

# International Financial Cooperation

The Reserve Bank actively participates in work addressing the challenges facing the global economy and improving the global financial architecture. It does so through its membership of global and regional forums and its close bilateral relationships with other central banks.

## Group of Twenty (G20)

The G20 facilitates international cooperation on economic and financial policy issues. In December 2013, Australia officially commenced its 2014 presidency of the G20, with the year culminating in a Leaders Summit to be held in Brisbane in November 2014. In the lead-up to this Summit, there have been a range of G20 meetings held in Australia and overseas, including a meeting of Finance Ministers and Central Bank Governors in Sydney in February, with another to take place in Cairns in September. The Governor and Deputy Governor have been responsible for chairing meeting sessions covering recent developments in the global economy and financial stability issues, with Reserve Bank staff in the International and Financial Stability Departments working with Australian Treasury officials to help set the agenda for these meetings.

At the November 2014 Summit, G20 Leaders will release an 'Action Plan', which will be based on comprehensive growth strategies from each G20 member. These strategies will aim collectively to lift the level of GDP by 2 per cent over the next five years compared with the trajectory as at October 2013. In addition to details on macroeconomic policies, it is intended that the growth strategies will consist of concrete actions across the G20 that aim to increase investment, lift employment and participation, enhance trade and promote competition. The Reserve Bank and the Australian Treasury are members of a working group supporting this exercise.

Investment, particularly in infrastructure, is a focus for the G20 in 2014. G20 members have been preparing individual plans that will feed into the Brisbane Action Plan outlining policies intended to increase investment in the coming years. In addition to spending measures, these plans include reforms to remove constraints to private investment by establishing sound and predictable policy and regulatory frameworks to promote investment. The Reserve Bank, alongside the Australian Treasury, has made regular contributions to the Investment and Infrastructure Working Group created to carry on the work of a study group established in 2013. The working group is examining collective ways to better channel global savings to productive investments, including ways to harness the resources of the multilateral development banks. The Bank held its annual research conference on the topic of 'Financial Flows and Infrastructure Financing' (hosted jointly with the Lowy Institute for International Policy and the Productivity Commission) to support the work on infrastructure during Australia's G20 presidency. The Bank is also a member of the G20/OECD Taskforce on Institutional Investors and Long-term Financing, which has worked closely with the G20 Investment and Infrastructure Working Group. The taskforce has engaged with institutional investors in developing high-level principles for long-term investment financing and has more recently been examining the implementation of these principles in member countries.

Reform of the international monetary system continues to be a priority for the G20. However, work in this area has been delayed because the United States is yet to pass the International Monetary Fund (IMF) quota and

governance reforms agreed to in 2010. The G20 remains committed to maintaining a strong and adequately resourced IMF and has urged ratification of the reforms at the earliest opportunity. If the 2010 quota and governance reforms are not ratified by the end of 2014, the G20 will call on the IMF to develop options for these reforms in 2015.

An important element of the G20's agenda over recent years has been reform of financial regulation, to address the problems revealed by the global financial crisis. As G20 chair, Australia has supported the Financial Stability Board's focus on the following core reform areas: (1) building resilient financial institutions; (2) ending 'too big to fail'; (3) addressing 'shadow banking' risks; and (4) making derivatives markets safer. The focus is to set priorities for the regulatory reform effort and bring some key aspects in these core reform areas to completion. As outlined below, several international bodies, working together with national authorities, including the Reserve Bank, have made good progress in advancing financial regulation reforms in these four core areas.



G20 Finance Ministers and Central Bank Governors in Sydney, February 2014

## Financial Stability Board (FSB)

During the year in review, the FSB has continued to play an important role in overseeing the international financial regulatory reform agenda. FSB members include representatives from 24 economies (including all the G20 economies), as well as the main international financial institutions (including the IMF and the Bank for International Settlements) and standard-setting bodies, such as the Basel Committee on Banking Supervision (BCBS).

The Reserve Bank, together with the Australian Treasury, represents Australia on the FSB. The Governor is a member of the FSB Plenary (the decision-making body of the FSB) and two FSB committees. The Head of Financial Stability Department is a member of an analytical group that assesses global financial vulnerabilities. A senior officer in Domestic Markets Department continues to participate in the Financial Innovations Network, which operates under this analytical group and provides structured monitoring of financial innovations in order to assess, at an early stage, potential systemic risks to countries, markets and sectors, and potential cross-border impacts. The Bank is also involved in several specific FSB working groups.

In addition to regularly assessing vulnerabilities in the global financial system, the FSB coordinates international financial regulatory reform in several areas. A high priority for the FSB in recent years has been to develop, in cooperation with key international standard-setting bodies, a policy framework for addressing the 'too big to fail' problem associated with systemically important financial institutions (SIFIs). Enhancing resolution regimes is a key component of this framework, and a senior officer in Financial Stability Department has joined an FSB group developing important aspects of its work on resolution, such as crisis management arrangements, cross-border recognition of resolution actions and proposals on loss-absorbing capacity.

Another priority has been addressing the risks posed by 'shadow banking', credit intermediation involving entities and activities outside the regular banking system. In Australia, the shadow banking sector is a relatively small share of the financial system compared with a number of other jurisdictions. The FSB presented recommendations in this area to the G20 Leaders Summit in September 2013, with the focus now on implementation. Reserve Bank officers are members of two FSB working groups looking at dealing with the risks posed by shadow banking entities other than money market funds and by securities-financing transactions.

The FSB continues to monitor the implementation of the G20 commitments to reform over-the-counter (OTC) derivatives markets and to highlight areas where further international work is needed to reduce the scope for contagion in these markets. The Australian Securities and Investments Commission (ASIC) is the main domestic regulator involved in this work, but there is a high degree of cooperation with the Reserve Bank on issues of common interest. ASIC represents Australia on an International Organization of Securities Commissions (IOSCO) working group that is developing risk mitigation standards for OTC derivatives and was represented on the BCBS-IOSCO working group that finalised margin requirements for non-centrally cleared OTC derivatives in September 2013. ASIC has consulted closely with the Bank as these workstreams have progressed. The Bank and ASIC participate in the OTC Derivatives Regulators' Forum, an international group that facilitates cooperation and information sharing between regulators of OTC derivatives markets and infrastructure.

The FSB has embarked on a review of the structure of its representation, to strengthen the group's effectiveness and ensure the views of its members are taken into consideration when developing reform proposals. This is an issue on Australia's G20 agenda this year and both the Reserve Bank and the Australian Treasury have provided input to the review; the final report will be prepared for the G20 Leaders Summit in November 2014.

The FSB's Regional Consultative Group (RCG) for Asia is one of six regional groups established to expand the FSB's outreach activities with non-member economies. The Reserve Bank, together with the Australian Treasury, participated in two working groups established by the RCG for Asia, one on the impact of the SIFI framework on Asia and the second on the structure of shadow banking in Asia.

Other areas of the FSB's work over the past year include:<sup>1</sup>

- reforming the setting of interbank and other financial benchmark rates. Through an Official Sector Steering Group (OSSG), the FSB has guided work on reforms to short-term interest rate benchmarks and set out processes by which suitable alternatives to existing benchmarks may be identified. The report of the OSSG was published in July. The Assistant Governor (Financial Markets) is a member of the OSSG and also co-chairs an OSSG sub-group on foreign exchange benchmarks, which released its report for public consultation in July. The final report will be presented at a FSB Plenary meeting in Cairns in September 2014
- continuing its program of peer reviews, with a thematic review on reducing reliance on credit rating agency ratings released in May 2014. The FSB also conducts country peer reviews, which focus on the

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<sup>1</sup> For further details, see RBA (2014), *Financial Stability Review*, March.

implementation and effectiveness of regulatory, supervisory or other financial sector standards and policies within individual FSB member jurisdictions. A peer review of the United Kingdom, in which the Head of Financial Stability Department participated, released its report in September 2013

- releasing jointly with IOSCO a consultation paper in January 2014 on assessment methodologies for identifying non-bank non-insurer global SIFIs, covering entities such as finance companies and investment funds. A Reserve Bank officer is on the FSB working group that developed these methodologies
- conducting a feasibility study of options for aggregating information from trade repositories.

Since late 2012, a senior officer in Payments Policy Department has been on secondment to the FSB, to work in the area of OTC derivatives market reforms and more recently on the cross-border effects of structural banking reforms undertaken, or proposed, in recent years by several jurisdictions.

## Bank for International Settlements (BIS)

The BIS and its associated committees play an important role in supporting collaboration among central banks and other financial regulatory bodies by bringing together high-level officials to exchange information and views about the global economy, vulnerabilities in the global financial system and other issues affecting the operations of central banks. The Governor or Deputy Governor attend the regular bimonthly meetings of governors at the BIS, which are the main forums for discussing those issues. They also participate in meetings of the Asian Consultative Council, which focuses on financial and monetary developments in Asia and provides direction for the work of the BIS in Asia.

The Assistant Governor (Financial Markets) represents the Reserve Bank on two BIS committees, as chair of the Markets Committee and a member of the Committee on the Global Financial System (CGFS). The Markets Committee considers how financial regulations and economic developments may affect central bank operations and broader financial markets. In the past year, it has discussed the changing execution structure of the foreign exchange market, the European money market and developments in pricing benchmarks for interest rates and foreign exchange. The CGFS monitors developments in financial markets, focusing on potential vulnerabilities in the global financial system. In recent times there has been extensive discussion in both groups of the influence of unconventional monetary policies, and their eventual withdrawal, on capital flows to and from emerging market economies.

In the past year, Reserve Bank staff members have participated in a number of CGFS and Markets Committee groups.

- The Head of Domestic Markets Department is participating in a joint CGFS-Markets Committee Study Group on central bank operating frameworks and collateral markets. A report is expected to be produced by November 2014, which will examine how the choice of monetary policy framework influences collateral markets.
- A senior officer in Domestic Markets Department is participating in a CGFS Study Group on market making and proprietary trading. The group will produce a report on trends, drivers and implications of developments in market making and proprietary trading for the CGFS meeting in September 2014.
- A senior officer in International Department participated in a CGFS Study Group that considered recent structural changes in the provision of trade finance. The group released its report in January 2014.<sup>2</sup>
- A senior officer in International Department is participating in a joint CGFS-Markets Committee working group assessing the impact of global regulatory initiatives on how central banks implement monetary policy. A draft report will be discussed by Governors in May 2015 at a BIS Economic Consultative Committee meeting.

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2 See CGFS (2014), 'Trade Finance: Developments and Issues', CGFS Papers No 50. Available at <<http://www.bis.org/publ/cgfs50.pdf>>.

- A senior officer in Financial Stability Department participated in a CGFS working group that analysed the implications of international expansion by regionally focused banking groups in emerging market economies. The group released its report in March 2014.<sup>3</sup>

## Basel Committee on Banking Supervision (BCBS)

Following the financial crisis, the BCBS developed new capital and liquidity standards for banks (known as Basel III) to increase the resilience of banks to financial and economic shocks. The Australian Prudential Regulation Authority (APRA) implemented the bulk of the capital reforms in January 2013 and will implement the short-term liquidity standard in full in January 2015. Other countries are also continuing to implement Basel III capital and liquidity reforms. This implementation is the subject of comprehensive monitoring by the BCBS, which regularly reports its findings to both the FSB and the G20. The Assistant Governor (Financial System) and the Chairman of APRA represent Australia on the BCBS, while the Governor and Chairman of APRA represent Australia on the oversight body of the BCBS, the Group of Governors and Heads of Supervision.

Following work by a BCBS taskforce co-chaired by the Assistant Governor (Financial System), the BCBS announced in January that a restricted version of a committed liquidity facility may be used by all jurisdictions (not just those with an insufficient stock of high-quality liquid assets such as Australia), subject to the discretion of the central bank.

A senior officer in Financial Stability Department continues to be a member of the Macroprudential Supervision Group of the BCBS. Over the past year, this group again worked mainly on aspects of the BCBS' methodology for global systemically important banks (G-SIBs), such as reviewing the results of the annual G-SIB data collection exercise and assessment. It also commenced discussions of practical issues that are arising as jurisdictions start to develop their countercyclical capital buffer frameworks.

## Committee on Payment and Settlement Systems (CPSS)

The Reserve Bank is a member of the CPSS, which serves as a forum for central banks to monitor and analyse developments in payment and settlement infrastructures and set standards for them. The CPSS met four times over the year to the end of June 2014, with a senior officer in Payments Policy Department representing the Bank. This officer also represents the Reserve Bank as a member of the CPSS-IOSCO Steering Group, which brings together members of both the CPSS and IOSCO to advance policy work on the regulation and oversight of financial market infrastructures (FMIs). This group met twice during the year in review. Reserve Bank staff participate in a number of workstreams arising from the CPSS and the Steering Group.

A taskforce monitoring the international implementation of the *Principles for Financial Market Infrastructures* (PFMIs) published an initial assessment report in August 2013. This was updated in May 2014. Further work will assess the consistency of implementation measures across jurisdictions.

To complement adoption of the PFMIs as regulatory standards, CPSS and IOSCO continue to work on a framework for public disclosures by FMIs. This is intended to provide objective fact-based disclosure to enable independent assessment of the risk characteristics of FMIs, including their compliance with the PFMIs.

The PFMIs establish a comprehensive framework for day-to-day risk management and also require FMIs to consider recovery actions in extreme circumstances. The CPSS and IOSCO are jointly drafting guidance on how to meet the PFMI requirements for recovery. Guidance was issued for consultation in August 2013. Final guidance is expected to be released later in 2014.

3 See CGFS (2014), 'EME Banking Systems and Regional Financial Integration', CGFS Papers No 51. Available at <<http://www.bis.org/publ/cgfs51.pdf>>.

A CPSS working group has surveyed the use of centralised services to manage the collateral of financial market participants. A report noting the benefits and potential risks across the range of services currently being offered is expected to be released later in 2014.

The CPSS also conducts research on retail payments issues and issued a report on innovations in retail payments in May 2012, which identified the increasing importance of non-banks in retail payment systems. Subsequently, a working group was established to prepare a report on the role of non-banks in retail payments and the implications for risk, efficiency and competition. The report is expected later in 2014.

## **International Monetary Fund (IMF)**

The IMF carries out assessments of the global economic outlook and the risks to financial stability and provides policy advice to countries based on its country surveillance missions. Over the past year, the IMF has provided financial assistance to a number of member countries and made progress on refining its precautionary facilities.

Australia holds a 1.36 per cent quota share in the IMF and is part of the Asia and the Pacific Constituency, which is represented by one of the IMF's 24 Executive Directors. The Reserve Bank works with the Australian Treasury to provide support to the Constituency Office at the IMF on issues that are to be discussed by the IMF's Executive Board. The Bank also supports the Constituency Office directly by seconding an advisor with expertise in financial markets and financial sector issues.

The IMF continued to support its member countries through financial assistance programs, although new lending arrangements were much smaller in the past year than in the years following the onset of the financial crisis, when large programs were provided to Greece, Ireland and Portugal.

Among the larger programs approved during the year in review were a SDR 10.98 billion stand-by facility provided to Ukraine and a SDR 4.39 billion extended arrangement to Pakistan. The IMF has provided ongoing support to members with existing lending arrangements by making scheduled loan disbursements. As at July 2014, the IMF's outstanding credit was around SDR 88 billion. Lending to Greece, Ireland and Portugal accounted for the bulk of this, with these countries accounting for outstanding credit of SDR 66 billion. Ireland and Portugal have recently exited their assistance arrangements and are scheduled to begin repaying outstanding credit in 2015.

## **Executives' Meeting of East Asia-Pacific Central Banks (EMEAP)**

EMEAP brings together central banks from 11 economies in the east Asia-Pacific region – Australia, China, Hong Kong SAR, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand – to discuss issues relevant for monetary and financial stability, foster closer cooperation and exchange information and expertise on issues of common interest. The Reserve Bank participates in EMEAP at a number of levels, including at those of governor and deputy governor.

At the Governors' and Deputies' meetings during the year in review, members discussed a range of topics, including economic and financial developments and the implications of international regulatory developments for the EMEAP region.

At the Deputy Governor level, the Monetary and Financial Stability Committee (MFSC) focused on strengthening regional cooperation and monitoring economic and systemic risks. The Reserve Bank also continued to participate in the three working groups that report to the Deputies and support the surveillance work of the MFSC, namely the Working Group on Financial Markets (WGFM), the Working Group on Banking Supervision (WGBS), and the Working Group on Payment and Settlement Systems (WGPSS). There are also regular meetings of IT Directors from EMEAP member central banks.

For the two years ending July 2014, the Assistant Governor (Financial Markets) chaired the WGFM, which has responsibility for the analysis and development of foreign exchange, money and bond markets in the region. It is closely involved at a working level with the operation and development of the Asian Bond Funds (ABF1 and ABF2), which includes maintaining dialogue between EMEAP and each of the fund managers on issues such as the performance of the funds. Over the past two years, an area on which the group has focused attention has been to enhance EMEAP's interaction with these fund managers. The working group has held regular discussions on the impact of regulatory reform measures on regional financial markets and on developments in financial benchmarks. It has also produced a report assessing the state of repo markets in the region.<sup>4</sup>

EMEAP deputy governors are responsible for the ongoing oversight of AFB1, a US dollar-denominated Asian bond fund, and also AFB2, comprising eight local currency-denominated bond funds and a Pan Asia Index Bond Fund (see the chapter on 'Operations in Financial Markets' for further details).

The Head of Financial Stability Department represents the Reserve Bank on the WGBS, together with a senior representative from APRA, while a senior officer in Payments Policy Department is the Bank's representative on the WGPSS. The WGBS provides a regional forum for sharing experiences about best practices in banking supervision and implementation of international reforms. The WGBS has also carried out work on a variety of issues, including resolution and recovery planning and macroprudential analysis. Work of the WGPSS has included monitoring progress of members' implementation of the G20 OTC derivatives market reforms, surveying members on the adoption of the PFMLs, assessing financial inclusion across the region and considering issues associated with virtual currencies such as Bitcoin. The WGPSS has also invited a number of external organisations to share with the group information on their financial infrastructure or cross-border initiatives.

## Organisation for Economic Co-operation and Development (OECD)

The OECD comprises the governments of 34 countries and is committed to promoting policies that improve economic and social development globally.

The Assistant Governor (Financial System) continues to chair the OECD Committee on Financial Markets, which is the main OECD body dealing with issues in financial markets, such as banking, securities and derivatives. The Reserve Bank's Chief Representative in Europe is also a member of the Committee. Recent topics of discussion at the Committee included implicit government support for banks, financial consumer protection and longevity risk. Since early 2013, an officer in Economic Group has been on secondment to the OECD, working in the area of macroeconomic policy.

## Hong Kong-Australia Renminbi Trade and Investment Dialogue

The Reserve Bank co-facilitated the second Hong Kong-Australia Renminbi Trade and Investment Dialogue, together with the Australian Treasury and the Hong Kong Monetary Authority. The Dialogue, which was held in Hong Kong on 22 May 2014, sought to build further awareness of renminbi (RMB) trade and investment opportunities, and to identify opportunities for collaboration between the Hong Kong and Australian banking sectors to develop the offshore RMB market. Representatives from a number of banks, firms and official sector organisations participated in the Dialogue, including the Bank's Deputy Governor. The event included a meeting of the industry-led RMB Working Group, which was established as a result of the inaugural Dialogue with the aim of identifying practical steps that could be taken to foster the development of the market for RMB

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<sup>4</sup> See EMEAP Working Group on Financial Markets (2014), 'EMEAP Repo Markets: State of Play'. Available at <<http://www.emeap.org/index.asp?menu=publications>>.

banking products in Australia and Hong Kong. In addition to increasing awareness among Australian corporations of RMB trade settlement and investment and supporting initiatives to ensure adequate supply of RMB banking products to the market, the RMB Working Group will also aim to encourage the development of infrastructure to support RMB clearing and settlement, and to collaborate with the Australian and Hong Kong funds management sectors. The Bank will continue to engage with the RMB Working Group on these matters.

## **Government Partnership Fund (GPF)**

The Reserve Bank has continued its involvement with Bank Indonesia (BI) under the auspices of the GPF. This program has supported an exchange of skills and knowledge between Australian public sector institutions and their Indonesian counterparts through a series of attachments and workshops since it began in 2005/06. In 2013, a total of 12 BI officers were attached to the Bank, bringing the total number of attachments since the start of the program to 175. The attachments cover policy and operational areas of the Bank, including economic research, financial markets and financial stability, as well as auditing and human resources.

## **South Pacific Central Bank Cooperation**

In December 2013, the Deputy Governor attended the annual meeting of the South Pacific Central Bank Governors held in Papua New Guinea. This meeting brings together the central bank governors within the Pacific region – Australia, Fiji, New Zealand, Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu – to discuss economic issues of particular interest. The main issues discussed at the annual meeting focused on recent economic developments and financial inclusion. The governors also met with the major regional commercial banks to discuss banking issues.

The Reserve Bank continued to foster closer ties with the South Pacific countries through an exchange of staff. A Bank officer recently completed a two-year secondment to the National Reserve Bank of Tonga.

In addition, the Reserve Bank provided financial support to an officer of the Bank of Papua New Guinea (BPNG) undertaking postgraduate studies at an Australian university. The Reserve Bank of Australia Graduate Scholarship, which was first awarded in 1992, provides financial support to an officer of BPNG to undertake studies at an Australian university in the areas of economics, finance or computing.

## **Cooperative Oversight Arrangements**

Senior officers in Payments Policy Department are engaged in a number of cooperative oversight arrangements for FMI's that operate across borders. The Reserve Bank has for some time participated in an arrangement, led by the Federal Reserve Bank of New York, to oversee CLS Bank, which provides a settlement service for foreign exchange transactions. In 2012, the Bank was invited to join two new cooperative oversight arrangements: the SWIFT Oversight Forum and a LCH SwapClear Oversight College for LCH.Clearnet Limited's SwapClear service for OTC interest rate derivatives.

## **Bilateral Relations and Cooperation**

As in previous years, the Reserve Bank received a number of visitors from overseas. Predominantly from foreign central banks, the visits covered the full range of the Bank's activities and included delegations from China, Malaysia, Mozambique, Russia, Sri Lanka, Thailand and Vietnam.