

Press release

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FSB RCG for Asia discusses management of capital flows, stress tests, cyber security, the use of FinTech to promote financial inclusion and access to trade finance

The Financial Stability Board (FSB) Regional Consultative Group (RCG) for Asia met in Sydney today at a meeting hosted by the Reserve Bank of Australia.

Members of the FSB RCG for Asia began by discussing the recent episode of volatility in capital flows and the impact on domestic financial systems. Members exchanged views on policy responses, including the use of macroprudential policies and other measures to address the impact of volatile capital flows on financial stability. A good policy mix is important to manage large and volatile capital flows.

The group received an update on the FSB's work programme and deliverables for the G20 Leaders' Summit later this month in Buenos Aires, including evaluations of the effects of the reforms on infrastructure finance and incentives to centrally clear OTC derivatives, a progress report on the FSB action plan to assess and address the decline in correspondent banking, and the associated data report, and the FSB's annual report on the implementation and effects of G20 reforms. The FSB's work in 2019 and beyond will focus on (i) finalising and operationalising post-crisis reforms; (ii) monitoring the implementation and evaluating the effects of post-crisis reforms; and (iii) addressing new and emerging vulnerabilities in the financial system.

Members considered banking sector stress tests and their use in determining capital requirements in a 'forward looking' manner. Members observed that stress testing has improved in recent years, for example, by including more sophisticated modelling of credit risk and other risks such as liquidity and operational risks, and greater consideration of the feedback and contagion effects that can amplify shocks beyond their initial impact on each institution. Some authorities in the region shared that they are working to develop stress tests for non-banking sectors and better address financial sector interconnectedness.

The group discussed cyber security and resilience in the financial sector and ways in which they can be enhanced. Members identified sharing of cross-border and cross-sectoral cyber security information as one area in need of strengthening. Challenges to progress in this area include the fact that such information currently falls outside of established information exchange agreements; concerns about the sensitivity and timeliness of information; and the absence of established information sharing frameworks and taxonomies.

Members considered the use of financial technology (FinTech) to promote financial inclusion. While technology has enabled financial service providers to create more customised,

accessible and affordable products and services for underserved individuals and communities, there are risks. Against this backdrop, members discussed the mix of policies and regulatory environment that balances risk and innovation. Some of the ideas included regulation focusing on the risks involved in specific activities rather than entities, and promoting an environment that does not hamper innovation.

Finally, members discussed access to trade finance. Members emphasised the importance of adequate trade finance opportunities for growth and development. While almost 80% of trade is financed by credit or credit insurance, access is uneven across entities, particularly small and medium-sized enterprises. Members received presentations that suggest that the perception of country risk, counterparty risk, anti-money laundering and know-your-customer requirements, and capital costs that do not fully reflect the risk characteristics of trade finance were possible impediments. Potential solutions include digital technologies, capacity development, training, and adoption of the Legal Entity Identifier.

The FSB RCG for Asia is co-chaired by Philip Lowe, Governor, Reserve Bank of Australia and Nor Shamsiah Yunus, Governor, Bank Negara Malaysia. Membership of the RCG for Asia comprises financial authorities from Australia, Cambodia, China, Hong Kong SAR, India, Indonesia, Japan, Korea, Malaysia, New Zealand, Pakistan, Philippines, Singapore, Sri Lanka, Thailand and Vietnam.

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.¹ Typically, each Regional Consultative Group meets twice each year.

The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes 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. The FSB also conducts outreach with approximately 70 other jurisdictions through its six Regional Consultative Groups.

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.

¹ 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.