

24th Asian Shadow Financial Regulatory Committee

Statement: May 9th 2014 – Tokyo

Financial Regulatory Cooperation in Asia

Introduction

The recent ADBI report on regional financial regulation in Asia (Kawai and Morgan, Feb. 2014) contrasts the current state of financial regulatory cooperation in Asia with that of the European Union.

The Eurozone

The EU has set the stage for financial supervision, regulation and resolution in the aftermath of the recent Eurozone crisis. This includes regional financial integration and harmonization of rules, standards and procedures.

The Troika financial safety net has been created with the European Central Bank (ECB), the European Stability Mechanism (ESM), and the IMF. In addition the single resolution mechanism including the resolution fund was approved by the European Parliament in March 2014 for the targeted implementation date of 2018. There are challenges to full harmonization including differences in tax systems and corporate law.

The Asia Region

As compared to the EU, Asian has much greater diversity in terms of economic and financial market development as pointed out in Kawai and Morgan, 2014. This makes harmonization in Asia more complex.

Regional financial coordination in Asia has been spearheaded by the ASEAN + 3 integration process following the Asian Financial Crisis. The 2007-2009 global financial crisis added further impetus to this development. This process involved the creation of the Chiangmai Initiative Multi-lateralization (CMIM), and the Asian bond market initiative (ABMI), and the Asian Bond Funds (ABFs). The ASEAN + 3 Macroeconomic Research Office (AMRO) was created in 2011, which is the surveillance arm of the CMIM. Further, in 2010 the Credit Guarantee and Investment Facility (CGIF) was created by ASEAN + 3 and the Asian Development Bank to provide credit enhancement for private sector borrowers.

The recent dramatic increase in shadow banking volume is an example of the importance of regional cooperation. Without well-developed corporate bond markets and well-functioning bank financing, there is always a potential of non-regulated shadow banking expanding to a point where it becomes a source of systemic risk. The pattern of shadow banking growth experienced in China may be observed in other emerging Asian economies. Unfortunately, SMEs, which are the driving force of Asian economies, may become the victims of a shadow banking crisis should one occur.

Recommendations

We have three recommendations:

- a) The private financial sector must be actively involved in ASEAN + 3 initiatives. For example the Asian Bond Fund No 1 and No 2 (No 3 about to be launched) would have been more successful had the private sector been given the responsibility for the active management of these funds under the rules stipulated by the Executive Meeting of East Asia-Pacific Central Banks (EMEAP).
- b) The public sector's role must be restricted to macro- and micro-policy coordination and dialogue. For example it is not the role of the public sector to create regional clearing and settlement systems or regional rating agencies. The role of the public sector is the creation of sound legal and institutional infrastructure and the facilitation of effective and meaningful regional cooperation.
- c) We strongly support an Asian Monetary Fund (AMF) being created to expand the function of CMIM and AMRO. CMIM should be de-linked from the IMF funding requirements and the role of AMRO should be expanded to include coordination of fiscal and monetary policy and regional financial supervision.

References: Masahiro Kawai and Peter J. Morgan, "Regional Financial Regulation in Asia". Asian Development Bank Institute working paper series No. 460, February 2014