



# **The global landscape for financial system regulation: implications for Asia**

**Eli Remolona**

**Chief Representative for Asia and the Pacific**

OECD-ADBI 11<sup>th</sup> Roundtable on Capital Market Reform in Asia  
Tokyo, 22-23 February 2010

The views expressed are the speaker's and do not necessarily reflect those of the BIS



## Two views of the global credit crisis

- ❑ Crisis arose from troubles in the US sub-prime mortgage market
  - ❑ Bad models
  - ❑ Bad incentives
- ❑ Crisis was accident waiting to happen
  - ❑ Dynamics of risk-taking behavior led to bubble
  - ❑ US sub-prime mortgages triggered crisis by pricking bubble



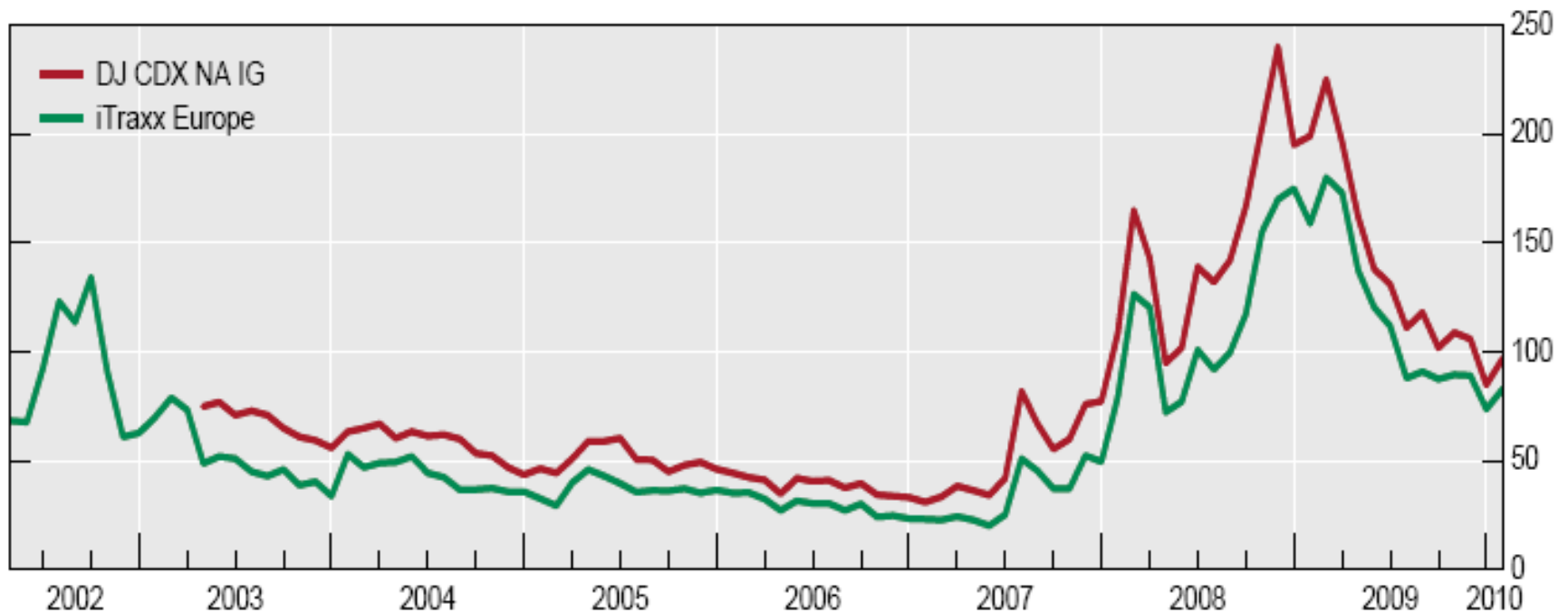
## The key question: amplification

- ❑ *Default* losses on US sub-prime mortgages about \$500 billion
- ❑ But in mark-to-market world, deadly losses are *valuation losses* – were as high as \$4 trillion.
- ❑ BIS study of rescue packages: EUR 5 trillion in committed resources



## The rise and fall of the global credit bubble

CDS index spreads  
In basis points



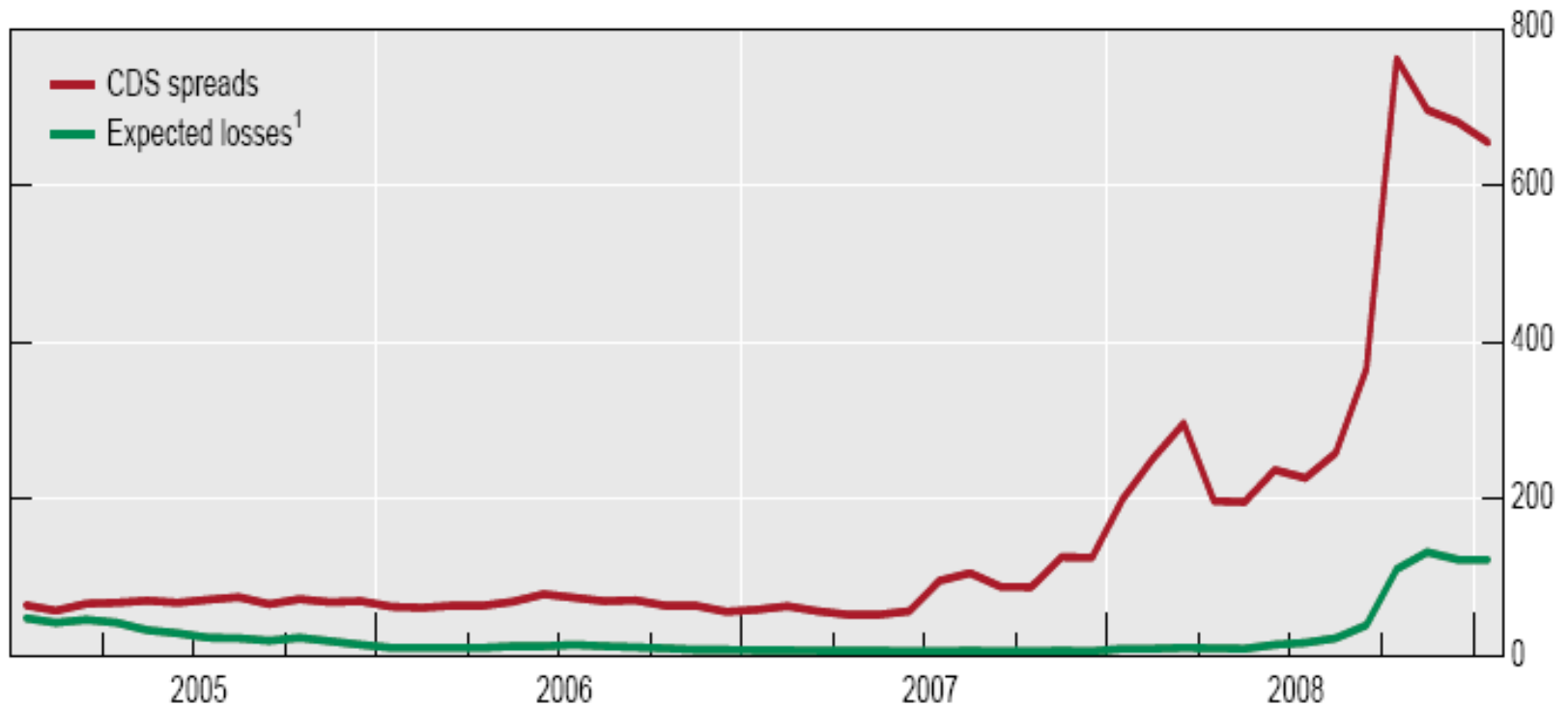
Five-year on-the-run CDS spreads.

Source: JPMorgan Chase.



## Contagion in Asia: why it's all about the risk premium

Average CDS spreads and expected losses for Asian companies  
Forty-one names; in basis points



<sup>1</sup> Average EDF multiplied by 0.5, which is the historical loss given default.

Sources: Markit; Moody's Investors Services; authors' calculation.



## The new governance: a new FSB

### ❑ 12 original jurisdictions

1. Australia
2. Canada
3. France
4. Germany
5. Hong Kong
6. Italy
7. Japan
8. Netherlands
9. Singapore
10. Switzerland
11. UK
12. US

### ❑ 12 new jurisdictions

1. Argentina
2. Brazil
3. China
4. India
5. Indonesia
6. Korea
7. Mexico
8. Russia
9. Saudi Arabia
10. South Africa
11. Spain
12. Turkey

### ❑ Plus 12 bodies

1. BIS
2. Basel Committee
3. CGFS
4. CPSS
5. ECB
6. EC
7. IMF
8. World Bank
9. OECD
10. IAIS
11. IOSCO
12. IASB



## The new Basel Committee

### ❑ 13 members before 2009

1. Belgium
2. Canada
3. France
4. Germany
5. Italy
6. Japan
7. Luxembourg
8. Netherlands
9. Spain
10. Sweden
11. Switzerland
12. UK
13. US

### ❑ 14 new members

1. Argentina
2. Australia
3. Brazil
4. China
5. Hong Kong SAR
6. India
7. Indonesia
8. Korea
9. Mexico
10. Russia
11. Saudi Arabia
12. Singapore
13. South Africa
14. Turkey



## Seven FSB priorities

- Compensation
- Bank capital and liquidity
- Too-big-to-fail issue
- OTC derivatives
- Accounting
- Crisis management
- Implementation





## **Six ways to deal with too-big-to fail**

- ❑ Capital and other prudential standards
- ❑ Orderly resolution of big, complex, cross-border institutions
- ❑ Narrow banking and the Volcker Rule
- ❑ Central counterparties
- ❑ Tax on size and interconnectedness
- ❑ Proactive supervision



## In the other corner: a new landscape of global dealer banks

(Double-A in blue, single-A in brown)

- ❑ Bank of America
- ❑ Barclays
- ❑ **BNP Paribas**
- ❑ Citigroup
- ❑ **Credit Suisse**
- ❑ **Deutsche Bank**
- ❑ Dresdner Kleinwort  
(Commerzbank)
- ❑ Goldman Sachs
- ❑ **HSBC Group**
- ❑ **JPMorgan Chase**
- ❑ Morgan Stanley
- ❑ Royal Bank of Scotland
- ❑ Société Générale
- ❑ UBS
- ❑ **Wachovia (Wells Fargo)**



## A new attitude: Asian style macro-prudential measures

	<b>LTV</b>	<b>Provisions</b>	<b>Exposure limits</b>	<b>Lending criteria</b>
<b>China</b>	<b>01, 05, 06</b>	<b>09</b>		<b>04</b>
<b>Hong Kong SAR</b>	<b>91, 97, 09</b>		<b>94 - 98</b>	
<b>Korea</b>	<b>03, 06, 09</b>	<b>06 - 07</b>		<b>06, 09</b>
<b>Malaysia</b>	<b>95</b>		<b>97 - 98</b>	<b>95</b>
<b>Thailand</b>	<b>03</b>			<b>04, 05</b>



## Policy challenges for Asia

- ❑ Monetary policy and capital flows
  - ❑ Asia leads recovery while G-3 central banks keep policy rates low
  - ❑ Dealing with swings in risk appetites and asset bubbles
- ❑ Striking balance between liberalising markets and regulating them
  - ❑ Rules-based macro-prudential policies to improve trade-off
  - ❑ Developing local markets to deal with contagion