



THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM
CAPACITY-BUILDING
A Public-Private Sector Initiative

Document: AGFSCB 29-010
Draft: **FIRST**
Source: AGFSCB Chair
Date: 6 February 2009
Meeting: Wellington, New Zealand

First Meeting 2009
11 February 2009
Lambton Room, The Intercontinental Hotel
Wellington, New Zealand

Meeting Paper 8-B
**Proposed Program of the 5th SEACEN-ABAC-
ABA- PECC Public-Private Dialogue for the
Asia-Pacific Region**
**RESPONDING TO THE CHALLENGE OF
THE GLOBAL FINANCIAL CRISIS**

27-28 July 2009
Bangkok, Thailand

Office of the Advisory Group Chair



THE 5TH SEACEN/ABAC/ABA/PECC PUBLIC-PRIVATE DIALOGUE FOR THE ASIA-PACIFIC REGION

JOINTLY ORGANIZED BY

**THE APEC BUSINESS ADVISORY COUNCIL,
THE ASIAN BANKERS' ASSOCIATION,
THE PACIFIC ECONOMIC COOPERATION COUNCIL, AND
THE SOUTH EAST ASIAN CENTRAL BANKS' RESEARCH AND TRAINING CENTRE**

HOSTED BY

THE BANK OF THAILAND

RESPONDING TO THE CHALLENGE OF THE GLOBAL FINANCIAL CRISIS

27-28 July 2009

Bangkok, Thailand

In September 2008, the world's financial markets reacted in panic to a series of unprecedented events: the failure of Fannie Mae and Freddie Mac, the bankruptcy of Lehman Brothers, the takeover of Merrill Lynch by Bank of America, the US\$85 billion rescue of AIG and the collapse of Washington Mutual. Signs of impending disaster preceded these events – the housing market correction, the subprime mortgage crisis, the decline of the US dollar, the loss of over 600,000 jobs in the US throughout the first three quarters of 2008 and rapidly deteriorating conditions in Europe and Japan. However, most market participants and regulators failed to anticipate the severity and scope of the financial storm.

The unfolding of the financial crisis was in essence the last stage of a typical credit cycle, when the relaxation of lending standards that normally happens during an economic expansion and the resulting deterioration of credit quality cause increasing loan losses in banks and lead lenders to begin restricting the availability of credit. However, this downturn became much more severe than previous ones due to the presence of several factors that greatly magnified the impact of the shift from one stage of the cycle to the next.

Excess liquidity fueled unsustainable equity, property and credit bubbles, the greatest 14-year consumption binge in US history and rapid export-led growth in emerging markets that created huge global imbalances. The accelerated pace of financial innovation led to the rapid growth of new financial instruments such as collateralized debt obligations (CDOs) and derivatives (whose notional value reached ten times the size of global GDP by the middle of 2007).

Regulatory systems and industry practices failed to cope with the consequences of these developments. As consumers taking advantage of easy credit purchased more expensive homes, lenders were able to transfer the risks to other financial institutions that packaged loans into complex financial instruments eventually sold to investors all over the world. High levels of debt and leverage created an illusion of abundant liquidity that further fed this unsustainable process. Regulators were increasingly unable to effectively monitor developments that led to growing systemic risk.

The lack of comprehensive approaches to firm-wide risk management, compensation policies that encouraged excessive risk-taking for short-term gains, and inadequate oversight of day-to-day liquidity risk management and its failure to fully capture exposure to structured finance vehicles rendered financial institutions vulnerable to the growing risks. As the volume of

deals increased, institutions failed to maintain high standards for credit underwriting, ratings and investor due diligence. Credit rating agencies were not prepared to provide sufficient information on the risks of structured products, on the assumptions behind their models, and on the sensitivity of results to minor changes in these assumptions. Many investors continued to rely exclusively on credit ratings of structured products as they had been doing with much less complex securities.

The final stage of the cycle was magnified by a serious loss of confidence in the financial system, triggered by unanticipated failures of financial institutions. Growing doubts about the quality of available financial information led to rapid withdrawals of funds from financial institutions by investors and depositors and the freezing of credit markets. In addition, the introduction of fair value accounting led to unintended consequences, as valuation of instruments became problematic when assets became illiquid under conditions of market stress. These developments in credit markets had devastating effects on the real economy, as enterprises were suddenly forced to borrow funds at much higher rates for their continued operation, adding to the growing distress arising from the collapse of asset prices.

These developments carry a number of implications for ongoing efforts to strengthen financial systems. First, there is a clear need to update regulatory regimes to take into account changes brought about by financial innovations and globalization of financial markets. Second, improved regulatory oversight will need to go hand in hand with and be supportive of improved industry standards. Third, the impact of monetary policy points to the important role that central banks will play in ensuring financial system stability and the need for greater international coordination.

This dialogue, the fifth in a series involving monetary, financial regulatory and supervisory authorities and representatives of international institutions, private sector organizations and the region's financial industry, will focus on the implications of the foregoing developments on regulatory regimes and the international financial architecture, as well as on regional cooperation in the Asia-Pacific and the role of cooperation between public and private sectors. Special attention will be given to monetary policy, regulation and supervision of banking systems (especially Basel II), financial industry practices and governance, accounting standards, and credit rating and reporting practices. Additional discussions on how to address the needs of vulnerable sectors through the financing of small and medium enterprises and financial inclusion strategies, as well as infrastructure financing, will also be undertaken.

The results of this dialogue will be summarized and widely disseminated by the co-organizing institutions, and recommendations drawn from it will be conveyed by ABAC to the APEC Economic Leaders and APEC Finance Ministers for their consideration.

Organizers

The APEC Business Advisory Council (ABAC) was created by the APEC Leaders in 1995 to advise APEC on the implementation of its agenda and to provide the business perspective on specific areas of cooperation. ABAC is comprised of up to three members from each of APEC's 21 member economies, representing a range of business sectors. ABAC holds an annual dialogue with the APEC Leaders and engages in regular discussions with APEC Ministers in charge of trade, finance and other economic matters. For more details, visit <http://www.abaonline.org>.

The Asian Bankers' Association (ABA), founded in 1981, is the largest regional organization representing the banking sector in Asia, with over 100 member banks from 23 economies. It aims to provide a forum for advancing the cause of the banking and finance industry in the region and promoting regional cooperation. It promotes exchange of information on banking opportunities and facilitates the meeting of bankers to encourage joint activities for servicing the region's financial needs and promoting regional development. For details, visit <http://www.aba.org.tw>.

The South East Asian Central Banks (SEACEN) Research and Training Centre, established in 1982, reviews and analyses financial, monetary, banking and economic developments in its constituent member countries and in the region as a whole. It initiates and facilitates co-operation in research and training relating to the policy and operational aspects of central banking. It currently has 16 member central banks. The SEACEN Centre is located in Kuala Lumpur, Malaysia. For more details, visit <http://www.seacen.org>.

The Pacific Economic Cooperation Council (PECC) was founded in 1980 to serve as a forum to discuss cooperation and policy coordination in the Pacific Region. PECC's expert networks composed of senior individuals from business and industry, government, academic and other intellectual circles provide practical policy advice on trade, finance and sectoral issues to the region's governments. Established in 1980, PECC has 26 Member Committees, including two associate members, and two institutional members from all over the Asia Pacific region. For more information, visit <http://www.pecc.org>.

**THE 5TH ASIA-PACIFIC PUBLIC-PRIVATE DIALOGUE ON
STRENGTHENING FINANCIAL SYSTEMS**

JOINTLY ORGANIZED BY

THE SOUTH EAST ASIAN CENTRAL BANKS' RESEARCH AND TRAINING CENTRE

THE APEC BUSINESS ADVISORY COUNCIL,

THE ASIAN BANKERS' ASSOCIATION, AND

THE PACIFIC ECONOMIC COOPERATION COUNCIL

HOSTED BY

THE BANK OF THAILAND

**RESPONDING TO THE CHALLENGE OF THE GLOBAL
FINANCIAL CRISIS**

27-28 July 2009

Bangkok, Thailand

TENTATIVE PROGRAM

Monday, 27 July 2009

09:00 – 09:45 **OPENING CEREMONY AND INTRODUCTION**

09:00 **Opening Remarks**

Dr. A.G. Karunasena, Executive Director, The SEACEN Centre

09:05 **Welcome Remarks on Behalf of ABAC**

09:10 **Welcome Remarks on Behalf of ABA**

09:15 **Welcome Remarks on Behalf of PECC**

09:20 **Introduction of the Keynote Speaker**

09:25 **Keynote Address**

The Hon. Dr. Tarisa Watanagase, Governor, Bank of Thailand

09:45 – 10:00 **GROUP PHOTOGRAPH SESSION**

10:00 – 10:15 **TEA BREAK**

10:15 – 11:45 **SESSION ONE**

**THE AFTERMATH OF THE FINANCIAL CRISIS: MONETARY AND
MACROECONOMIC POLICY RESPONSES**

Session Chair

- 10:15 **Introduction by the Session Chair**
- 10:20 **Presentation**
Economist from the private sector
- 10:40 **Presentation**
Representative of the Federal Reserve Board
- 11:00 **Presentation**
Representative of the IMF
- 11:20 **Open Forum**
- 11:40 **Concluding remarks by the Session Chair**
- 11:45 **End of Session**

11:45 –
13:00

SESSION TWO

FUTURE DIRECTIONS FOR BANKING REGULATION AND SUPERVISION

Session Chair

- 11:45 **Introduction by the Session Chair**
- 11:50 **Presentation**
Representative of the BIS
- 12:05 **Presentation**
Representative of an internationally active bank in Asia
- 12:20 **Presentation**
Representative of an Asian banking supervisory authority
- 12:35 **Open Forum**
- 12:55 **Concluding remarks by the Session Chair**
- 13:00 **End of Session**
- 13:00 –
14:00 **LUNCH**

14:00 –
15:00

SESSION THREE

LESSONS FROM THE FINANCIAL CRISIS: CREDIT RATING PRACTICES AND INVESTOR DUE DILIGENCE

Session Chair

- 14:00 **Introduction by the Session Chair**
- 14:05 **Presentation**
Representative of a Securities Regulator or IOSCO

- 14:20 **Presentation**
Representative of a Credit Rating Agency
- 14:35 **Open Forum**
- 14:55 **Concluding remarks by the Session Chair**
- 15:00 **End of Session**

15:00 – SESSION FOUR
16:00

**LESSONS FROM THE FINANCIAL CRISIS: VALUATION OF
FINANCIAL INSTRUMENTS**

Session Chair

- 15:00 **Introduction by the Session Chair**
- 15:05 **Presentation**
Representative of IASB expert advisory panel
- 15:20 **Presentation**
Certified Public Accountant
- 15:35 **Open Forum**
- 15:55 **Concluding remarks by the Session Chair**
- 16:00 **End of Session**
- 16:00 – **TEA BREAK**
16:30

16:30 – SESSION FIVE
17:30

**POST-CRISIS MARKET DISCIPLINE: DISCLOSURE AND MORAL
HAZARD ISSUES**

Session Chair

- 16:30 **Introduction by the Session Chair**
- 16:35 **Presentation**
Representative of BIS
- 16:50 **Presentation**
Financial sector expert
- 17:05 **Open Forum**
- 17:25 **Concluding remarks by the Session Chair**
- 17:30 **End of Session**
- 18:00 – **WELCOME RECEPTION**
20:00

Tuesday, 28 July 2009

09:30 – SESSION SIX
11:00

LESSONS FROM THE FINANCIAL CRISIS: PROMOTING GOOD CORPORATE GOVERNANCE IN FINANCIAL INSTITUTIONS

Session Chair

09:30 **Introduction by the Session Chair**
09:35 **Presentation**
Corporate governance expert
09:50 **Presentation**
Independent director
10:10 **Presentation**
Representative of a financial supervisory authority
10:30 **Open Forum**
10:55 **Concluding remarks by the Session Chair**
11:00 **End of Session**
11:00 – **TEA BREAK**
11:30

11:30 – SESSION SEVEN
12:30

STRENGTHENING CREDIT REPORTING PRACTICES IN THE ASIA-PACIFIC REGION

Session Chair

11:30 **Introduction by the Session Chair**
11:35 **Presentation**
Credit reporting expert
11:50 **Presentation**
Representative of a Credit Bureau
12:05 **Open Forum**
12:25 **Concluding remarks by the Session Chair**
12:30 **End of Session**
12:30 – **LUNCH**
13:30

13:30 – SESSION EIGHT
14:30

**POST-CRISIS CAPACITY-BUILDING: FINANCING
INFRASTRUCTURE AND PUBLIC-PRIVATE PARTNERSHIP**

Session Chair

- 13:30 **Introduction by the Session Chair**
- 13:35 **Presentation**
Expert from the ADB Institute
- 13:50 **Presentation**
Private sector representative
- 14:10 **Open Forum**
- 14:25 **Concluding remarks by the Session Chair**
- 14:30 **End of Session**

**14:30 – SESSION NINE
15:30**

**POST-CRISIS CAPACITY-BUILDING: PROMOTING FINANCIAL
INCLUSION**

Session Chair

- 14:30 **Introduction by the Session Chair**
- 14:35 **Presentation**
Representative of the Alliance for Financial Inclusion
- 14:50 **Presentation**
Representative of a bank or microfinance institution
- 15:10 **Open Forum**
- 15:25 **Concluding remarks by the Session Chair**
- 15:30 **End of Session**
- 15:00 – **TEA BREAK**
16:00

**16:00 – SESSION TEN
17:00**

**POST-CRISIS CAPACITY-BUILDING: FINANCING SMALL AND
MEDIUM ENTERPRISES**

Session Chair

- 16:00 **Introduction by the Session Chair**
- 16:05 **Presentation**
Representative of a bank

- 16:20 **Presentation**
Representative of a banking supervisory authority
- 16:35 **Open Forum**
- 16:55 **Concluding remarks by the Session Chair**
- 17:00 **End of Session**

17:00 – CLOSING COMMENTS
17:30

On behalf of ABAC

On behalf of ABA

On behalf of PECC

CONCLUSION OF THE DIALOGUE

Dr. A.G. Karunasena, *Executive Director, The SEACEN Centre*