19th Roundtable on Capital Market and Financial Reform in Asia

DRAFT AGENDA

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Session 1: Recent trends and prospects in the Asian capital markets under the rapidly changing economic and financial environment reflected by a series of US interest rate hikes and China's economic slowdown

Financial landscapes in Asia are still broadly accommodative and supportive for stable growth in the near future. On the other hand, risks might rise sharply in emerging Asian countries due to the escalation of trade tensions between China and the U.S.

For the recent months, as global financial conditions have gradually tightened, divergence of capital market between advanced and emerging countries in Asia has been growing. A couple of Asian emerging economies are vulnerable to spillover effect from monetary policy tightening in advanced countries, namely some Asian countries with fiscal deficit have experienced a small scale of reversal in portfolio flows.

In advanced economies, high and rising leveraged level in non-financial sector could be other financial vulnerabilities and asset valuations in some major markets are stretched. These risks may accumulate and could be exposed by a sudden and sharp financial tightening.

Questions for discussion:

1. What are the recent trend and prospect for capital flows in the Asian economies?
2. In the U.S. and Europe, monetary policy normalization is being in place, what factors and conditions can be influenced and affected by tightening financial environment that would put the Asian economies in the most vulnerable position?
3. How does the recent trade policy discussion between the U.S. and China significantly impact in the capital flow in the Asia region?

Session 2: Some Asian countries in the face of population aging are required to adjust monetary and fiscal policies including social welfare; moreover, financial systems with rapid technological improvement should include elderly population

Rapid population ageing has gradually happened in the Asia region and the impact will be substantial over the next two decades due to the demographic transition taking place in the single generation while European and North America societies have experienced the same transformation over a century.

Although there are some divergences observed among Asian countries including differences in old-age dependency ratios and speed of aging, population aging poses significant challenges such as constant reduction of labor force and low productivity potentially leading to stagnant economic growth.

A wide range of discussion is needed to consider policy responses for macroeconomic impacts of aging on fiscal, monetary, and financial sector policy, taking into consideration of lower inter-sectorial labour mobilisation and uneven intergenerational wealth distribution.

Moreover, technological innovation and advancement tend to isolate elderly population and digital divide may cause serious intergenerational inequality in the financial market. It is essential to encourage and facilitate elderly people to gain access to new financial services and technologies as well as to undertaking adequate financial portfolio management to reduce longevity risk.

Questions for discussion:

1. Given that a large number of elderly people are not performing economic activities and a fewer young population are entering into labour market, how will these impacts influence the effectiveness of fiscal, monetary, and financial sector policy?
2. What is a well-balanced macroeconomic policy-mix that can be designed to maintain growth and fiscal sustainability in the serious and rapid aging process in the Asian region?
3. What should be the key- success factors and measures introduced for elderly people to be included in the financial development and to promote financial literacy for reducing longevity risk?

Session 3, Part 1: Fintech, Regtech and Artificial Intelligence are creating new financial entity, business, and products, namely brought by blockchain

Digital financial assets are created by open-sourced and decentralized technology; Investors from across the world can get access to the blockchain-based system and speed up transaction while reducing the need for intermediaries and lowering transaction costs.

While Initial Coins Offering (ICOs) can provide a vehicle for raising funds, diverse tokens or tokenized assets are used to build innovative models and platforms. At the nascent stage, there is still need to establish a clear understanding of the different classes of tokens and develop a global taxonomy for orderly advancement of DLT technology.

Investors and consumers as well as policy makers recognize that innovative technologies are bringing benefits such as enhanced access to financing and innovative business models, platforms, and a new means of payment. At the same time, digital financial assets are raising issues regarding consumer protection, market integrity, security, privacy, and anti-money laundering and counter terrorism financing.

Moreover, industries are arguing that the absence of policy guidance is creating legal uncertainty. International cooperation will be needed to establish an international framework or a set of principles that could help maintain a level of playing field and global regulatory harmonization consistency. These efforts will serve to alleviate the risks of regulatory arbitrage and market fragmentation.

Questions for discussion:

1. A number of digital new assets are being created by innovative DLT technologies. In order to smoothen the development process of the new financial products, business models and platforms, how do we clarify and align the definition or taxonomy of digital financial assets?
2. Under the early stage of technological development, to what extent do new rules, guidelines or regulatory frameworks need to put into place for assuring consumer protection, market integrity, security, privacy, and anti-money laundering and counter terrorism financing.
3. How can related authorities in each country cooperate to create internationally standardized competitive environment for further development of capital market, although they are facing national specificities and differences in their financial regulatory regime?

Session 3, Part 2: Some new digital financial services may require additional consumer and/or data protection, and be supported by the traditional safety net such as deposit insurance or lender of the last resort

The financial service sector is now in the face of rapid and significant advancement of information technology supported by an easing or removal of regulatory barriers and experienced marked structural changes. The technological shift to digital forms of interaction has already begun to alter the nature of asset creation and ownership structure.

Implications of digital innovations may influence certain core functions of the financial system. Depository institutions such as banks will remain in a special status and warrant financial protections afforded by the traditional safety net.

Banks are performing three important functions; 1) taking deposits that are withdrawable on demand, 2) providing liquidity from depositors to other entities with transformation of maturity, 3) acting as a conduit for payment system and monetary policy transmission. These three functions are being gradually challenged by developing digital non-banks.

In particular, some of the developing digital non-banks are effectively unbundling and rebounding commercial banking services; 1) some of these services separately, 2) rebounding together with some services, 3) combining together with some new services.

Questions for discussion:

1. Why are banks recognized as special for the provision of traditional safety net? Are banks playing a conduit role of monetary policy?
2. Should digital non-bank institutes offering a subset of banking products and services be entitled to relevant provision of the financial safety net? Should digital non-bank institutes be guaranteed for access with the same regulatory requirements as treated to commercial banks such as capital requirement and other supervisory requirements?
3. Open banking initiatives are regarded as catalysis for enhancing competition and digital innovation in the banking sector. Though potentially efficient, is it safe and secure to allow open access to banking data for large technology firms that already control enormous data?
4. How can authorities regulate and supervise new digital financial services in principle more activities based rather than entity based?

Session 4: Responsible, viable, and lifecycle infrastructure investments

Most of advanced and developing countries are facing a massive financing gap for infrastructure investment. While spending amount itself is a crucial issue, there is a broad consensus; the promoting quality of infrastructure investment is a key for sustainable economic development.

Quality of infrastructure can be defined by these criteria; 1) economic efficiency in view of life cycle cost, 2) safety, 3) resilience against natural disaster, 4) job creation, 5) capacity building, 6) transfer of expertise and know-how on mutually agreed terms and conditions, 7) degree of social and environmental impacts, 8) alignment with economic and development strategies.

As for infrastructure investment, quality and quantity are not conflicting concepts but they are complementing with each other. Furthermore, wide access and open usage to quality of infrastructure can serve as a basis for positive economic spillover to local economy, contributing to sound debt sustainability.

Moreover, macro-level of infrastructure governance, including debt sustainability, needs to be taken into account for ensuring quality infrastructure investment from the long-term perspective. Good governance will also allow a recipient country to keep good sovereign debt management, which may improve economic growth prospect and encourage private sector investment.

Questions for discussion:

1. What other key attributes and expected outcomes that we need to consider other than elements mentioned above?
2. Private investors are more interested in environmental, social and governance (ESG) aspects of infrastructure investment. What are the critical ESG factors to be ensure quality infrastructure in order to attract private investors? In particular, environment and social issues.