

November 2013

**International Conference on
“Financial Regulation and Growth in Asia”
Summary of the conference¹**

The Japan Financial Services Agency (JFSA) hosted the international conference on “Financial Regulation and Growth in Asia” on 29 October, 2013, in Tokyo. The conference was held back-to-back with the Financial Stability Board Regional Consultative Group for Asia meeting on 30 October, 2013.

In the opening remarks, the host explained that the conference aimed to provide an occasion to discuss issues arising from financial regulatory reforms, both internationally and domestically, and financial stability issues from an Asian perspective. In order to deliver a message emphasising the need for promoting and facilitating financial intermediation for growth given the diversity in Asia, the host posited that it is imperative to avoid a one-size-fits-all approach to tightening regulation globally.

Based upon such assertion, the host stressed that Asia needs not only to be more vocal, but also more persuasive and focused. In this regard, the opening remarks suggested that authorities need more policy discussion amongst regional partners and that Asia should provide “thought leadership,” through more active, forward-looking, and thought-provoking discussions.

The keynote speech presented comments on maintaining financial system stability and proposed arrangements for increasing the financial sector’s contribution to economic growth. When considering a communication strategy in order to convince people of financial stability, the speech suggested the announcement of a simple and clear long-term (LT) target as well as intermediate targets which would lead to the building of confidence.

In supporting sustainable growth, the speech argued that financial

¹ The views described herein reflect participants’ personal views that were presented in this conference and do not necessarily represent the official views of the organisations the speakers belong to. The following summary is intended to serve as an aide-memoire to those who took part and to provide a general summary of discussions for those who did not.

stability is a prerequisite since it provides a source of finance to the real sector. When considering how Asian countries could cope with the sustainable growth with its increasing role in the global economy, the speaker stated that building a sound growth platform through strengthening the manufacturing sector on the same wavelength as the development of the service/financial sector was the answer.

During a discussion, it was underlined that communication is easy to suggest but difficult to implement but suggested that there be formal and mandatory communication among relevant financial authorities. A speaker also noted that there are a few issues in emerging markets, such as the need for deepening the market and increasing the capacity of the base of domestic investors. In this regard, the supervision of deposit-taking institutions and the role of the insurance sector were regarded as impact factors.

In a session about shadow banking, a presentation on “Shadow Banking in Asia: Macro and Policy Implications” was provided. The presenter pointed out that profiles of shadow banking in Asian countries are somewhat different from those of certain advanced economies that were the sources of the market-originated financial crisis.

The presenter stated that, in Asia, financial intermediation through the banking sector is generally still dominant and shadow banking is assuming a complementary role to cover the projects and areas which banks cannot. Even so, however, the presentation posited that shadow banking is growing at a high speed and that the risks emanated from shadow banking could be transmitted to the banking sector through various different channels, either directly or indirectly. Given this, it was argued that interconnectedness between the banking sector and shadow banking would be one of the most important points to be looked into and to be explored in the context of regulation.

Also, the presentation suggested that it is worthwhile to consider an appropriate shadow banking regulatory framework in light of regional specific features by paying due regard to the fact that both positive and negative aspects exist in shadow banking, such as being a tool for promoting financial inclusion and a potential source of systemic risks. To address this issue, the presenter said that it would be appropriate to establish a wider regulatory perimeter while adjusting the level of regulatory oversight to the

appropriate level in proportion to the risks generated by shadow banking.

During the discussion, some participants argued that the shadow banking regulatory framework should well take into account the fact that the profile and role of shadow banking differ greatly depending on the jurisdiction. In this context, it was mentioned that it is possible to have an integrated risk management framework, and that a single language for both bank and non-bank supervision might be a simple and effective system that serves well to prevent regulatory arbitrage.

It was also added that microfinance was playing an important role, especially in agricultural districts in many Asian countries, in satisfying the unmet financing needs, and that there should be a well-coordinated balance between prudential regulations for microfinance and the corresponding risks, with due consideration for microfinance's unique characteristics, which differ from those of large banks.

In the next session, a presentation titled "Financial Intermediation for Growth" was provided. The presenter argued that, given that long-term investment finance would contribute to sustainable growth especially in the Asian economy, financial regulation should fulfil its role of ensuring full and well-functioning financial intermediation while controlling risks in an appropriate manner.

Introducing Japan Bank for International Cooperation's activities through Public-Private Partnership (PPP), the presenter shared his personal perception that the combined impact of Basel III and Solvency II implementation significantly changed the attitude of Japanese institutional investors, including banks and insurance companies, in such a way that they hesitated to supply long-term capital even for promising projects for developing infrastructure in Asia.

The presentation also mentioned some jurisdictional differences in financial intermediation channels and various different channels for long-term investment finance. Some are banking channels and others are market channels or otherwise include some roles of public-private partnership as discussed at the G20 level. For instance, since the bursting of speculative bubbles in the 1990s, Japan has been seeking to establish a two-track financial system oriented toward the development of both the banking and the market sector.

The presenter based his arguments on the lessons learned from the Japanese banking crises in the 1990s, in which the financial system as a whole was damaged due to the concentration of risks in the banking sector.

There was a broad agreement at the conference that it would be desirable to aim to establish a wide range of financial intermediation channels in Asian jurisdictions. It was recognized by many participants that it would be also desirable to establish a regulatory framework which is compatible with the financial intermediation channels while being conducive to global financial stability.

The closing remarks provided a summary of the presentation and discussion made in the conference. As for the shadow banking session, the review suggested that there is a need for the establishment of a wider regulatory perimeter proportionate to risks while adjusting the level of regulatory oversight to the appropriate level in line with the FSB's principles. With regard to the session on financial intermediation for growth, it was emphasised that the regions should aim for establishment of a wide range of financial intermediation channels for greater financial deepening.