

Policy Dialogue

“Raising Asia’s Voice”

Responding to the Financial Crisis – Financial Reform Impacts and Regulatory Regime Changes

Regional cooperation and a stronger Asian voice in regulation of financial institutions were prominent themes of a Policy Dialogue on 20 January at the Asian Financial Forum 2010, held in the Hong Kong Exhibition and Convention Centre.

A panel of financial officials from around Asia weighed in on how to reform regulatory regimes in the wake of the global financial crisis.

“Given the more prominent role of Asian countries in the new global economic forum, I think that there should be active participation in the global financial regulatory forums by Asian countries, said Jong-Goo Yi, Standing Commissioner of South Korea’s Financial Services Commission. “We need to coordinate so-called Asian views even for the regulatory agenda, and it’s time to take concrete steps to enhance regional cooperation.”

Mutual Benefits

Japan’s Vice Minister of Finance for International Affairs, Rintaro Tamaki, echoed Mr Yi’s sentiment.

“The decade after 1997-98 can be described as a decade of regional cooperation in Asia,” said Mr Tamaki. “In addressing the current global crisis, however, we recognise the need to act globally as well as regionally.”

“The very bitter experience through the IMF [International Monetary Fund] intervention during the crisis still preoccupies the region, and it has been energised by regional financial cooperation,” he said. “The current financial crisis revealed how Asia is interconnected with other regions, and how important the growth and stability of Asia is to the rest of the world. Asia wants global stability, and the globe needs Asian power.”

Chris Bowen, Australia’s Minister of Financial Services, also saw the benefits of closer collaboration.

“Obviously there’s some competition between various countries of the region for financial services centre status, but there’s also much to be gained by increased cooperation between the countries of the region on financial services issues.”

“It’s in all our interests, we believe, to promote stronger cross-border flows throughout the region. Greater cooperation between regional financial centres has potential to realise significant mutual benefits. We’ll all benefit directly from this cooperation.”

Looking for Answers

The panel chair, Norman TL Chan, Chief Executive of the Hong Kong Monetary Authority, noted that the international community was striving to draw lessons from the crisis.

“There is at present a long list of reform agenda items being debated internationally,” he said. “These include strengthening financial institutions by requiring them to hold more capital and liquidity; changing compensation practices to discourage excessive risk taking by bankers; and reforming regulatory structures to ensure more effective supervision, especially of large and complex firms that have systemic implications.”

Professor KC Chan, the Hong Kong SAR Government’s Secretary for Financial Services and the Treasury, said there had been a regulatory bias towards focussing more attention on banks than on the non-bank financial sector, including hedge funds, which could lead to instability.

He said that when a crisis occurs, “there is a tendency of introducing stabilising forces” for the banks, and some of those measures should be applied to non-banking financial institutions as well.

Financial innovation itself is good in terms of spreading risk, said Professor Chan, but innovative products could create problems because of “mispricing, [which] happens because there’s not enough understanding about the products being created or being sold,” or the financial innovators’ ability to circumvent the regulators’ requirements and create new problems.

Ahmad Husni Hanadzlah, Malaysia's Minister of Finance II, said his country consolidated its banking sector after the Asian financial crisis, along with introducing Islamic banking – and as a result the banks are flush with funds.

“I hope that banks in other countries affected by the economic crisis will have their master plan and do it properly,” he said, predicting that by the end of the crisis, the banking sector will be “very strong.”