

Press release

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FSB Regional Consultative Group for Asia discusses macroprudential frameworks, financial technology and correspondent banking

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

At their meeting, members of the FSB RCG for Asia began by reviewing the FSB's workplan and policy priorities. They considered reform-related work that remains to be completed, including some elements of the Total Loss-Absorbing Capacity standard for banks and the Basel III framework, work to address emerging vulnerabilities such as misconduct risk and climate change, and the monitoring of implementation and effects of the reforms.

They next considered vulnerabilities in the global financial system and their potential impact on Asia. Members discussed the high level of private sector debt in Asia and the extent to which it is vulnerable to US dollar risk. Related to this, they noted the increase in US dollar funding costs for banks and the impact of monetary policy announcements and actual increases in interest rates.

Members turned their attention to macroprudential policy frameworks and tools, focusing on the recently issued IMF-FSB-BIS publication entitled *Elements of Effective Macroprudential Policies*¹. They discussed institutional arrangements, mandates and powers associated with macroprudential frameworks and operational considerations such as the monitoring of systemic risk. Members shared experiences with the design and implementation of macroprudential policies and tools in Asia.

Continuing a discussion that began in the previous meeting of the RCG Asia,² members considered the impact of financial technology on retail payments systems. On the one hand, the use of technology in retail payment systems, such as smart phone technology, has made the micro payments and money transfers more accessible and convenient. On the other hand, these advancements expose customers to credit and operational risk. Concluding this session, they contemplated appropriate regulatory approaches to foster sound and secure retail payment systems while striking a balance between financial inclusion, customer convenience and financial stability.

Members next shared experiences on non-performing loans (NPLs), including how financial institutions in Asia are identifying, measuring, monitoring and controlling NPLs, and what legal, regulatory or other hurdles impede their resolution. As part of this discussion, guidance

¹ See <http://www.fsb.org/2016/08/elements-of-effective-macroprudential-policies/>.

² See <http://www.fsb.org/wp-content/uploads/FSB-RCG-Asia-Press-Release.pdf>.

provided in the Basel Committee's consultative document on the *Prudential treatment of problem assets - definitions of non-performing exposures and forbearance*³ was highlighted.

The meeting concluded with a session during which members discussed the impact of the withdrawal of correspondent banking and the broader issue of de-risking on Asia. The Financial Action Task Force provided an overview of its recently issued guidance on correspondent banking services⁴ and clarified that correspondent financial institutions are not required to conduct due diligence on each individual customer of their respondent institutions' customers. Members also considered solutions, including the need for greater clarity by regulators with respect to their expectations, the implementation by banks of a risk-based anti-money laundering/combating the financing of terrorism assessments, the need for international organisations to continue their involvement and cross-border cooperation among national authorities.

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.⁵

Notes to editors

The FSB has six Regional Consultative Groups, established under the FSB Charter, 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.^{6,7}

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 its six Regional Consultative Groups, the FSB conducts outreach with and receives input from an additional 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/.

³ See <http://www.bis.org/bcbs/publ/d367.htm>.

⁴ See <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/correspondent-banking-services.html>.

⁵ The list of members of the Regional Consultative Group for Asia is available at: www.fsb.org/about/organisation-and-governance/list-of-members-of-the-fsb-regional-consultative-group-for-asia/.

⁶ See http://www.fsb.org/wp-content/uploads/r_120809.pdf.

⁷ 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.