

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 will become the G20 chair for a 12-month period. Accordingly, in December 2012 Australia joined the G20 'troika', comprising the chair countries for the previous, current and future year. The aim of the troika system is to ensure continuity from one chair to another.

At the St Petersburg Summit in September 2013, G20 Leaders will release an 'Action Plan' for the 'Framework for Strong, Sustainable and Balanced Growth'. The Framework is a mechanism under which G20 members collectively assess whether their policies are consistent with these three aims, and endorse further policy actions as necessary. Also to be released is the second accountability assessment, which monitors G20 members' progress on past commitments contained in action plans. The Reserve Bank and Australian Treasury are members of a working group that is supporting this exercise.



G20 Finance Ministers and Central Bank Governors' Meeting, July 2013

Reform of the international monetary system continues to be a priority for the G20. Work on this issue is led by the working group on the International Financial Architecture, co-chaired by Australia and Turkey, with the Australian Treasury taking the leadership role for Australia. The Reserve Bank also made regular contributions to this work over the past year. Key areas of focus for the G20 in this area include facilitating completion of the 2010 International Monetary Fund (IMF) quota and governance reforms and progress on the 15th General Review of Quotas, which the IMF is scheduled to complete by January 2014. The agenda of this group also includes work on other items such as public debt management practices, local currency bond markets and global liquidity indicators.

The Reserve Bank has actively contributed to a new area of work in the G20 on financing for investment, including infrastructure. The G20 has established a study group to carry out work on this topic, and the Bank and Australian Treasury are members. This group will examine policies and practices that foster the necessary conditions for mobilising long-term financing for investment and promoting a sound investment climate. This will also involve an assessment of how to improve intermediation of global savings into long-term investments and improving the transparency, planning and prioritisation of infrastructure projects.

Reform of financial regulation remains an ongoing priority for the G20. In recent years the focus has begun to shift from developing new policy proposals to implementing agreed reforms at the national level and monitoring the consistency of implementation internationally.

Financial Stability Board (FSB)

Over the past year, 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 of the G20 economies), as well as the main international financial institutions (including the IMF and the Bank for International Settlements (BIS)) and the standard-setting bodies, such as the Basel Committee on Banking Supervision (BCBS). As part of an ongoing process of strengthening its capacity, resources and governance, the FSB underwent changes in January to constitute itself as a separate legal entity (specifically, an association under Swiss law). As was required of all FSB members, the Reserve Bank confirmed its continuing membership by formally joining the association.

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

In addition to regularly assessing vulnerabilities in the global financial system, the FSB coordinates international financial regulatory reform in several areas. In recent years, a high priority for the FSB has been to develop, in cooperation with key international standard-setting bodies, a policy framework for systemically important financial institutions (SIFIs). Another priority area has been addressing the risks posed by 'shadow banks', i.e. non-bank financial institutions that engage in bank-like activities but do not face the same prudential regulation as banks. The FSB will present recommendations in this area to the G20 Leaders' Summit in September 2013.

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. In early 2013, the RCG for Asia launched two working groups, one on the impact of the SIFI framework on Asia and the second on the structure of shadow banking in Asia. Along with the Australian Treasury, the Reserve Bank is a member of both working groups.

Other key areas of the FSB's work over the past year in which Reserve Bank staff have been involved include:¹

- Monitoring the implementation of the G20 commitments to reform over-the-counter (OTC) derivatives markets and highlighting areas where further international work is needed to achieve the objective of reducing the scope for contagion in these markets. In a related area, the Bank participates in the OTC Derivatives Regulators' Forum, an international group that facilitates cooperation and information sharing between regulators of OTC derivatives markets and infrastructure. To better understand the potential effects of OTC derivatives regulatory reforms, an international macroeconomic impact assessment of these reforms was undertaken by the BIS with the findings released in August; the Head of Economic Research Department was a member of the team that produced the report.
- Reforming the setting of interbank and other financial benchmark rates. In particular, the FSB is coordinating and guiding work on reforms to short-term interest rate benchmarks, as well as identifying suitable alternatives to existing benchmarks. An Official Sector Steering Group has been established, which will be responsible for coordinating and maintaining the consistency of reviews of existing interest rate benchmarks and for guiding the work of a Market Participants Group, which will examine the feasibility and viability of adopting additional reference rates. The Assistant Governor (Financial Markets) is a member of the Steering Group.
- Continuing its program of peer reviews, with thematic reviews on risk governance and resolution regimes released in the first half of 2013. The FSB also conducts country peer reviews, which focus on the implementation and effectiveness of regulatory, supervisory or other financial sector standards and policies within individual FSB member jurisdictions. The Head of Financial Stability Department is participating in a team conducting a peer review of the United Kingdom.
- In the area of credit rating agencies (CRAs), developing a 'road map' to accelerate the implementation of the FSB's 2010 'Principles for Reducing Reliance on CRA Ratings', including a peer review on how countries have implemented the Principles. An interim peer review report was released in August.
- Contributing to G20 work on long-term investment finance, through continued monitoring of the possible effects of financial regulatory reforms on the provision of long-term finance.

In late 2012, a senior officer from Payments Policy Department commenced a two-year secondment to the FSB, to work in the area of OTC derivatives reforms. This follows an earlier secondment by another senior officer from Financial Stability Department. One aim of these secondments is to build closer links between the two organisations.

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.

¹ For further detail, see RBA (2013), *Financial Stability Review*, March.

The Assistant Governor (Financial Markets) represents the Reserve Bank on two BIS committees: the Committee on the Global Financial System (CGFS) and the Markets Committee. In June 2013, he was appointed chair of the Markets Committee for a three-year term.

The CGFS monitors developments in financial markets, focusing on potential vulnerabilities in the global financial system. In the past year, the CGFS has considered issues such as increased demand for collateral assets, regional banking system integration, trade finance, and the use of credit ratings by central banks. The Head of Domestic Markets Department participated in a CGFS working group that assessed the implications for central banks and markets of greater demand for collateral. A senior officer from International Department participated in a CGFS study group that considered recent structural changes in the provision of trade finance, and a senior officer from Financial Stability Department participated in a CGFS working group that investigated ways to operationalise the selection and application of macroprudential instruments. Another senior officer from Financial Stability Department is currently participating in a CGFS working group analysing the implications of international expansion by regionally focused banking groups in emerging market economies.

The Markets Committee considers how current events may affect central bank operations and broader financial markets. In the past year, the Assistant Governor (Financial Markets) chaired a Markets Committee working group, which in March produced the report, *Central Bank Collateral Frameworks and Practices*.

Basel Committee on Banking Supervision (BCBS)

The new Basel III capital standards, which aim to improve the resilience of banks to financial and economic shocks, came into effect on 1 January 2013 in Australia and a number of other countries, in keeping with the Basel Committee's timetable. Implementation by countries of Basel III is the subject of ongoing 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 the Australian Prudential Regulation Authority (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.

The Assistant Governor (Financial System) is co-chair of a BCBS taskforce on liquidity that is examining the interaction between the Basel III liquidity coverage ratio and the provision of central bank facilities, given that these facilities are the most reliable form of liquidity. The taskforce is also examining whether the option of using a central bank facility (such as the committed liquidity facility in Australia) as part of the regulatory framework should be available to all jurisdictions or continue to be limited to those with insufficient high-quality liquid assets.

A senior officer from Financial Stability Department has continued to be part of the Macroprudential Supervision Group of the BCBS. Over the past year, this group has mainly worked on technical aspects of the methodology of the BCBS for global systemically important banks (G-SIBs), such as reviewing the results of the annual G-SIB data collection exercise and assessment, and outstanding G-SIB data and methodological issues. It also continued its work on developing a set of principles on the assessment methodology and the higher loss absorbency requirement for domestic systemically important banks (D-SIBs), the final framework of which was released by the BCBS in October 2012.

In February 2013, the BCBS published *Supervisory Guidance for Managing Risks Associated with the Settlement of Foreign Exchange Transactions*. A senior officer from Payments Policy Department was a member of a joint BCBS-Committee on Payment and Settlement Systems (CPSS) working group that developed this guidance.

The Australian Securities and Investments Commission (ASIC) continues to represent Australia in a joint BCBS-International Organization of Securities Commission (IOSCO) working group that is developing margin requirements for non-centrally cleared OTC derivatives. ASIC has consulted closely with the Reserve Bank as this work has progressed. Further to an initial consultation in July 2012, this group sought further feedback on near-final principles in February 2013 and is now in the process of finalising its proposals.

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. Over the year to the end of June the CPSS met three times, with either the Head or Deputy Head of Payments Policy Department representing the Bank.

The Reserve Bank is also a member of the CPSS-IOSCO Steering Group, which brings together members of both the CPSS and the IOSCO to advance policy work on the regulation and oversight of financial market infrastructures (FMIs). In recent years, the CPSS-IOSCO Steering Group has overseen work on the development of the *Principles for Financial Market Infrastructures* (PFMIs), which were released in April 2012. These Principles set internationally agreed standards for the design and operations of FMIs, as well as responsibilities for regulators. To complement the PFMIs, in December 2012 the CPSS and IOSCO published an assessment methodology and a framework for public disclosures by FMIs. Bank staff contributed to the finalisation of these materials and a senior officer from Payments Policy Department continues to participate in a related working group that is finalising proposals for quantitative metrics to support FMI's disclosures.

Members of CPSS and IOSCO are expected to implement the PFMIs in their jurisdictions. To oversee this process, the CPSS-IOSCO Steering Group has established a joint task force on implementation monitoring. As a first step, the task force has carried out an initial review of the measures taken by each jurisdiction formally to adopt the PFMIs within their respective regulatory frameworks. The results of this initial work are due to be published in the third quarter of 2013. A senior officer from Payments Policy Department is contributing to this work.

While the PFMIs are intended to establish a comprehensive framework for day-to-day risk management, it is increasingly recognised that more work needs to be done to ensure that the official sector and FMIs have in place appropriate arrangements to deal with extraordinary events should they occur. This involves recovery planning by FMIs themselves, which is now required under the PFMIs, and the establishment of FMI-specific resolution regimes by the relevant authorities. Further to an initial consultation by CPSS-IOSCO in July 2012, a CPSS-IOSCO group overseen by the CPSS-IOSCO Steering Group is finalising proposals on FMI recovery and resolution. A senior officer from Payments Policy Department is a member of this group. In August 2013, two pieces of work were released for public consultation. The first will provide guidance to FMIs on recovery planning, setting out the potential recovery tools available to an FMI and the steps an FMI should take to make it likely that, following an extreme shock, it could continue to provide critical services or facilitate an orderly wind-down of operations. The second contributes to existing FSB work, by providing an FMI-specific annex to the *Key Attributes of Effective Resolution Regimes for Financial Institutions*. Resolution is action that a resolution authority might take.

A senior officer from Payments Policy Department is also participating in a CPSS working group on retail payments. Following on from a report on innovations in retail payments released in May 2012, this group has commenced a report on the increasing importance of non-banks in the payments process and the implications for competition and innovation.

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 further progress on improving surveillance and governance arrangements.

The Reserve Bank works with the Australian Treasury to provide regular briefings to the Constituency Office at the IMF on issues that are to be discussed by the IMF's Executive Board. The Bank supports the Constituency Office directly by providing an adviser with expertise in financial markets and financial sector issues.

The IMF continued to support its member countries through financial assistance programs over the year in review, although the size of *new* lending arrangements was much smaller in the past year than the preceding few years, when large lending arrangements were provided to Greece, Ireland and Portugal. Among the larger arrangements approved over the past year were a SDR 1.36 billion stand-by arrangement provided to Jordan and a SDR 0.89 billion extended facility provided to Cyprus. The IMF facility provided to Cyprus was part of a broader package of €10 billion provided with euro area member states (via the European Stability Mechanism). The IMF has provided ongoing support to members with existing lending arrangements by making scheduled loan disbursements. As at the end of August 2013, the IMF's outstanding credit was around SDR 91 billion. Lending to Greece, Ireland and Portugal accounted for the bulk of this, with outstanding credit of SDR 62.1 billion provided to these countries.

Four countries also renewed their precautionary facilities. Mexico, Poland and Colombia rolled over their Flexible Credit Line facilities of SDR 47.3 billion, SDR 22 billion and SDR 3.9 billion, while Morocco rolled over its Precautionary and Liquidity Line of SDR 4.1 billion.

The IMF published the results of its second Financial Sector Assessment Program (FSAP) review of Australia in November 2012. Overall, the FSAP contained a positive assessment of the stability of Australia's financial system and the quality of domestic financial supervisory and crisis management arrangements. The IMF provided a number of recommendations that the Australian authorities are currently considering. Among these was a recommendation that the Reserve Bank develop a 'top-down' (macro model-based) stress-testing framework to complement the stress testing already performed by APRA. A program of work to investigate the feasibility of developing such a framework for Australia has now been initiated.

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 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 the Governor and Deputy Governor.

At the Governors' and Deputies' meetings over the past year, members discussed a range of topics, including economic and financial developments and the implications of international regulatory developments for the EMEAP region. EMEAP Deputy Governors held a roundtable discussion with private sector experts in April 2013, focusing on developments in Asian finance, particularly for infrastructure.

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: the Working Group on Financial Markets, the Working Group on Banking Supervision and the Working Group on Payment and Settlement Systems.

The Assistant Governor (Financial Markets) currently chairs the Working Group on Financial Markets, which has responsibility for the analysis and development of foreign exchange, money and bond markets in the region. Over the past year, the group focused on the impact of regulatory reform measures on regional financial markets, an assessment of repo markets in the region and the compilation of financial market stress indicators. This group is also closely involved at a working level with the operation and development of the Asian Bond Funds (ABF1 and ABF2).

EMEAP Deputy Governors are responsible for the ongoing oversight of Asian Bond Fund 1, a US dollar-denominated Asian bond fund, and also Asian Bond Fund 2, comprising eight local currency-indexed bond funds and a Pan Asia Index Bond Fund (PAIF) (see the chapter on 'Operations in Financial Markets' for further information). In May 2013, the Reserve Bank stepped down from chairing the PAIF Supervisory Committee, a position held since 2007.

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 OECD's most recent economic survey of Australia, based in part on discussions with domestic authorities, including the Reserve Bank, was released in December 2012. In March, an officer from Economic Group started a three-year secondment to the OECD, to work in the area of macroeconomic policy.

The Assistant Governor (Financial System) has continued to chair the OECD's 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 financing for small and medium-sized enterprises and long-term investment financing.

Government Partnership Fund (GPF)

The Reserve Bank 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. In 2012/13 a total of 18 BI officers were attached to the Bank, bringing the total number of attachments to 163 since the start of the program in 2005/06. 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. The Bank's involvement in the GPF program is scheduled to conclude in 2013/14.

Following a BI request for technical assistance, the Assistant Governor (Financial System) and another Reserve Bank officer visited BI in November 2012. The purpose of the visit was to discuss the conduct of financial stability policy in the Reserve Bank, as well as the coordination arrangements between the regulatory agencies in Australia, in order to help inform changes to Indonesia's financial regulatory arrangements that are currently underway. Bank staff also participated in two workshops held at BI – one on risk management and business continuity and another on measuring potential output and strengthening external sector analysis.

South Pacific Central Bank Cooperation

In December 2012 the Reserve Bank hosted the annual meeting of the South Pacific Central Bank Governors in Sydney. This meeting brings together the central bank governors of those countries in the Pacific region that have their own currencies – Australia, Fiji, New Zealand, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Vanuatu – to discuss economic issues of particular interest. Representatives from the IMF's Pacific Financial Technical Assistance Centre also contributed to the meeting. The main issues discussed were recent economic developments, mobile payment systems in the Pacific and the transmission mechanism of monetary policy. 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 is currently on secondment to the National Reserve Bank of Tonga. Another officer, based in Sydney, provided support to the Reserve Bank of Fiji (RBF) on a range of economic research projects, while several RBF officers participated in a Reserve Bank training course.

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 from 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 the Continuous Linked Settlement (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 Cambodia, China, Korea, Tanzania, Timor Leste and Vietnam.

The Reserve Bank co-hosted the inaugural Australia-Hong Kong Renminbi Trade and Investment Dialogue, with the Australian Treasury and Hong Kong Monetary Authority. The Dialogue, which was held in Sydney on 12 April 2013, brought together senior banking and business leaders to raise awareness in the Australian private sector of renminbi (RMB) business opportunities, and to build closer collaboration between the Hong Kong and Australian banking sectors on development of 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. A key outcome of the event was the establishment of an industry-led working group, which will continue to examine issues associated with RMB trade settlement and investment and aim to take practical steps to address them. The next Dialogue meeting will be held in Hong Kong in 2014.