,

- Exploration of the interconnectedness of markets (and the limitations on connectedness) among the region's economies; and,
- Development of recommendations on a feasible way forward for public-private collaboration to advance the project.

The specific objectives of the project would be to provide a solid basis for economies' financial market structures and provide insights into possible improvements in institutions and in structures and, through the development of a catalogue of data, through the process of data gathering and collation, and comparative analysis, economies would have a basis to identify ways in which regulatory and supervisory approaches might be improved to promote efficiency, robustness in structures and innovation in markets.

Existing regional market linkages, and their limitations, would be identified and this would contribute to assisting economies in developing and promoting regional initiatives that would promote efficiencies and market innovation.

I have pleasure in attaching a draft program which we hope will meet the specific objectives just noted. You will see that I have tentatively proposed that you or your organisation undertake a role in the forum but I also note that it is our intention to encourage all participants to be involved in the discussions under each of the proposed sessions.

Your comments and advice on the draft outline of the program would be most welcome as of course would be your agreement to participate, either in the way I now propose or in other ways as you would prefer.

We will circulate administrative and logistics details of the Forum in late January 2012 but your early advice as to whether or not you are able to accept this invitation would be greatly appreciated.

Would you kindly advise your response direct to Elissa Macleod, of the Australian APEC Study Centre (AASC) at RMIT University at her email address: elissa@apec.org.au

Please do not hesitate to contact Mr Ken Waller, Director of AASC on phone: +61 3 9605 1804, should you require any further information.

I hope very much that you are able to participate in the forthcoming Forum.

With kind personal regards,

Mr Mark Johnson AO

Chairman
ABAC Advisory Group on APEC Financial System Capacity Building.
Sydney NSW 2000
Australia

Australian APEC Study Centre
Level 3, Suite 10, 343 Little Collins Street
Melbourne VIC 3000
Australia

List of invitees:

Title	First Name	Surname	Position	Organization	Economy
Mr.	Mark	Johnson AO	Chair	Advisory Group on APEC Financial System Capacity Building	Australia
Mr.	John	Denton	Partner & CEO	Corrs Chambers Westgarth	Australia
Prof.	Barry	Eichengreen	Professor of Economics and Political Science	University of California, Berkeley	USA
Mr.	Ken	Waller	Director	The Australian APEC Study Centre	Australia
Dr.	Julius Caesar	Parrenas	Advisor on International Affairs	The Bank of Tokyo-Mitsubishi UFJ Ltd	Japan
Dean	Masahiro	Kawai	Dean	Asian Development Bank Institute (ADBI)	Japan
Mr	Masato	Takaoka	Deputy Director General, International Bureau	Ministry of Finance, Government of Japan	Japan
Mr	Jason Seung	Jae Lee	Principal Financial Sector Specialist, Office of Regional Economic Integration	Asian Development Bank	Japan
Mr.	Jim	Murphy	Executive Director, Markets Group	Australian Treasury	Australia
Mr.	R. Sean	Craig	Resident Representative	International Monetary Fund (IMF)	Hong Kong
Mr.	Yoshihiro	Watanabe	Advisor	Institute for International Monetary Affairs, The Bank of Tokyo-Mitsubishi UFJ, Ltd	Japan
Mr.	Eli	Remolona	Chief Representative	Bank for International Settlements	Hong Kong
Mr.	Nicholas	de Boursac	Managing Director	Asia Securities Industry and Financial Markets Association (ASIFMA)	Hong Kong
Madame	Wang	Lili	Executive Director & Senior Executive Vice President	Industrial & Commercial Bank of China	China
Mr.	Alex	Thursby	Chief Executive Officer, Asia Pacific, Europe & America	ANZ Banking Group	Australia
Mr.	Ranjit	Singh	Managing Director	Malaysian Securities Exchange Commission	Malaysia
Mr.	Shinobu	Nakagawa	Associate Director General and Head of Center for Monetary Cooperation in Asia, International Department	Bank of Japan	Japan
Mr.	Charles	Littrell	EGM Policy, Research and Statistics	The Australian Prudential Regulation Authority (APRA)	Australia
Dr.	Johnny Noe E.	Ravalo	Managing Director, Supervision and Examination Sector	Bangko Sentral ng Pilipinas (Central Bank of the Philippines)	Philippines
Mr.	Dato' Muhammad	bin Ibrahim	Deputy Governor	Bank Negara Malaysia	Malaysia
Mr.	Atsushi	Mimura	Director, Office of International Financial Affairs	Financial Services Agency (FSA)	Japan
Mr.	Yukio	Yoshimura	Head of Government Affairs	Citigroup Japan Holdings	Japan
Mr.	Katsuyuki	Meguro	Director, Research Division	Ministry of Finance	Japan
Title	First Name	Surname	Position	Organization	Country

Mr.	Jeff	Papps	Director, Deals	Price Waterhouse Coopers (PwC)	Australia
Mr.	Hon	Cheung	Regional Director	State Street Global Advisors	Singapore
Mr.	James	Shipton	Managing Director and Head of Government Affairs	Goldman Sachs (Asia)	Hong Kong
Mr.	Takumi	Shibata	Chief Operating Officer and Executive Vice President	Nomura Securities Co. Ltd.	Japan
Mr.	W. Jason	George	Member of the Secretariat	Financial Stability Board	
Mr.	Wayne	Byres	Secretary General	Basel Committee on Banking Supervision	Australia
Mr.	Darmin	Nasution	Deputy Governor	Bank of Indonesia	Indonesia
Mr.	Shozaburo	Jimi	Senior Representative	FSA Japan	Japan
Mr	Kirk	Vanikkul	Deputy Governor, Financial Institutions Stability	Bank of Thailand	Thailand
Mr.	Lim	Hng Kiang	Deputy Governor (Deputy Chairman)	Monetary Authority of Singapore	Singapore
			Senior Representative	Asian Development Bank (ADB), Manila	Philippines
Mr	Peter	Pang	Deputy Chief Executive	Hong Kong Monetary Authority (HKMA)	Hong Kong
			President & CEO	The Reserve Board of San Francisco	USA
Mr	Ong	Chong Tee	Deputy Managing Director	Monetary Policy Investment/Development & External, MAS	
Dr	Li	Youqing	Deputy Director General	Asia-Pacific Finance and Development Center	China
Mr	Gui	Minjie	Vice Chairman	China Securities Regulatory Commission	China
Mr	John	Trowbridge	Director	Centre for International Finance & Regulation	Australia
Prof	Kevin	Davis	Research Director	Melbourne Centre for Financial Studies, Melbourne University	Australia
Prof	Michael	Skully	Chair in Banking	Department of Accounting and Finance, Monash University	Australia