

International Financial Cooperation

The Reserve Bank participates actively in initiatives that seek to address the challenges facing the global economy and improve 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)

Objective

The G20 facilitates international cooperation on economic and financial policy issues.

Reserve Bank Involvement

Australia held the G20 presidency from December 2013 to November 2014. The Governor and Deputy Governor chaired meetings covering financial stability issues and developments in the global economy during this period.

From December 2014, the G20 presidency was rotated to Turkey. The Reserve Bank continues to participate in meetings at the Governor and Deputy Governor level, while senior officials from International Department participate in G20 Finance Track working groups. Senior officials from Financial Stability Department contribute to the G20's financial reform agenda.

Promoting strong, sustainable and balanced growth remains a priority for the G20 in 2015. To reinforce this, Turkey has summarised the key aims of its presidency as promoting 'inclusive' growth (by focusing on issues related to small- and medium-sized enterprises (SMEs) and inequality within and across countries), ensuring the implementation of previous commitments and emphasising the importance of investment as a driver of growth.

At the Brisbane Leaders' Summit in November 2014, G20 members published their comprehensive growth strategies. These strategies were developed over the course of 2014 and aim collectively to lift the level of G20 GDP by at least 2 per cent by the end of 2018. These strategies encompass macroeconomic and structural reform policies aimed to increase investment, lift employment and labour force participation, enhance trade and promote competition. In 2015, the focus is on implementing these comprehensive growth strategies and assessing whether additional commitments need to be made.

Investment, particularly in infrastructure, was a focus of the G20 during Australia's presidency and remains a priority in 2015. A key output of this work in 2014 was the agreement to establish the Global Infrastructure Hub, which has a four-year mandate to help implement the G20's multi-year investment agenda. Located in Sydney, the Hub will function as a knowledge-sharing network among the private sector, governments and international entities involved in infrastructure development. The Reserve Bank and Australian Treasury have continued to contribute to a working group that supports the G20's investment agenda. The focus of the working group in 2015 is on the development of 'country investment strategies' to enable G20 members to share knowledge on the types of policies that are being implemented to increase investment in infrastructure and support investment by SMEs.



Photos: Commonwealth of Australia

(Image above) The Australian Treasurer, the Hon Joe Hockey MP, chairing the G20 Meeting of Finance Ministers and Central Bank Governors, Cairns, September 2014 – the Treasurer is shown with Governor Glenn Stevens (centre), Deputy Governor Philip Lowe (also on his right), and Australia's G20 Finance Deputy, Barry Sterland PSM (on his left); (image below) the Governor and Deputy Governor conferring at the G20 meeting, with the Treasurer shown on the right



Photo: Commonwealth of Australia

G20 Meeting of Finance Ministers and Central Bank Governors, Cairns, September 2014

Reform of the international monetary system also continues to be an important issue for the G20. However, work in this area continues to be delayed because the United States Congress is yet to ratify the quota and governance reforms of the International Monetary Fund (IMF) 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. The G20 has supported the IMF's efforts to explore interim options to advance these reforms should the delays in ratifying the 2010 reforms continue.

Reform of financial regulation continued to be an important element of the G20's agenda during the year in review, with ongoing work to address the problems revealed by the financial crisis. During its G20 presidency, Australia supported the Financial Stability Board's focus on the following core reform areas:

- building resilient financial institutions
- ending 'too big to fail'
- addressing 'shadow banking' risks
- making derivatives markets safer.

Australia's G20 presidency also emphasised the importance of implementing agreed reforms in these core reform areas and assessing their effects.

Financial Stability Board (FSB)

Objective

The FSB promotes international financial stability by coordinating national financial authorities and international standard-setting bodies as they work towards developing strong regulatory, supervisory and other financial sector policies.

FSB members include representatives from 24 economies, as well as the major international financial institutions – including the IMF and Bank for International Settlements – and standard-setting bodies such as the Basel Committee on Banking Supervision (BCBS).

Reserve Bank Involvement

The Governor is a member of the FSB Plenary (the main decision-making body of the FSB), Steering Committee and Standing Committee on Assessment of Vulnerabilities (SCAV), becoming Chair of the SCAV in early 2015.

The Governor (or a senior officer from Financial Stability Department) attends meetings of the FSB Regional Consultative Group (RCG) for Asia.

The Assistant Governor (Financial Markets) chairs a group focusing on reforms to foreign exchange benchmarks and is a member of an FSB group that has guided work on reforms to interest rate benchmarks.

The Head of Financial Stability Department is a member of the Analytical Group on Vulnerabilities and one of its sub-groups on asset managers, while a senior officer from Domestic Markets Department participates in the FSB's Financial Innovations Network, which also operates under this group.

A number of other officers in the Financial Stability, Payments Policy and Domestic Markets Departments have participated, or continue to participate, in several FSB working groups. A senior officer from Payments Policy Department has been on secondment to the FSB since late 2012, working on over-the-counter (OTC) derivatives market reforms. More recently, that officer has worked on the cross-border effects of structural banking reforms undertaken, or proposed, by several jurisdictions, and on financial market benchmarks and issues of market conduct.

The Bank's Chief Representative in New York recently joined a FSB peer review team tasked with examining the implementation of the FSB's framework for shadow banking entities other than money market funds (MMFs).

The FSB has continued to play an important role in overseeing the international financial regulatory reform agenda over the past year.¹ The agenda covers both the core post-crisis reform areas noted above, as well as new and evolving risks identified by the G20 and the FSB.

The SCAV is the FSB's main forum for identifying and assessing risks in the global financial system,

while the Analytical Group on Vulnerabilities (AGV) provides an analytical forum to discuss new and evolving risks to the global financial system and thereby support the work of the SCAV. In turn, the FSB's Financial Innovations Network provides input to AGV by monitoring financial innovation in order to assess the potential for future systemic risks to countries, markets and sectors, and possible cross-border impacts. A current focus of the SCAV and AGV is the potential financial stability risks posed by the asset management industry.

The work of the SCAV on the asset management industry is related to ongoing efforts by the FSB to address the risks posed by 'shadow banking'. Defined by the FSB as credit intermediation involving entities and activities outside the regular banking system, the shadow banking sector in Australia accounts for a relatively small share of the financial system compared with a number of other jurisdictions. With most of the international shadow banking recommendations released in 2012 and 2013, the more recent focus of FSB work in this area has been on implementation based on a 'roadmap' reported to G20 Leaders in November 2014. Reserve Bank officers continue to participate in two FSB working groups examining potential responses to the risks posed by shadow banking entities other than MMFs and by securities financing transactions.

Other key areas in which Reserve Bank officers have been involved over the past year include:

- participation in the FSB's Resolution Steering Group (ReSG), which is developing important aspects of the FSB's work on resolution, such as crisis management arrangements, cross-border recognition of resolution actions and proposals on total loss-absorbing capacity. This work is part of G20/FSB efforts in recent years to address the 'too big to fail' problem associated with systemically important financial institutions (SIFIs). A key component of the FSB's SIFI policy framework, developed in cooperation with key international standard-setting bodies, is enhancing resolution regimes, based on the

¹ For further details on FSB activities, see RBA *Financial Stability Review*, March 2015.

FSB's Key Attributes of Effective Resolution Regimes for Financial Institutions (the Key Attributes)

- membership of a ReSG subgroup, which is working on the resolution of central counterparties (CCPs). The FSB is increasingly focusing on the resolution of financial market infrastructures (FMIs), such as CCPs. In October 2014 the FSB re-issued the *Key Attributes* with annexes that provide sector-specific guidance on resolution, including one for FMIs. Given the growing use of CCPs, the ReSG, in consultation with the FSB's Standing Committee on Supervisory and Regulatory Cooperation, the Committee on Payments and Market Infrastructures (CPMI), the International Organization of Securities Commissions (IOSCO) and the BCBS, has developed a work plan to promote CCP resilience, recovery planning and resolvability
- cooperation with the Australian Securities and Investments Commission (ASIC) to implement G20/FSB commitments to reform OTC derivatives markets and to advance international work to reduce the scope for contagion in these markets. Implementation in this area is monitored by the FSB on an ongoing basis. While ASIC is the main domestic regulator involved in this work, there is a high degree of cooperation with the Reserve Bank on issues of common interest. ASIC represented Australia on an IOSCO working group that, in January 2015, released a revised implementation schedule for risk mitigation standards for non-centrally cleared OTC derivatives. ASIC consulted closely with the Bank as this work progressed. The Bank and ASIC participate in the OTC Derivatives Regulators' Forum, an international group that facilitates cooperation and information sharing between regulators on OTC derivatives data held in trade repositories. The Bank also signed, in February and April 2015 respectively, memoranda of understanding (MoUs) with the European Securities and Markets Authority

(ESMA) and the Monetary Authority of Singapore, which facilitate the Bank's access to data held in trade repositories located in these jurisdictions

- participation in FSB working groups to guide reforms to interest rate and foreign exchange benchmarks. A group chaired by the Assistant Governor (Financial Markets) is assessing the implementation of the FSB recommendations on foreign exchange benchmarks. This is part of the increased focus by the G20, the FSB and other bodies on market misconduct by banks and other financial institutions, which includes the work being done by a group also chaired by the Assistant Governor (Financial Markets) on developing a single code of conduct for the foreign exchange market and promoting greater adherence to the code (see below)
- participation, along with the Australian Treasury, in meetings of the RCG for Asia, one of six regional groups established to expand the FSB's outreach activities with non-member economies and to discuss issues relevant for the region
- participation in a joint FSB-IOSCO workstream that in March released a second consultation paper on assessment methodologies for identifying non-bank non-insurer global SIFIs, covering entities such as finance companies, investment funds and asset managers.

Following a review of the structure of its representation, the FSB added five new members to the FSB Plenary from emerging market economies (EMEs), to reflect the growing importance of EMEs in the global economy, strengthen the group's effectiveness and ensure the views of its members are taken into consideration when developing reform proposals. This was an item on Australia's G20 agenda for 2014 and both the Reserve Bank and the Australian Treasury supported the increase in representation of EMEs.

Bank for International Settlements (BIS)

Objective

The BIS and its associated committees play an important role in supporting collaboration among central banks and other financial regulatory bodies. It does so by bringing together 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.

Reserve Bank Involvement

The Reserve Bank is one of 60 central banks that holds shares in the BIS.

The Governor or Deputy Governor attends regular bimonthly meetings of governors and participates in meetings of the Asian Consultative Council.

The Assistant Governor (Financial Markets) chairs both the Markets Committee (MC) and an MC working group on foreign exchange market best practices, and is a member of the Committee on the Global Financial System (CGFS).

The Head of International Department participates in the MC, while a number of senior officers in the Domestic Markets and International Departments have participated in study and/or working groups of the MC and CGFS.

The MC considers how economic and other developments, including regulatory reform and technological change, might affect central bank operations and broader financial markets. In the past year, it has discussed the changing execution structure of fixed income and foreign exchange markets, 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 the MC and the CGFS of the influence of unconventional monetary policies, and their eventual withdrawal, on capital flows to and from EMEs.

In 2014/15, Reserve Bank staff members participated in a number of MC and CGFS working groups, including:

- an MC Working Group on foreign exchange market best practices (noted above). Working with market participants, including through the various Foreign Exchange Committees, the group is tasked with establishing a single global code of conduct for the foreign exchange market and promoting greater adherence to the code
- a CGFS Study Group on market making and proprietary trading. The group produced a report on trends, drivers and implications of developments in market making and proprietary trading, which was published in November 2014
- an MC Study Group on electronic trading in fixed-income markets
- a joint CGFS–MC Working Group that assessed the potential impact of recent global regulatory initiatives on central banks' implementation of monetary policy. A report was published in May 2015.

Basel Committee on Banking Supervision

Objective

The BCBS is the international standard-setting body for the banking sector and consists of members from 28 jurisdictions. It provides a forum for regular cooperation on banking supervisory matters that seeks to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide.

Reserve Bank Involvement

The Governor is a member of the Group of Governors and Heads of Supervision, which is the oversight body of the BCBS.

The Assistant Governor (Financial System) is a member of the BCBS.

A senior officer in Financial Stability Department is a member of the Macroprudential Supervision Group, which monitors and reports to the BCBS on systemic risk and global developments that relate to macroprudential and systemically important banks' supervision policy.

A key activity of the BCBS during 2014/15 was ongoing monitoring of the implementation of Basel III, which sets out new capital and liquidity standards for banks. These standards were developed following the global financial crisis in order to increase banks' resilience in the face of financial and economic shocks. The BCBS regularly reports its implementation monitoring findings to both the FSB and the G20. Countries have largely implemented the capital standards, in keeping with BCBS timelines, with the focus now turning to the liquidity reforms. APRA implemented the Basel III Liquidity Coverage Ratio (LCR) in full in January 2015. At the same time, the Bank's Committed Liquidity Facility also commenced operations for those banks subject to the LCR (see the chapter on 'Operations in Financial Markets' for more detail).

Over the past year, the Macroprudential Supervision Group (MPG) has worked on aspects of the BCBS' methodology for identifying global systemically important banks (G-SIBs), including a review of the G-SIB data collection exercise and assessment. It also continued discussions of practical issues that are arising as jurisdictions start to develop their counter-cyclical capital buffer frameworks and work on the advantages and disadvantages of different macroprudential approaches to managing systemic risk.

Committee on Payments and Market Infrastructures (CPMI)

Objective

The CPMI serves as a forum for central banks to monitor and analyse developments in payment, clearing and settlement infrastructures and set standards for them. It has members from 24 jurisdictions.

CPMI-IOSCO brings together members of both the CPMI and IOSCO to advance policy work on the regulation and oversight of financial market infrastructures.

Reserve Bank Involvement

Senior officers from Payments Policy Department are members of the CPMI and the CPMI Retail Working Group.

Officers from Payments Policy Department are members of the:

- CPMI-IOSCO Steering Group
- CPMI-IOSCO Implementation Monitoring Standing Group (as co-chair)
- CPMI-IOSCO Policy Standing Group.

The CPMI-IOSCO Implementation Monitoring Standing Group (IMSG) monitors the international implementation of the *Principles for Financial Market Infrastructures* (PFMIs). The third update to the self-assessments on progress towards adopting the PFMIs was published in June 2015. In February 2015, the IMSG's assessments of the regulatory or oversight framework applied to systemically important CCPs and trade repositories in the European Union, Japan and the United States were published. A similar assessment of Australia is currently in progress. A peer review assessing the extent to which relevant authorities are observing their responsibilities associated with the PFMIs in their regulation, supervision and oversight of financial market infrastructures (FMIs) is also expected to be published shortly. Future work will assess the consistency in outcomes achieved by FMIs' implementation of the PFMIs.

The CPMI-IOSCO Policy Standing Group (PSG) has commenced work on evaluating CCP resilience and conducting a stocktake of existing CCP recovery mechanisms. This stocktake seeks to better understand CCPs' approaches and inform analysis of whether additional guidance to the standards in these areas is needed. This work is part of the CCP work plan developed in conjunction with the FSB and BCBS.

Payments Policy Department officers also contributed to a number of reports published by CPMI and IOSCO during the year in review, namely:

- in November 2014, a report by the CPMI on the current cyber risks faced by FMIs and their level of readiness to deal effectively with worst case scenarios. Following this, a CPMI-IOSCO group was established to consider issuing guidance to assist FMIs and their overseers in enhancing the cyber resilience of FMIs
- in October 2014, finalised guidance on how FMIs should develop plans to enable them to recover from extreme circumstances that threaten their viability
- in February 2015, public quantitative disclosure standards for CCPs, intended to assist participants and other stakeholders to understand and assess the risk characteristics of CCPs
- in September 2014, two analytical reports by the CPMI on developments in collateral management services and non-banks in retail payments. The latter was the latest output from a working group conducting research on current issues in retail payment systems.

Cooperative Oversight Arrangements

Objective

To provide regulatory oversight of several FMIs that operate across borders.

Reserve Bank Involvement

Senior officers from Payments Policy Department have participated in:

- an arrangement led by the Federal Reserve Bank of New York to oversee CLS Bank International, which provides a settlement service for foreign exchange transactions
- a global oversight college for LCH.Clearnet Limited, chaired by the Bank of England
- the SWIFT Oversight Forum, chaired by the National Bank of Belgium.

During 2014, the Reserve Bank also signed bilateral MoUs with ESMA, the Reserve Bank of New Zealand and the US Commodity Futures Trading Commission, covering cooperation and information-sharing in the supervision and oversight of cross-border CCPs.

International Monetary Fund

Objective

The IMF is mandated by its members to oversee the stability of the international monetary system. The key ways it does this are through: bilateral and multilateral surveillance, which involves monitoring, analysing and providing advice on the economic and financial policies of its 188 members and the linkages between them; and the provision of financial assistance to member countries experiencing actual or potential balance of payments problems.

Reserve Bank Involvement

Australia holds a 1.36 per cent quota share in the IMF and is part of the Asia and the Pacific Constituency. This constituency is currently represented on the IMF's Executive Board by an Executive Director from Australia.

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 has continued to provide financial assistance to member countries, although the total number and size of new lending arrangements for countries experiencing balance of payments problems (non-precautionary lending) remained lower in the past year than in the years immediately following the onset of the financial crisis. Reflecting this, IMF credit outstanding continued to decline, with net disbursements less than net repayments for the third financial year in a row. The largest non-precautionary program approved during the year in review was a SDR12.3 billion extended arrangement provided to Ukraine, which replaced a SDR11 billion stand-by arrangement approved in early 2014. The precautionary credit lines held by Colombia, Mexico, Morocco and Poland were extended for another two years.

At the end of June 2015, the IMF's outstanding credit was SDR59.5 billion, around two-thirds of which was accounted for by Greece, Portugal and Ukraine. In light of the continued improvement in the Irish economy and favourable financial market conditions, Ireland made substantial early repayments to the IMF over 2014/15, reducing its credit outstanding from a peak of SDR19.5 billion over most of 2014 to SDR3.8 billion by June 2015. Portugal also began making early repayments on its sizeable outstanding obligations in March 2015, while Ukraine has met all of its scheduled repayments to the IMF to date. In contrast, Greece temporarily entered into arrears with the IMF at the beginning of July 2015 after it failed to make its repayments for June.

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

Objective

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 policy and financial stability, foster

closer cooperation, and exchange information and expertise on issues of common interest.

Reserve Bank Involvement

The Reserve Bank participates in EMEAP at a number of levels, including the Governor and Deputy Governor.

Senior officers from the International, Financial Stability and Payments Policy Departments participate in the EMEAP Working Groups on Financial Markets, Banking Supervision and Payment and Settlement Systems.

The Reserve Bank's Chief Information Officer has also participated in regular meetings of IT Directors from EMEAP member central banks.

At the Governors' and Deputies' meetings during the year in review, members discussed a range of topics, including economic and financial market developments and risks, and the implications of international regulatory developments for the EMEAP region. At the Deputy Governor level, the Monetary and Financial Stability Committee continued to focus on monitoring economic and financial system risks, including through maintaining close relations with international institutions such as the IMF and the BIS and through dialogue with the private sector.

The Working Group on Financial Markets focuses on the analysis and development of foreign exchange, money and bond markets in the region. Over the past year, the working group has held regular discussions on the impact of global policy developments and regulatory reform measures on regional financial markets. It is also closely involved at a working level with the operation and development of the Asian bond funds – ABF1, which is a US dollar-denominated Asian bond fund, and ABF2, which comprises eight local currency-indexed bond funds, and a Pan Asia Index Bond Fund (PAIF). EMEAP Deputy Governors are responsible for the ongoing oversight of the Asian bond funds (see the chapter on 'Operations in Financial Markets' for further details on these funds).



Chief Information Officer, Sarv Girn (front, third from left), with EMEAP IT Directors, November 2014

The Working Group on Banking Supervision (which comprises representatives of EMEAP members' central banks and prudential supervision authorities, including APRA) provides a regional forum for sharing experiences about best practices in banking supervision and the implementation of international reforms such as Basel III. The group has also carried out work on several issues, including recovery and resolution planning, macroprudential analysis and the implications of OTC derivatives market reforms for banking supervision.

The Working Group on Payment and Settlement Systems has focused on monitoring the progress of members' implementation of the G20 OTC derivatives market reforms and examining potential oversight issues arising from real-time retail payment systems. The group has also invited a number of external organisations to share information regarding their financial infrastructure or cross-border initiatives.

Organisation for Economic Co-operation and Development (OECD)

Objective

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

Reserve Bank Involvement

In early 2015, the Assistant Governor (Financial System) stepped down after four years as Chair of the OECD's Committee on Financial Markets. The Bank's involvement with the Committee is ongoing, with the Chief Representative in Europe continuing as a member.

An officer in Economic Group remains on secondment to the OECD, working on macroeconomic policy issues.

The OECD Committee on Financial Markets is the main OECD body with responsibility for financial market issues and aims to promote efficient, open, stable and sound financial systems. Recent topics of discussion by the Committee have included implicit guarantees for banks, financing for SMEs and long-term investment finance.

Technical Cooperation and Engagement in the Asia-Pacific Region

Government Partnership Fund (GPF)

Objective

The Australian Government's GPF 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 2005/06.

Reserve Bank Involvement

At various times in 2014/15, a total of seven Bank Indonesia officers were attached to the Reserve Bank, covering the areas of economic research, financial stability and regional economic analysis. Those visits brought the total number of individual attachments since the start of the program to 182.

South East Asian Central Banks (SEACEN)

Objective

SEACEN consists of 20 central bank members from the Asia-Pacific region, alongside seven Associate Members and eight Observers. SEACEN aims to promote a better understanding of financial, monetary, banking and economic issues that are of interest to the central banks and monetary authorities in the region, including through research and training programs.

Reserve Bank Involvement

On 1 January 2015, the Reserve Bank became an Associate Member of SEACEN, representing a change in status from being an invitee central bank to SEACEN events.

During 2014/15, a senior officer from Domestic Markets Department was appointed as a Visiting Research Economist to the SEACEN Expert Group on Capital Flows.

The Reserve Bank fosters close ties with South Pacific countries through participation in Governor-level meetings, staff exchanges and the provision of technical assistance.

In December 2014, the Reserve Bank participated in the annual meeting of South Pacific Central Bank Governors. The main issues discussed at the annual meeting focused on recent economic developments and the role of SMEs in Pacific region economies. The governors also met with the major regional commercial banks to discuss banking issues.

A senior officer from the Financial Markets Group participated in an IMF technical assistance mission to the Solomon Islands in March 2015, which was followed by the Reserve Bank hosting a short-term attachment of several officers from the Central Bank of Solomon Islands.

The Reserve Bank continued to provide financial support to an officer of the Bank of Papua New Guinea undertaking postgraduate studies at an Australian university in the area of economics, finance or computing. The Reserve Bank of Australia Graduate Scholarship was first awarded in 1992.

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, France, Indonesia, New Zealand, Pakistan, the Solomon Islands, Thailand and Vietnam.