



# THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

Document: AGFSCB 30-032  
Draft: **FIRST**  
Source: Australian APEC Study Centre –  
RMIT University  
Date: 10 August 2010  
Meeting: Bangkok, Thailand

## **Third Meeting 2010**

26 August 2010

Ballroom 1, InterContinental Hotel, Bangkok  
Bangkok, Thailand

# **Meeting Paper 5-D**

## **Report on Completed Capacity Building Initiative Shanghai, 7-11 June 2010**

Australian APEC Study Centre at RMIT University

**ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY BUILDING  
THIRD MEETING 2010, BANGKOK, 26<sup>TH</sup> AUGUST 2010**

**ITEM 5 - D: REPORT ON COMPLETED ON COMPLETED CAPACITY BUILDING  
INITIATIVE – SHANGHAI, 7/11 JUNE 2010**

**Introduction**

The Asia Pacific Finance and Development Centre, Shanghai and the Melbourne APEC Finance Centre completed a major training program for Asian regional financial system policy makers and regulators, entitled “Implementing Financial System Regulatory Reforms in the Region following the global financial crisis”, funded by the APEC Support Fund and the Melbourne APEC Finance Centre at RMIT University.

**Background**

The program involved 24 participants from 11 APEC economies (China, Chile, Indonesia, Malaysia, Mexico, PNG, Peru, Philippines, Russia, Thailand and Vietnam). 17 officials attended from non-APEC economies, Belarus, Myanmar and Laos DPR and officials participated by video conferencing to Beijing, Mongolia, Vietnam and Sri Lanka.

Members of the Advisory Group will recall that the Group endorsed the program. Members of the Group made major contributions to its success, including Mr. Gary Judd QC, ASB-CBA Group, Professor Naoyuki Yoshino, Keio University and Director of the Financial Research and Training Centre, FSA, Japan and Professor Kevin Davis of the Australian Centre for Financial Studies.

Representatives of the region’s commercial banking system, ICBC, ANZ, and the Standard Chartered Group and the region’s policy and regulatory systems, APRA, CBRC, the Superintendency of Banking, Peru, made major presentations. International agencies participated: BIS, the IMF and the ADB, as did the Institute of International Finance.

The program was an excellent example of the value of public-private partnerships in regional institutional capacity building and the role of the Advisory Group to give effect to this vision. A copy of the course program is attached, together with extracts from the Coordinators report of the program.

**Proposal**

That the Advisory Group note this report and endorse the program as constructive example of a public private partnership in financial institutional capacity building.

*Australian APEC Study Centre at RMIT University.*

*2<sup>nd</sup> August 2010*

**IMPLEMENTING FINANCIAL SYSTEM REGULATORY REFORMS IN THE  
REGION FOLLOWING THE GLOBAL FINANCIAL CRISIS**

**EXTRACT FROM COORDINATOR'S REPORT**

**APEC SECRETARIAT FUNDED TRAINING PROGRAM, SHANGHAI,  
7 - 11<sup>TH</sup> JUNE 2010**

**Introduction**

The program was designed to enhance the understanding of policy and regulatory officials concerned with banking systems of APEC economies, of changes proposed to financial systems regulatory approaches as a consequence of the global financial crisis and to encourage and promote the implementation of regulatory reforms relevant to the needs of the APEC regional economies.

24 participants attended from 11 APEC economies (China, Chile, Indonesia, Malaysia, Mexico, PNG, Peru, Philippines, Russian, Thailand and Vietnam). Another 17 officials attended from non-APEC economies, Belarus, Cambodia, Myanmar and Laos DPR and officials participated by video-conferencing to Beijing, Mongolia, Vietnam and Sri Lanka.

**Course coverage and presenters**

Each day of the training course comprised five modules with a theme for each day as follows:

- Day 1. The global financial crisis; impact and responses from international standard setting bodies and regulators
- Day 2. Assessment of proposed reforms and the anticipated impact on banks (on credit risk management, bank capital adequacy, loan provisioning and capital charges)
- Day 3. Macro prudential supervision and stress testing (constraints and benefits of these regulatory tools, key concepts; resource implications for regulatory agencies and managing results and expectations)
- Day 4. Four facilitated workshops considered four policy questions and provided their views and recommended policy actions to the whole group; Pillar 3 of Basel II, disclosure and role of credit rating agencies Evaluation of capital models and their utility in risk management
- Day 5. Governance, regulatory cross-border coordination and emerging issues

Each module involved one or two expert and specialist presenters drawn from either regional regulatory agencies (in particular the CBRC, APRA, and the Financial Research Center, FSA, Japan), the IMF, the Bank for International Settlements, the ADB, PBOC, the Institute of

International Finance, representatives of regional banking groups (in particular ICBC, Standard Chartered, ANZ, and ASB-CBA Group) and academia.

### **Key substantive issues arising from the course**

The program was rich in coverage of relevant issues and significant time was allocated for panel discussions on specific topics and for interactive discussions between participants and presenters. The Academic Coordinator provided a summary of key issues that arose from each day's work and an overall summary of key issues considered during the program. These included:

- whether or not regional regulators should adopt new capital charges recommended by the Financial Stability Board and the Basel Group given that regional banking systems are impacted less by innovative capital market products
- the need to ensure sufficient flexibility in new recommendations for discretion in capital charges that regional regulators may impose on banks they supervise and whether emerging economies should impose high capital charges
- differentiation between internationally operating banks and domestic banks
- possible trade-off between sustainable growth and employment and ensuring a resilient banking system
- the need to prioritize in a banking reform program and the value of FSAPs and Financial Stability Reports in reviewing strengths and weaknesses of a supervisory system
- maintaining a traditional banking system or a system that allows banks to engage in capital market activities.
- problems associated with raising new bank capital in current volatile capital markets
- higher cost financial supervision that would be necessitated by macro-prudential supervisions, early warning systems and stress testing – all requiring intensive regulatory skills and supervisory involvement
- emerging risk factors as a consequence of more complex financial products which cross the banking/investment banking/insurance boundaries; risk spread across economies and more cross-border activities by financial institutions
- the need for deepening consultative processes between regulators and financial institutions, national regulators and regulators across jurisdictions; the importance of inter-agency coordination to provide a holistic regulatory/supervisory approach in achieving domestic financial system stability
- required actions include the need to enhance governance and cultural change in financial institutions and in regulatory agencies; incentives to promote prudent banking and sound supervision; disclosure regimes that encourage competitive influences on banks and which reinforce sound risk management and governance systems
- Capacity building is needed to strengthen banking systems to build confidence in supervisory agencies in being proactive, “kicking tyres”, macro-economic analytics, stress testing and crisis management and top-down governance based on good incentive structures.

The program also included working group discussion on 4 policy issues arising from the course material.

## **Assessment of the course**

A great value arising from the course was the interaction between participants and presenters and the sharing of experiences in policy and supervisory work by participants. Discussion on differences in regulatory approaches was encouraged as was discussion and critique of presentations. In the broad, a majority of participants were active in the course, asked serious questions and provided detailed information on the best practices and standards that applied to the regulatory and supervisory regimes in their own economies.

The course achieved its objectives. It provided a comprehensive understanding of the changes being proposed to financial system regulatory agencies as a consequence of the crisis, and it encouraged and promoted the implementation of regulatory reforms relevant to the needs of APEC regional economies. It provided an excellent forum for the exchange of ideas and experiences between participants and experts from the region and from global standard setting bodies and the international financial institutions.

## **Summary**

The cooperation between AFDC and the Australian APEC Study Centre in designing and administering the program was excellent. It was pleasing to note the strong interest in the course by non-APEC economies, including those whose representatives participated via video conferencing. This enabled the presentations and the discussions to be more widely disseminated than would normally be the case. The benefits of the funding provided by the APEC Support Fund were spread well beyond the APEC participant beneficiaries and without additional cost to APEC. In this way, the course contributed in a most effective way to development in the non-APEC Asian region and in particular to low income economies in the Mekong sub-region. Support for this by the SFOM was appreciated by AFDC and the Australian APEC Study Centre.

The course was ambitious and it did involve discussions and considerations of complex and somewhat controversial subjects. Major banks and regional regulators do have reservations about the prospect of rising capital charges that will emanate from the implementation of reforms currently under consideration in global standard setting agencies. How far regional economies and their agencies are involved in shaping reforms is a moot point and it will remain so until more effective regional financial system architecture becomes more sharply developed.

The course was timely in that it did provide an opportunity for participants to gain an appreciation and understanding of political economy aspects of proposed reforms. As important as the course was in providing an understanding of the causes and the basis of the reforms now under consideration and factors involved in implementing reforms, it did also provide insights into broader economic and financial matters that are shaping financial systems and the broader economic conditions that impact on systemic stability.

The short to medium-term future for global and regional stability is problematic; the course was particularly useful in that it did discuss in detail ways in which risks to systems ought to be assessed and the tools to make that assessment. This should contribute to one of APEC's key

objectives in seeking to strengthen regional financial systems. It should also contribute to a related objective and that is to support regional economic integration.

Further analysis and work is being undertaken by global standard setting bodies and by international and regional agencies as proposed reforms continue to be assessed and refined. Much more work is yet needed to implement effective stress testing in banking systems, in the development of surveillance and monitoring systems and early warning systems – all necessary and important components of approaches to minimize future risks to banking and financial systems.

As these matters develop, the need to understand them and the impacts they will have on regional financial systems will continue to be a critical component of effective financial system supervision in the APEC region. Policy makers and regulators in the region will need to understand, analyse and be aware of the impacts of reforms as they are refined and in some cases reformulated.

With this in mind and given the success of this course and the effective coordination achieved by AFDC and the Australian APEC Study Centre, it is strongly recommended that the APEC Secretariat and the Finance Ministers' processes continue to give their support for further training courses in each of the next three years to ensure a comprehensive understanding of the reforms as they progress and, most importantly, to understand the components of stress testing, macro-prudential supervision and monitoring and surveillance of financial and economic systems.