FSB FINANCIAL STABILITY BOARD

Press release

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Ninth Meeting of the Financial Stability Board Regional Consultative Group for Asia

Today, the Hong Kong Monetary Authority hosted the ninth meeting of the Financial Stability Board (FSB) Regional Consultative Group for Asia in Hong Kong SAR.

At their meeting, members of the FSB Regional Consultative Group for Asia began by reviewing the FSB's policy priorities and work plan. This was followed by a discussion of vulnerabilities and financial stability issues during which members exchanged views on global and regional macroeconomic and financial market developments, their potential impact on Asia and possible policy responses. In particular, they considered the implications of rising debt against the prospect of the normalisation of US monetary policy. Members also noted the potential for cybersecurity threats as a growing financial stability risk which warrants close attention.

Building on the discussion of vulnerabilities and financial stability issues, members discussed next market-based finance and asset management activities. They called attention to elevated risks in the near-term of a market sell-off due in part to the unwinding of unconventional monetary policies and potentially under conditions of reduced market liquidity in fixed income markets. If such a situation were to occur, the asset management industry, which has grown in recent years and offers open-ended funds with on-demand liquidity, could experience large levels of redemptions that, in turn, might exacerbate market volatility. Members discussed the policy implications of the aforementioned financial stability risks, and noted the recent international initiatives including those undertaken by FSB and IOSCO to address such risks.

Under the heading of misconduct risk, members discussed both the withdrawal of correspondent banking services by some large international banks and efforts to promote fair and effective wholesale market conduct. On the former issue, some financial institutions, including large international banks, have reduced their services to certain categories of customers or to certain countries/regions. Possible drivers of such behaviour include concerns about the legal risk of penalties in case of breach with Anti-Money Laundering and Counter-Terrorist Financing (AML/CFT) standards, compliance with economic sanctions, and the costs of due diligence to meet such requirements in what are high volume, low profit margin activities. Significant retrenchment of such services may adversely affect financial inclusion in emerging markets. Members considered work being undertaken at an international level to identify the extent of this problem, its causes and possible solutions, as well as the degree to which emerging Asia is affected.

Turning their attention to fair and effective wholesale market conduct, members discussed deficiencies in fixed income, currency and commodity market practices. These deficiencies in part reflect gaps in some regulatory regimes, as well as the challenges of enforcing standards of conduct in markets that are opaque, dispersed and cross-border. Members exchanged experiences on market conduct supervision, and reviewed the work being undertaken at an international level to improve wholesale market conduct. Members noted that there should be no one-size-fits-all approach given the diversity in market depth and structure of different jurisdictions.

Members concluded the meeting with a discussion focusing on the various facets of deposit insurance systems (DISs). Some of the reforms to DISs resulting from the global financial crisis reflect a change in the prevailing views about the role of deposit insurance in the overall safety net. Members noted that before the crisis, the functioning of DISs differed significantly across jurisdictions. The crisis resulted in greater convergence in practices across jurisdictions and an emerging consensus about appropriate design features.

The FSB Regional Consultative Group for Asia is co-chaired by Mr Norman T.L. Chan, Chief Executive, Hong Kong Monetary Authority and Mr Ashraf Mahmood Wathra, Governor, State Bank of Pakistan. Membership includes financial authorities from Australia, Cambodia, China, Hong Kong SAR, India, Indonesia, Japan, Korea, Malaysia, New Zealand, Pakistan, Philippines, Singapore, Sri Lanka, Thailand and Vietnam.[1]

Notes to editors

The FSB Charter stipulates that the FSB "should consult widely amongst its Members and with other stakeholders including private sector and non-member authorities. This process shall include engaging with the FSB Regional Consultative Groups and include an outreach to countries not included in the Regional Consultative Groups".[2] The FSB established six Regional Consultative Groups[3] to bring together financial authorities from FSB member and non-member countries to exchange views on vulnerabilities affecting financial systems and on initiatives to promote financial stability.

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. Through the six regional groups, the FSB conducts outreach with another approximately 65 jurisdictions.

The FSB is chaired by Mark Carney, Governor of the Bank of England. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.fsb.org.

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1 The list of members of the Regional Consultative Group for Asia is available at: http://www.financialstabilityboard.org/about/organisation-and-governance/list-of-members-of-the-fsb-regional-consultative-group-for-asia/.

2 See: http://www.financialstabilityboard.org/wp-content/uploads/r_120809.pdf.

3 The FSB regional consultative groups cover the following regions: Americas, Asia, Commonwealth of Independent States, Europe, Middle East and North Africa, and Sub-Saharan Africa.