

APFF Caucus II  
Meeting Paper 3.4-A

## Report on APFF Roundtable on Financial Regulations

Office of the Advisory Group Chair

### APFF Roundtable on Financial Regulations, 27 January 2015, HK

- Keynote by AFMM Chair Secretary of Finance Cesar Purisima
- Participation by senior financial regulators:
  - Japan FSA
  - HKMA
  - HK SFC
  - OJK
  - Malaysian Securities Commission
  - China Insurance Regulatory Commission
  - BIS Asia Pacific Office
- US Treasury
- IMF
- Private sector experts, industry associations, academic experts

## Key Messages

- The time has come for Asia to develop financial regulations in the context of development rather than crisis resolution and management.
- Important to balance the need for development (expanding access to finance, promoting investment in infrastructure, developing deep and liquid capital markets) with regulatory objectives (financial stability, consumer protection, integrity of financial systems)
- Need for a stronger Asian voice in the shaping of global regulatory rules, and in dialogues with European and US regulators.
- Importance of mechanisms for industry to provide inputs into the development of financial regulations.
- Key regional issues for industry and regulators in Asia: management of data (privacy, security, cross border flows), AML (need for harmonisation), RMB internationalization
- Key global issues for industry and regulators in Asia: derivatives (central reporting and clearing), capital and liquidity requirements, resolution and recovery regimes

## Global Regulatory Reforms – Impact on Asian Emerging Markets

- Region-specific features:
  - - Bank lending predominant for investment
  - - Household savings concentrated in savings deposits
  - - Shadow banks important source of SME finance and lower leverage
  - - OTC derivatives markets small and underdeveloped
  - - Fast-growing markets
- Global regulatory reforms:
  - many require further fleshing out of technical details
  - need careful process and feedback mechanism
  - must take into account cross-jurisdictional differences
  - regulations must be proportionate to risks
- Example : why global insurance regulatory model may not fit Ems
  - - Quantitative risk management models - designed for mature and stable mechanisms and regimes with slow market growth
    - 2013 Premium growth rate - Advanced markets life -0.2% non life 1.1%; emerging markets life 6.4% non life 8.3%
  - - Self-assessment based systems: requires strong risk management awareness and ability within insurance firms
  - - Scenario method internal model - requires sufficient professional resources within the insurance industry and regulatory bodies

## Impact of Regulatory Developments in Advanced Markets

- Regulatory initiatives may lead to disruptions in liquidity, capital flows, market efficiency
  - E.g., pressure on US, EU firms to repatriate capital to home markets – slash in lending to Asia-Pacific
- AML/KYC: labor intensive compliance, huge fines and penalties for non-compliance
  - Impact on correspondent banking relationships
  - Rules vary across jurisdictions: definition of AML compliant – need to harmonize rules
  - Need to develop cost effective solutions
- Use of Asian voice
  - Dialogue of IOSCO Asia-Pacific Committee with EU Commission: European Market Infrastructure Regulations recognition of CCPs in HK, SG, Australia and Japan
  - EMEAP talking to US regulators on Volcker Rule implementation

## Implications for APFF agenda

- Asia needs well-developed, deep and liquid capital markets
- Need to work on financial market infrastructure, including lending infrastructure
- Need for dialogue between regulators, supervisors and industry to deepen understanding of issues, e.g., proportional risk taking, balance between regulatory and development (e.g., financial inclusion, investment in infrastructure) objectives
- Need platform with convening power