

# SEVENTH EAST ASIA CONGRESS

6-8 December 2009  
Kuala Lumpur, Malaysia



## SESSION TWO

**“Financial Cooperation and the  
Future of the Dollar in East Asia”**

by

**Dr. Yi Jong-goo**  
Standing Commissioner  
Financial Services Commission  
Republic of Korea



# **Financial Regulatory Reform and Cooperation among Asian Countries**



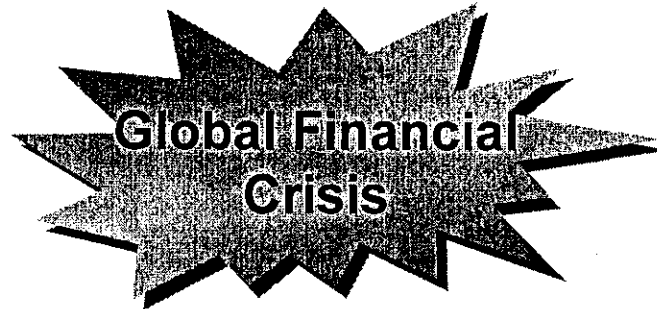
**December 7, 2009**



**Dr. Jong-Goo Yi  
Standing Commissioner  
Financial Services Commission  
Republic of Korea**

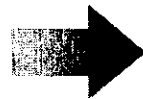
# Importance of Financial System Stability

---



Crisis Management & Crisis Recurrence Prevention Efforts

**Importance of Financial System Stability Highlighted**



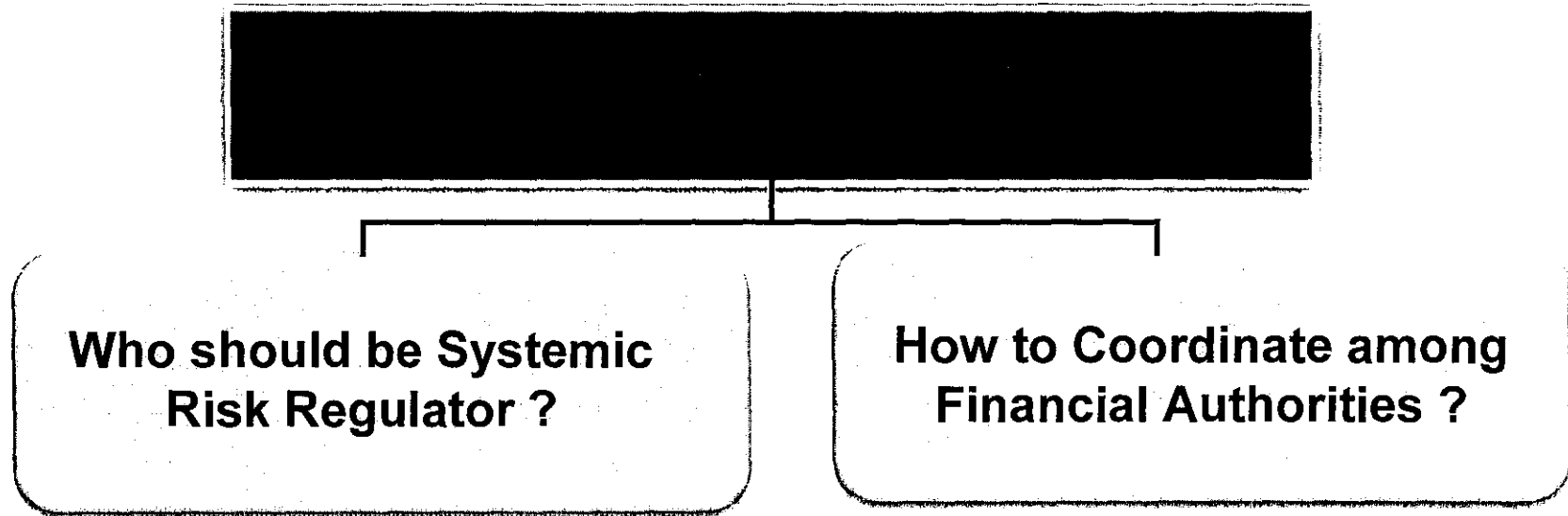
What is the most effective regulatory/supervisory framework for financial system stability?



What specific financial regulatory reforms are needed?

# I. Financial Policy/Supervisory Framework

---

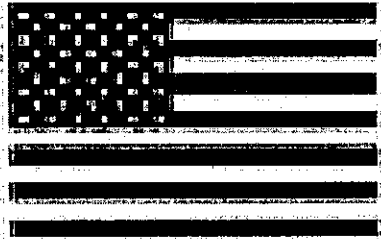


**No one-size-fits-all framework**

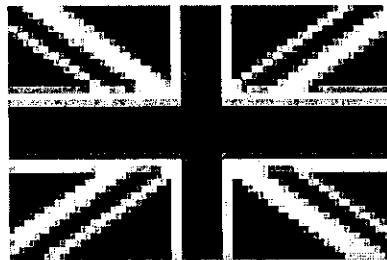
▶ **Must consider each country's unique circumstances**

# I. Financial Policy/Supervisory Framework

## ❑ US & UK : restructuring underway

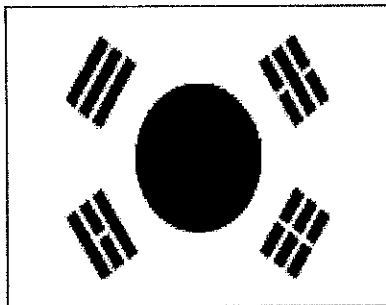


- Systemic risk regulator : FRB
  - Coordination among financial authorities: FSOC\*
- \* consists of the Treasury, FRB, SEC, FDIC (chaired by the Treasury Secretary)



- Financial system stability : added as a function of the Bank of England
- Bank of England mandated to cooperate with the government by law
- Authority to appoint the Chair of the Board of Directors of BOE : Governor → Chancellor of the Exchequer (from Feb. 2009)

## ❑ Korea

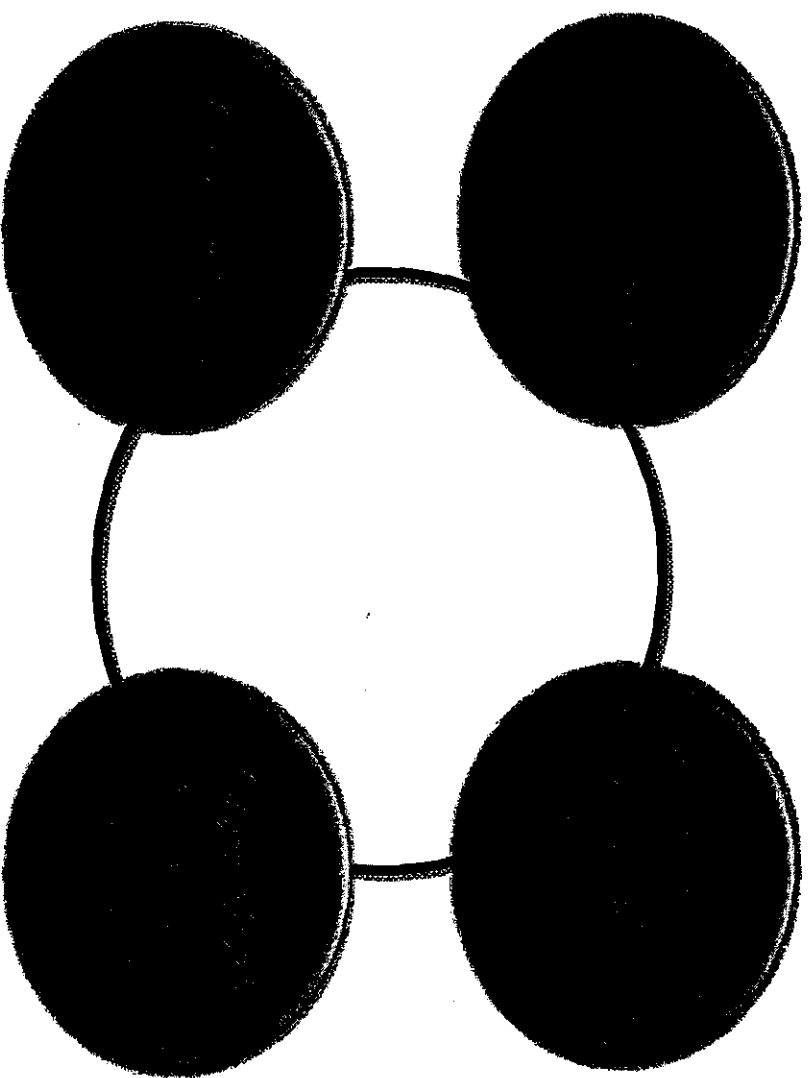


- Current crisis caused by external shock (rather than internal structural problems)
- Restructuring on mid-to-long term basis
- Micro-adjustments where needed (e.g. MOU for information exchange)
- Informal coordination among financial authorities

## II. Financial Regulatory Reform

---

- Need to devise and implement specific reforms to prevent recurrence of the financial crisis
- Should not waste the opportunity to carry out necessary reform



## II. Financial Regulatory Reform

### G20/FSB Regulatory Reform Agenda

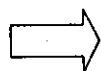
- Accumulation of capital buffer, introduction of dynamic provisioning

- Stronger capital regulation for systemically important banks
- Hedge fund regulation; CCP clearing of OTC derivatives; EWE

- CRA regulation/supervision
- Improvement on OBS items/consistent global accounting system

- Improved internal risk management system
- Risk-based compensation system, stronger disclosure & monitoring

- Expansion of FSB as a financial regulatory reform orchestrating body



- G20/FSB's reform is generally in the right direction
- Consistent implementation of agreed reform measures is critical

## II. Financial Regulatory Reform

---

### Need to Consider Concerns of EMEs

- ❑ Greater interdependence between EMEs and advanced economies
- ❑ Current discussion of financial regulatory reform is advanced economy-oriented
- ❑ Important issues from EMEs' perspective





## II. Financial Regulatory Reform

### 1 Foreign Exchange Market Stabilization in EMEs

❏ Korea proposed at FSB :

1 Stronger role of IFIs to ensure stable supply of foreign currency liquidity

2 Stronger supervision of domestic/foreign financial institutions to stabilize foreign exchange and foreign currency funding markets

❏ At Pittsburgh Summit and G20 Finance Ministers' Meeting,  
Korea proposed to build the "Financial Safety Net" for EMEs



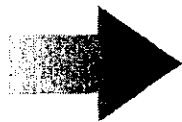
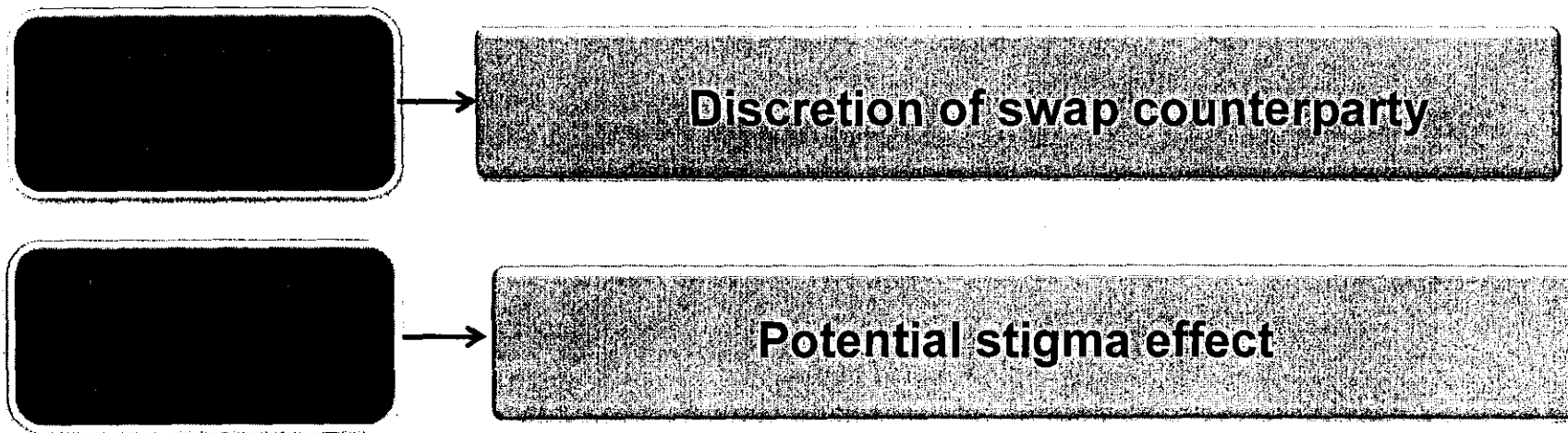
• Need continued follow-up at FSB/IMF



## II. Financial Regulatory Reform

### 1 Foreign Exchange Market Stabilization in EMEs

- Problems with existing foreign currency liquidity supply mechanisms



#### Possible alternatives :

- Foreign currency liquidity insurance
- Expansion of multilateral currency swap arrangements

## II. Financial Regulatory Reform

2

### Stronger Information Sharing among Supervisors

Three areas to improve information sharing

**Operation of Supervisory colleges :**  
more involvement of host-country supervisors necessary

**Exchange of Hedge fund supervision-related information**

**Exchange of OTC derivatives transaction-related information**

**Stronger information sharing among supervisors**

## II. Financial Regulatory Reform

### 3 Reduction of Moral Hazard among “Too-Big-to-Fail” Banks

- ❑ Moral hazard of TBTF institutions due to public support needs be reduced
- ❑ Possible policy approaches

(a) Make TBTFs smaller or less interconnected, for example, by local subsidiarization

(b) Make TBTFs safer through the imposition of additional requirements and oversight measures

⇒ Need careful review of impacts on capital flows & local market conditions

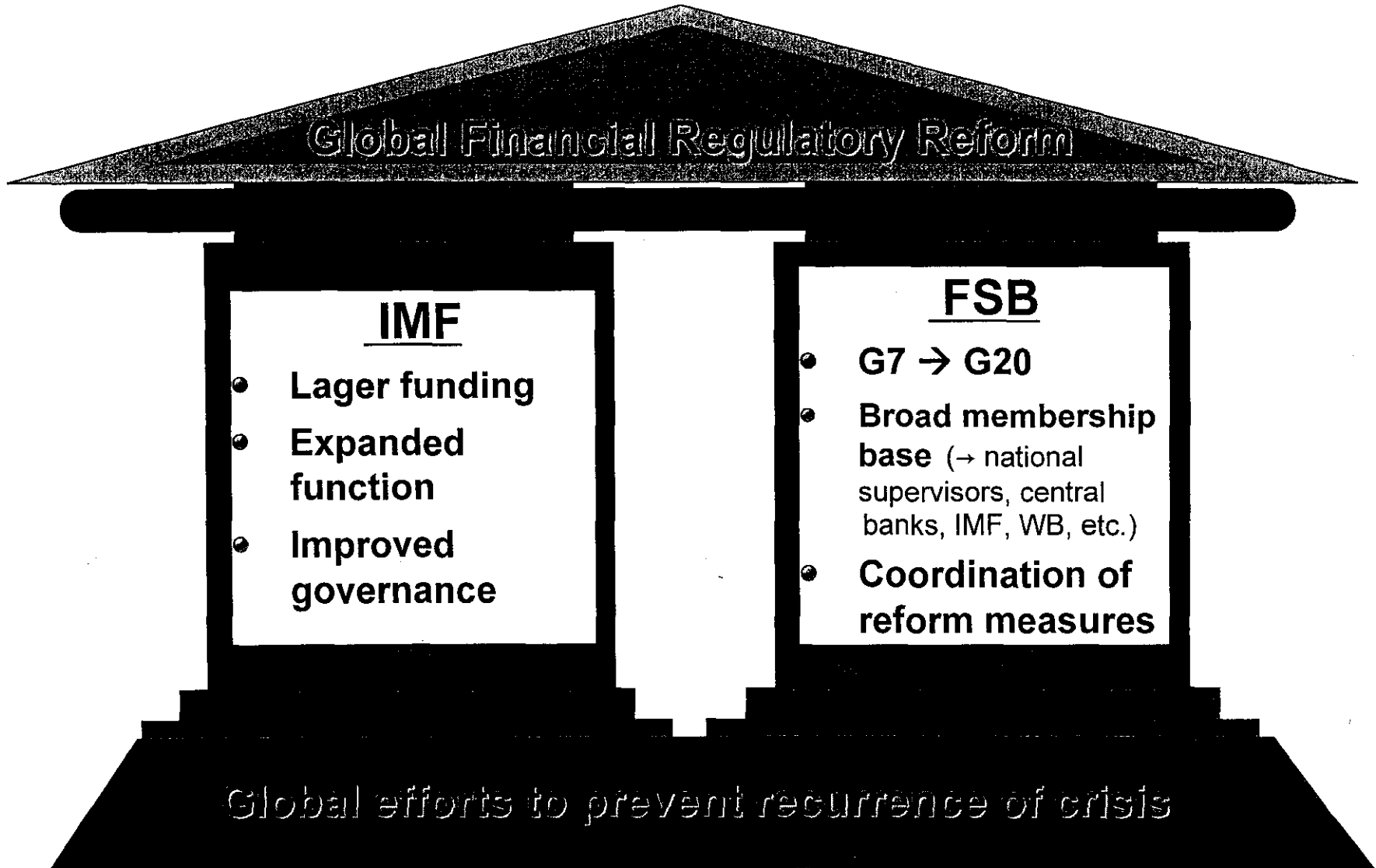
(a) Improve the resolution capacity of authorities in a manner that maintains market disciplines

(b) Make the financial infrastructure better able to deal with TBTF failure

⇒ Need consideration of differences in legal/regulatory system

# III. Role of International Financial Institutions

---



# III. Role of International Financial Institutions

---

## Enhance Efficiency of IFIs :

### ❑ Efficient cooperation and division of responsibilities between IMF and FSB

- Need clarification of roles in overlapping work areas

### ❑ Strengthen FSB's coordination function

- More efficient coordination of opinions among national authorities and international standard setters

## **IV. Regional Cooperation in Financial Regulations**

---



### **1 Asia Today**

---

- ❑ Asia was not the epicenter of the current global crisis and thus less impacted**
- ❑ Lessons learned from the Asian financial crisis helped withstand the current crisis**
- ❑ Asia needs to further develop financial sector (including capital markets) balanced by financial stability**
- ❑ Asian countries are in different stages – single set of global rules may not be welcome but coordination desirable**

## **IV. Regional Cooperation in Financial Regulations**

---

### **2 Building Regional Cooperation**

---

- ❑ More prominent role of Asian countries in the new global economic forum**
  - 5 Asian countries in G-20 : China, Japan, Korea, Indonesia and India
  - 7 Asian members in FSB : 5 above + Hong Kong and Singapore
- ❑ Active participation in global financial regulatory reforms spearheaded by G-20/FSB necessary but no current mechanism to coordinate “Asian Views” for regulatory agenda**
- ❑ Time to take concrete steps to enhance regional cooperation**