

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Second Meeting 2012

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Sabah Room, Basement II, Shangri-La Hotel Kuala Lumpur

Kuala Lumpur, Malaysia

Meeting Paper 3-B

Summary of Outcomes of the Melbourne Forum

Australian APEC Study Center at RMIT University

PURPOSE

For information

ISSUE

Summary report of the Forum on the Asia-Pacific Financial Markets Integration Project that was convened on 13 March 2012 in Melbourne, Australia.

BACKGROUND

The Forum was co-organized by the Advisory Group on APEC Financial System Capacity-Building, the APEC Business Advisory Council (ABAC) and the Australian APEC Study Centre at RMIT University. It brought together experts and thought leaders from around the region representing regulatory and government agencies, international institutions, the financial industry and academe. The Forum was convened with three major objectives in mind: (a) to review current developments in financial and regulatory reforms in the region; (b) to identify opportunities, challenges and bottlenecks, including policy and regulatory impediments that are relevant to improving financial market efficiencies, competitiveness and innovation in the region's economies and to regional financial integration; and (c) to identify measures that could enhance regional financial integration.

PROPOSAL

N.A.

**DECISION
POINT**

Endorse together with the full report.

FORUM ON THE ASIA PACIFIC FINANCIAL MARKET'S INTEGRATION PROJECT OF THE APEC BUSINESS ADVISORY COUNCIL, ABAC

REPORT AND OUTCOMES

MELBOURNE, 13TH MARCH 2012

A most successful and interactive Forum was held at the Council Chambers of RMIT University; it was opened by Professor Ian Palmer, Pro-Vice Chancellor, College of Business, RMIT, and chaired by Mr. Mark Johnson AO, ABAC Australia member and chair of the Advisory Group on APEC Financial System Capacity Building.

Around 40 invited guests participated. They included very senior representatives of financial policy and regulatory agencies of the region, private financial institutions, international financial institutions and financial academic research specialists. ABAC members John Prasetyo, Indonesia, Wayne Golding, PNG, Anna Buduls and John W. H. Denton, Australia participated. Mr. Denton, Partner and CEO of Corrs Chambers Westgarth generously hosted lunch for all participants. An evening reception was hosted by RMIT College of Business.

The background note, the agenda and speakers and a list of participants will be shown as attachments to this note.

Background

The attached note provides details of the background and the objectives of the Forum. Briefly summarised, APEC Ministers in their Joint Ministerial Statement in Honolulu on 10th November 2011:

- agreed to take coordinated actions to strengthen the global recovery, reinforce stability (in the international financial system), maintain open markets and build a foundation for strong, sustainable and balanced growth
- welcomed inputs from ABAC on improving collaboration among financial market regulators to reflect and promote increasing regional financial market integration and to enhance efficiency in capital markets, and
- recognized the role of ABAC and the private sector in supporting the concept of an Asian Regional Passport, and anticipated further development of the concept.

The Asia Pacific region is directly impacted by strains in the global financial system, notwithstanding the important measures that are or have been implemented in the region following the Asian Financial crisis of 1997, such as the Chiang Mai Initiative and its

multilateralisation, ASEAN+3 Macroeconomic Research (AMRO) and the Asian Bond Market Initiative.

Some regional economies are working in the G20 and through the G20 the Financial Stability Forum and other international standard setting bodies in promoting strengthened prudential standards to safeguard economies and the global financial system against a recurrence of the failures seen in the global financial crisis.

A primary driver of the Project is the strong sense in ABAC that new initiatives need to be developed, and urgently, to:

- promote enhanced regional financial market connectivity
- build market structures that will be necessary to service the massive investment needs of the region and to redress imbalances in global financial flows and the mismatch between savings and long-term investment needs in the region
- buttress the region against future financial shocks – to complement the work of the G20, the FSB and international standard setting bodies

Objectives set for the Forum

- to assess opportunities and challenges where public and private sectors can meaningfully collaborate to improve financial market integration, efficiencies, competitiveness and innovation, and at the same time ensure stable and prudent market structures
- to identify bottlenecks in existing structures and in market underdevelopment and to set a road map or a work program to ameliorate impediments to financial market structures and over the longer-term to contribute to regional financial market integration and to regional economic integration
- to recognize the value of emerging structures and work being undertaken by various groups, both in the region and beyond, to avoid duplicating those efforts but to add value to them through collaborative approaches involving public and private sector agencies and academia
- to consider additional structures needed to more fully engage business in collaboration with policy makers and regulators to achieve improved market efficiencies and connectivity and financial system stability

Key messages from the Forum

A detailed report of the Forum outcomes is circulated separately; below is a summary of the major themes and proposals that were considered:

Promoting regional financial market integration

(Specifically, regional integration is seen in the context of improved financial connectivity between markets in the region to facilitate the unimpaired development and delivery of financial services to savers and investors wherever they reside in the region).

- Despite there being six regional economies in the G20, regional financial integration is under-developed in the region, relative to trade flows and the economic size of the region; the direct recycling of regional savings into the region is disappointingly small and this despite efforts to build regional bond markets to utilize domestic savings and to diversify funds usage.
- An early step in promoting regional financial market integration is establishing liquid primary government bond and secondary markets in regional economies. Government bond markets provide a benchmark for the pricing of corporate bond issuance, and should contribute to the development of liquid markets in repos and over the counter and exchange traded derivatives, enable efficient and cost effective price discovery of risk within an economy and contribute to trading, clearing and settlement platforms, and encourage a broad and active domestic and foreign investor base.
- The value arising from connectivity between financial markets in the region arise through economic efficiencies, wider product choice by consumers, lower borrowing costs for governments and corporates, greater insulation from the vagaries arising from reliance on volatile international capital flows and greater resilience to financial system turbulence.
- Within the banking sector in Indonesia, some benefits are being generated as a consequence of a new requirement on major banks that they regularly publish their prime lending rates; greater competition is likely if banks generally published more data on fee structures; this should also be relevant to other economies in the region.
- While tangible progress has been made on several issues in enhancing regional financial architecture to improve financial market connectivity, such as in promoting local currency bond markets, credit guarantees and investment facilities (coordinated with the ADB) and SME financing through cross border CBO issuance, more work needs to be done and a road map designed as an enabler.
- Investor interest in long-term project financing would be encouraged by guarantees that provide for credit enhancement to mitigate against default risk.

Promoting enhanced regulatory coordination

- Important work is being undertaken by G20, the Financial Stability Board and international standard setting bodies and others to address the failures underpinning the global financial crisis.
- Far reaching measures are being implemented to buttress economies and the international financial system generally. However, careful assessment of some measures is called for to evaluate their relevance to Asian regional economies, particularly were they could be disruptive to smooth market operations; the call for central clearing counter parties is a case in point.
- Regional solutions may well be needed to address regulatory shortcomings and to insulate the region from future financial shocks.

- The key and over-riding regulatory objective is financial market stability; the regulatory approach should also contribute to efficiency and innovation in capital markets within the appropriate regulatory architecture and any necessary reforms to the financial system should be entirely compatible with system stability and efficiency and innovation

Primary factors in enhancing connectivity, integration and stability

- Building a regional framework needs sound foundations and structures to promote longer-term financial market regional integration and improved regulatory coordination.
- There are natural tensions between business interests in supporting regional financial market integration and those of regulators; for the latter, domestic stability interests are paramount while for former there are many complexities in managing cross-border business but cross- business models are increasing vital to support a customer base that operates in many jurisdictions
- A concept of regulatory harmonization between economies is less relevant than an approach which promotes *consistency* in goals and objectives to achieve financial system stability and outcomes that would enhance connectivity between markets and provide clarity to market participants – domestic and foreign – on what prudential and regulatory requirements are; consistency in the application of AML and FATCA regulations by regional regulators would be most helpful to financial institutions.
- Withholding and transactions taxes have negative impacts on investor participation in markets.

The way forward

Participants discussed the way forward under three headings which revolved around questions of “who are we and what is the mandate” (meaning the status of the Forum), how should the work of the Forum be organized and related to other relevant groupings and lastly, what are priorities and how a work program would be constituted. Taking these matters in order, the following reflects Forum outcomes. .

“Who are we and what is the mandate”

- The Forum represented in a broad way the various groupings that were invited, from policy and regulatory agencies, the private sector, academics and regional and international bodies. In effect it was a public private sector partnership (typical of others established by ABAC) and its mandate derived from the request of APEC Leaders and Ministers.

Organization of future work and relationships with other groupings

- A Forum should provide advice to APEC Ministers and to other relevant groupings on issues that are aimed at promoting a framework for enhancing regional financial market integration through improved efficiencies and innovation in systems and connectivity between financial markets in the region and in enhancing financial system stability
- Other regional groupings to which a Forum should relate are IMF, EMEAP, FSB, AMRO, the Asia Pacific Financial Forum, ADB, ADBI, BSBC, IAIS, IOSCO; but there are likely to be others and the various groups should be encouraged dialogue partners with the Forum as appropriate
- Advice provided by a Forum should be based on high quality analysis and data, objectively gathered and formulated by interested participants in the Forum, including public sector and regulatory agencies, business and academia and MFIs and regional think-tanks.
- Because greater coordination is already occurring between regional banking regulators and between regulators in the securities sectors, emphasis should be given to enhance cooperation in the pensions, savings and insurance sectors; nonetheless, relationships with and connectivity between these sectors and banking systems needs to be clearly recognized.
- There is a need to build a road map that would help economies move toward greater financial market connectivity and regulatory coordination; it should involve mutual recognition and promoting a sequence of activities that would be based on sound foundations.

Priorities and a work program

- Develop a regional strategy aimed at enhancing the environment for the investment of pension, retirement and life insurance funds in and across the markets of the region, taking account of the widely varying pension and funds management systems in regional economies
- Review common and uncommon regulatory features of each economy with a view to improving regulatory consistency in the region.
- Develop a road-block analysis of inhibitors to connectivity and to regulatory consistency, with a view to providing a road-map that could assist economies promote behind the border structural reforms within a comprehensive framework of reforms
- Review possibilities to strengthen the “regionalization” of components of standards promoted by international standard setting bodies to reflect Asian economic conditions and institutional structures.