FINANCIAL STABILITY FORUM

# Press release

Press enquiries:
**Basel** +41 61 280 8188

Press.service@bis.org

Ref 13/2006E

17 March 2006

## Financial Stability Forum concludes fourth Asia-Pacific regional meeting

The Financial Stability Forum (FSF) held its fourth Asia-Pacific regional meeting on 16 March in Sydney, Australia. Senior representatives from finance ministries, central banks and supervisory and regulatory authorities from 10 FSF member economies and 8 regional non-member economies attended the meeting. Senior officials from international institutions represented on the FSF, as well as the Asian Development Bank, also took part. A list of institutions represented at the meeting is attached.

Participants exchanged views on the outlook for the global and regional economies, which remains good. They noted that benign global economic and financial conditions in recent years have supported growth and financial markets in the Asia-Pacific region. These conditions, together with a build-up of foreign exchange reserves, the adoption of more flexible exchange rate arrangements and strengthened financial systems, have enabled countries in the region to reduce external vulnerabilities. They have supported efforts to strengthen local financial and corporate sector balance sheets, although the pace of progress varies from country to country. Regulatory and supervisory frameworks have been enhanced.

Nevertheless, participants highlighted several challenges, including those associated with high oil and other commodity prices. They pointed to high risk appetites on the part of investors, as evidenced by risk spreads that not only are historically low but also show little dispersion among borrowers. While low spreads largely reflect improved fundamentals, a sudden reversal in risk appetites, especially if it were accompanied by unexpected increases in global bond yields or a sharp increase in asset price volatility, could alter the current positive outlook for financial stability.

In the context of concerns about persistent global imbalances, participants noted efforts by authorities in the region to increase domestic absorption, through stronger domestic consumption and investment, and intentions elsewhere to increase national savings. They noted that lending to households has risen rapidly recently in some economies, supporting consumption, but they stressed the need for lenders to assess carefully the risks arising from such lending to ensure it does not jeopardise stability. Investment, including for needed infrastructure, could be strengthened by better developed domestic corporate bond markets. Bond markets add to the diversity of channels for saving and financing in domestic financial systems, most of which are still largely dependent on banks. Participants noted a number of national and regional initiatives that are underway to foster development of these markets.

Participants discussed the role played by foreign-owned financial institutions in strengthening domestic financial systems. They noted that the presence of foreign financial institutions calls for effective coordination and information exchange between home and host supervisors.

Participants shared their assessments of the potential impact of a flu pandemic on their economies and financial systems; the discussion benefited from a briefing by the World Health Organization. They agreed on the need for business continuity planning, focusing in particular on maintenance of the operation of payments systems, and stressed the importance of effective communication in the event of a pandemic. They discussed areas in which there may be scope for risk-mitigating actions, including steps that financial authorities in individual countries in the region are already taking to ensure that their financial sectors prepare for such an event.

Progress toward convergence and harmonisation in international accounting standards is underway, with growing participation from countries in the region. Efforts by the IASB to produce a set of standards for small and medium sized enterprises and by regulators and audit oversight authorities to promote more effective cooperation and enhancements to audit quality were welcomed.

Participants shared experiences with strengthening financial systems, drawing on lessons learned from the Financial Sector Stability Assessments conducted by the International Monetary Fund and the World Bank. Assessments against international standards provided useful reference for reform goals. Prioritisation of reforms was recognised as a particular challenge, when countries were faced with multiple reform goals and with resource limitations.

---

**Notes for editors.** The FSF brings together national authorities responsible for financial stability in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. It was established by the G7 finance ministers and central bank governors in February 1999 to promote international financial stability through enhanced information exchange and international cooperation in financial market supervision and surveillance. The FSF is chaired by Roger W. Ferguson, Jr., Vice Chairman of the Board of Governors of the Federal Reserve System. The FSF's Secretariat is based at the Bank for International Settlements in Basel, Switzerland.

The objective of the FSF's regional meetings is to promote wider exchanges of views on financial vulnerabilities and the work underway nationally and internationally to address them. For further information on the FSF, its membership and previous FSF meetings, visit the FSF website at **www.fsforum.org**.

**Institutions and Groups Attending the FSF Regional Meeting**
Sydney, 16 March 2006

**Chairman - Mr Roger W. Ferguson, Jr.**

**Australia**
Reserve Bank of Australia
The Australian Treasury
Australian Prudential Regulation Authority
Australian Securities and Investments Commission

**Canada**
Ministry of Finance
Bank of Canada
Office of the Superintendent of Financial Institutions

**China**
Ministry of Finance
People's Bank of China
China Banking Regulatory Commission
China Securities Regulatory Commission

**France**
Ministry of the Economy, Finance and Industry
Banque de France
L'Autorité des Marchés Financiers

**Germany**
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)

**Hong Kong SAR**
Hong Kong Monetary Authority
Securities and Futures Commission

**India**
Reserve Bank of India
Insurance Regulatory and Development Authority

**Italy**
Ministry of the Economy and Finance
Bank of Italy

**Japan**
Ministry of Finance
Bank of Japan
Financial Services Agency

**Korea**
Bank of Korea

**Malaysia**
Bank Negara Malaysia

**New Zealand**
Reserve Bank of New Zealand
Securities Commission

**Pakistan**
State Bank of Pakistan

**Philippines**
Central Bank of the Philippines
Philippine Deposit Insurance Corporation
Securities and Exchange Commission

**Singapore**
Monetary Authority of Singapore

**Thailand**
Bank of Thailand
Securities and Exchange Commission

**United Kingdom**
Bank of England
Financial Services Authority

**United States**
Department of the Treasury
Board of Governors of the Federal Reserve System
Securities and Exchange Commission

***International Financial Institutions***
Bank for International Settlements
International Monetary Fund
Organisation for Economic Co-operation and Development
World Bank

***International Regulatory and Supervisory Groupings***
Basel Committee on Banking Supervision
International Accounting Standards Board
International Association of Insurance Supervisors
International Organization of Securities Commissions
The Joint Forum

***Regional Financial Institutions***
Asian Development Bank
European Central Bank

**World Health Organization**