

Discussions for Session 1: The global financial situation and regulatory reforms: Implications for Asia

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Where's the progress?

- Many rules are proposed, but what about implementation?
 - 3 years after the crisis, many rules are still in the proposal stage.
 - An extended period of phase-in means things may not be in place to prevent the next crisis (Risk build up occurred before Basel II was implemented.)
 - Yet, major risk that tightening of regulations now will be pro-cyclical and put the economy and the financial system at risk (e.g. in Europe).
- G20, FSB efforts, but is there really a global regulation?
 - Unilateralism from the US (Dodd-Frank and its implementations)
 - UK opts out of new EU Fiscal Treaty to retain the right of separate regulation
 - Complaint that new rules do not take into account individual needs

Do more micro-prudential regulations ensure systemic stability?

- Are we overburdening the system with too many micro-prudential regulations? Is there a risk that the inevitable focus on compliance may detract from a holistic view of systemic risk?
- Imposing capital charge above economic capital could result in either circumvention and an unanticipated accumulation of risk, or in a scaling down of desirable risk-taking activity.
- Constraining the safety net to make the threat of bankruptcy credible and avoid moral hazard could result in inability to stem systemic crisis. (c.f. the euro architecture) Is orderly resolution possible without a consistent and workable cross-border bankruptcy regime for financial institutions.

Where are the macro policymakers?

- FSF and FSB started off with heavy involvement of Finance Ministries and Central Banks, with ultimate goal on systemic stability.
- Actual rulemaking tends to be delegated to specialized standard setters, who try to solve the problem in their own area of competence following their own established logic. FSB reports then become 'stapling' jobs.
- Very little in macro-prudential policy except counter-cyclical capital charge – an extension of micro-prudential policies.
- More consideration should be given to ensuring supply of international liquidity in the event of systemic banking crisis in key international currencies.