

A Perspective of Asian Financial Sector under the Global Financial Crisis

Jointly organized by
Japan's Financial Services Agency (FRTC), Keio University (GCOE), ADBI and IMF

- Date: Thursday, January 21, 2010
- Venue: Third Floor, Auditorium, Central Common Government Office No. 7, Tokyo

Concept

The purpose of the conference is to focus on the role of financial institutions and their regulation and supervision in ensuring financial stability and supporting economic recovery and expansion. The direct impact of the recent global financial crisis on Asian banking and financial institutions were limited, but whether this is the result of prudent management and effective supervision or whether it reflects the lack of sophistication of Asian institutions are open to question. Moreover, Asian economies have been impacted strongly by the decline in export demand from advanced economies, and are now facing the challenge of supporting the economic recovery while complying with an enhanced regulatory regime that, inter alia, likely includes tightening capital adequacy standards, which would constrain asset expansion. The conference will discuss (1) micro-prudential policies and the business model for banks in the Asian region, (2) macro-prudential policies and the implications for the regulation and businesses of the non-bank financial sector, and (3) the financial sector and regulatory reforms needed in Asia to ensure effective financial intermediation while maintaining stability.

Agenda

9:15- Registration

9:45-10:00 *Welcoming Remarks*

Katsunori Mikuniya, Commissioner, Financial Services Agency (FSA),
Japan

Akira Ariyoshi, Director, Regional Office for Asia and the Pacific,
International Monetary Fund (IMF)

10:00-11:45 *Session I*

Micro-prudential policy and the business model for banks in Asian region

Chair: Naoyuki Yoshino, Director of the Financial Research and Training Center (FRTC), FSA, Japan, and Professor of Economics, Keio University

Impact of the current crisis on Japanese and Asian Financial Sector

Japanese and Asian financial institutions were affected less by the current financial crisis than their European and American counterparts. To what extent was this a product of regulatory reforms undertaken since the Japanese banking crisis and the Asian financial crisis, as opposed to the business model of Asian institutions?

Presenter: Susumu Okano, Executive Officer and Head of Research, Daiwa Institute of Research, Ltd., Japan

Discussants: Anwar Nasution, Professor of Economics, University of Indonesia

Anthony Sorrenti, Executive Director, International Bankers Association, Japan

Banking Regulation: Main lesson from the current crisis

One main lesson that is being drawn from the current crisis in the U.S. and European banking systems is the importance of capital buffers. How should regulations be designed and implemented to ensure that there is adequate capital buffer for each institution? How can pro-cyclicality of capital regulations be avoided? How would the characteristics of Asian banks, which

rely on deposits from customers rather than market funding, influence the design of such systems?

Presenter: Shunsuke Shirakawa, Director, Office of International Affairs, FSA, Japan

Discussants: Jong-Goo Yi, Standing Commissioner, Financial Services Commission, Republic of Korea
Naoyuki Yoshino, Director of the FRTC, FSA, Japan, and Professor of Economics, Keio University
Tomohiro Hirano, Research Fellow of the FRTC, FSA, Japan

11:45-12:45 Lunch Break

12:45-14:45 *Session II*

Macro-prudential regulation and the perimeter of regulation

Chair: Hervé Ferhani, Deputy Director, Monetary and Capital Markets Department, IMF

Containing aggregate risk at the macro level

The global crisis has shown that a build up of risks at the aggregate financial system wide level need to be monitored and contained, in addition to controlling risk at the individual institution level. Focusing on credit and market risk,

- What is the respective role of monetary and macro-prudential tools in forestalling the build-up of aggregate financial imbalances?
- What is the appropriate degree of self-insurance (e.g. imposed through regulation of capital buffers) and ex post insurance provided by the public sector (through monetary and fiscal bail-outs)?

Presenter: Erlend Walter Nier, Senior Financial Sector Expert, Monetary and Capital Markets Department, IMF

Discussants: Hiroshi Ugai, Deputy Director-General, Financial Systems and Bank Examination Department, Bank of Japan

The perimeter of regulation

Prior to the crisis, the general view was that only deposit-taking institutions needed to be regulated heavily in order to prevent systemic crisis, but the current global crisis showed that activities of non-regulated institutions and failures of non-bank institutions could also have systemic implications, and that they also need to be regulated. At the same time, the existence of loosely regulated non-bank system has allowed banks to off-load risk and allowed for extensive financial intermediation to take place. How wide should the regulatory net be cast to limit systemic risk? How can this be done without unduly limiting the economy-wide intermediation and risk taking capacity.

Presenter: R. Barry Johnston, Assistant Director, Monetary and Capital Markets Department, IMF

Discussant: Ryozo Himino, Director, Supervisory Coordination Division, Supervisory Bureau, FSA, Japan

14:45-15:15 Coffee Break

15:15-17:15 Session III

Asia's financial sector reforms: ensuring effective financial intermediation with stability

Chair: Mario Lamberte, Director for Research, Asian Development Bank Institute (ADBI)

What is the role of financial supervision and financial sector regulation to secure lending to SMEs and lending to business sectors.

Given their crucial role in the economy and the relative difficulties they experience in procuring funds even in good times, it is critical to maintain the supply of funds to SMEs during the economic downturn and recovery process. However, simply setting targets for SME lending may run counter to prudential operating guidelines and may be undermined by the fungibility of different types of lending. The role of loan guarantees to support SME lending needs to be examined, including issues of timing and moral hazard.

Presenter: Hank Lim, Research Director, Singapore Institute for International Affairs

Discussants: Julius Caesar Parrenas, Advisor on International Affairs, Bank of Tokyo-Mitsubishi UFJ, Ltd., and Senior Advisory Fellow, Institute for International Monetary Affairs
Doo Yong Yang, Research Fellow, ADBI

Overall Asian region's cooperation in financial sector reform.

Regional cooperation in Asia on financial sector reform could be strengthened by setting up an Asian Financial Stability Dialogue (AFSD) involving officials from finance ministries, central banks and other financial regulators and supervisors to promote the region's financial market development, integration and stability. Its responsibilities would include monitoring of systemically important international financial institutions, harmonizing financial regulation and oversight, and increasing joint efforts to assess the region's financial risks.

Presenter: Cyn-Young Park, Principal Economist, Office of Regional Economic Integration, Asian Development Bank

Discussants: Peter Morgan, Senior Consultant for Research, ADBI
Pradumna B. Rana, Senior Research Fellow, Institute of South Asian Studies, National University of Singapore

17:20-18:20 Session IV: Panel Discussion

Chair: Naoyuki Yoshino, Director of FRTC, FSA, Japan, and Professor of Economics, Keio University

Panelists: Masahiro Kawai, Dean, ADBI
Hervé Ferhani, Deputy Director, Monetary and Capital Markets Department, IMF
Pietro Ginefra, Chief Representative, Bank of Italy
Yongxiang Bu, Director, Financial Risk Division, Research Department, the People's Bank of China

18:20-18:30 Closing Remarks

Masahiro Kawai, Dean, ADBI

Financial Research and Training Center, FSA

The Financial Research and Training Center (FRTC) facilitates effective cooperation between financial research within the operations of the Japan Financial Services Agency (FSA). FRTC researches various areas of financial theories and techniques to improve the knowledge of the FSA as an institution and its staff expertise. Research is conducted to enable the application of findings to FSA's work as a public sector organization and to act as a bridge between academic research and policy formulation.

Keio University (Global COE Project, Market Quality Project)

The COE founded Market Quality Theory, which is centered on the postulate that high quality markets are essential for the development and growth of the modern economy. The Keio University Graduate School of Economics and the Keio University Graduate School of Business and Commerce together with Kyoto University Institute of Economic Research, the COE compiled household behavior panel data, conducted comprehensive educational research combining theory with empirical evidence, and has received high interim acclaim. Professor Naoyuki Yoshino of Keio University (Director, FRTC, FSA) is the project leader.

Asian Development Bank Institute

The Asian Development Bank Institute (ADBI), located in Tokyo, is a subsidiary of the Asian Development Bank (ADB). It was established in December 1997 to respond to two needs of developing member countries: identification of effective development strategies and improvement of the capacity for sound development management of agencies and organizations in developing member countries. As a provider of knowledge for development and a training center, the Institute serves a region stretching from the Central Asian republics to the Pacific islands.

International Monetary Fund, IMF

The International Monetary Fund (IMF) is an organization of 186 countries, which works to foster global monetary cooperation and financial stability, high employment and sustainable economic growth, and the reduction of poverty around the world. It does so by monitoring economic developments and advising countries on potential risks, lending to countries in difficulty, and providing technical assistance and training. This work is backed by IMF research and statistics.