This conference was organized by the Asian Development Bank Institute (ADBI) and Japan Financial Services Agency (JFSA), as the fifth and final among the series of conferences on financial reform and regulation, and macroeconomic policy in Asia's emerging markets. The participants were welcomed by Masahiro Kawai, Dean and CEO of ADBI, and Naoyuki Yoshino, director of the JFSA Institute, who pointed out the importance of managing systemic financial risk and creating a new architecture for financial regulation and macro policies. The conference's five sessions examined specific themes. Nine papers on the Asian financial system and new macro prudential policy framework were presented to prominent academics, policymakers, and senior-officials from multilateral development banks.

**Session I: Taking Stock of the Global Regulatory Landscape and Implications for Emerging Markets**

The first session looked at the global regulatory landscape and the implications for emerging markets. Viral Acharya, C.V. Starr Professor of Economics, Department of Finance, New York University Stern School of Business, presented the paper “The Dodd-Frank Act and the New Architecture of Global Finance,” which highlights financial sector reforms under Basel III and the Dodd-Frank Act in the United States. The paper also provides lessons for India on financial market reforms and macroprudential safeguards against spillover risk from the global economy. Yoshinori Shimizu, professor emeritus at Hitotsubashi University and a senior fellow professor at the Graduate School of Commerce and Management, Hitotsubashi University, presented the paper “The Global Financial Regulations and Asian Financial System: Lessons from the Financial Crisis.” Shimizu argues in his paper that the Bank for International Settlements’ capital regulation facilitated many types of regulatory arbitrage by banks based on technical progress in the financial markets, which led to the global financial crisis. The paper proposes that a “market-valued capital ratio” would be a better measure of a bank’s soundness that should be monitored by supervisory authorities.
Tarisa Watanagase, former governor of the Bank of Thailand, commented on the above mentioned papers and also expressed her views on the global regulatory framework.

Session II: Promoting Financial Development and Inclusion

The second session evaluated ways to promote financial development and inclusion. Cyn-Young Park, assistant chief economist and director of the Economic Analysis and Operations Support Division of the ADB, presented the paper “Asian Financial System: Development and Challenges.” The paper examines key development agendas of financial systems in Asia amid the fast-changing global financial landscape, and sheds light on the challenges facing the region's policymakers. The paper also reviews approaches to financial sector development aimed at diversity and stability. Sergio Schmukler, lead economist at the Development Research Group at the World Bank, presented the paper “Financial Development in Emerging Economies: Stylized Facts and the Road Ahead.” The paper examines the major financial development trends since the early 1990s comparing Asia, Eastern Europe, and Latin America among themselves and with advanced countries. JFSA Institute Director Naoyuki Yoshino, presented the paper “SME Information Database and the Improvement of Micro-credit in Asia Region.” Yoshino discussed SME (small and medium-sized enterprises) financing issues and the effectiveness of the new capital requirements under Basel III. Yoshino said that banks should not reduce financing to SMEs during a recession and that they should continue lending based on an SME credit rating system. Because SMEs depend on bank lending, stability of the banking sector is crucial. Nonetheless, the Basel minimum capital requirements should differ for each country and be based on various macro indicators. Serge Devieux, director of financial markets at International Finance Corporation, and Muhammad Allah Malik Kazemi, senior consultant and advisor to the governor of the Bangladesh Bank, provided views on financial developments in emerging economies and discussed global issues of access to financial services.

Session III: Strengthening Macroeconomic Frameworks

Three deputy governors of central banks spoke on strengthening macroeconomic frameworks in the third session. Subir Gokarn, deputy governor of the Reserve Bank of India, discussed India’s experience in bolstering macroeconomic policy frameworks. Gokarn said the financial turmoil hit India in three areas: trade, finance, and confidence.
To mitigate the impact of the crisis and maintain stability, the Indian government has pursued three “balancing acts” in regulatory approaches, calibration of policy responses, and aggregate demand issues. Kiyohiko G. Nishimura, deputy governor of the Bank of Japan, presented “Macro Prudential Policy Framework from an Asian Perspectives.” Nishimura spoke on vital issues related to macroeconomic policy frameworks and he emphasized the importance of addressing changes in economic fundamentals, such as demographic factors. Attendees were fascinated by Nishimura’s discussion on the correlations between aging populations and property prices based on data from Ireland, Japan, Spain, and the US. Mehmet Yorukoglu, deputy governor of the Central Bank of the Republic of Turkey, evaluated the role of macroeconomic policy among emerging economies during the post-crisis period. Yorukoglu highlighted Turkey’s monetary policy response to the recent financial crisis. He compared different macroeconomic indicators and explained the variations in monetary policy among advanced and emerging economies. Anwar Nasution, a professor at the University of Indonesia, evaluated the role of India and Turkey in the global economy, and discussed the two countries’ macro policy tools and the policy responses taken to alleviate the impact of the crisis.

Session IV: Developing a Sound Global Regulatory Architecture

The fourth session examined ways to develop a sound global regulatory architecture. Duncan Alford, associate professor of law at the University of South Carolina School of Law, presented the paper “International Financial Reforms: Capital Standards, Resolution and Supervisory Colleges and their Effect on Emerging Markets.” The paper covers many issues and focuses on three reforms: Basel III implementation, recovery and resolution regimes for global banks, and the development of supervisory colleges for cross-border financial institutions to improve cooperation and convergence with particular application to Asia’s emerging markets. The paper also explores proposals to close insolvent financial institutions. Toshio Oya, assistant commissioner for international affairs of the JFSA, and Tae-Soo Kang, director general of the Financial Stability Department of the Bank of Korea, said that strengthening regulatory policy is important, but it could lead to negative consequences in the real economy. They discussed macro prudential policy frameworks and proper institutional arrangements that are needed to maintain financial stability. Communication between supervisory and monetary authorities is crucial, they said.
Session V: Synthesis of Project and Emerging Policy Recommendations

The fifth session summarized conclusions from all the conferences and synthesized financial sector policy recommendations for emerging economies. Masahiro Kawai, Dean of ADBI, and Eswar Prasad, Tolani senior professor of trade policy at Cornell University and a senior fellow at the Brookings Institution, discussed financial market reform and financial stability architecture. The floor discussion focused on whether it would be better to have a single authority in charge of financial stability or multiple ones dividing macroprudential powers among different agencies.