

International Financial Cooperation

The Reserve Bank continues to participate 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)

Purpose

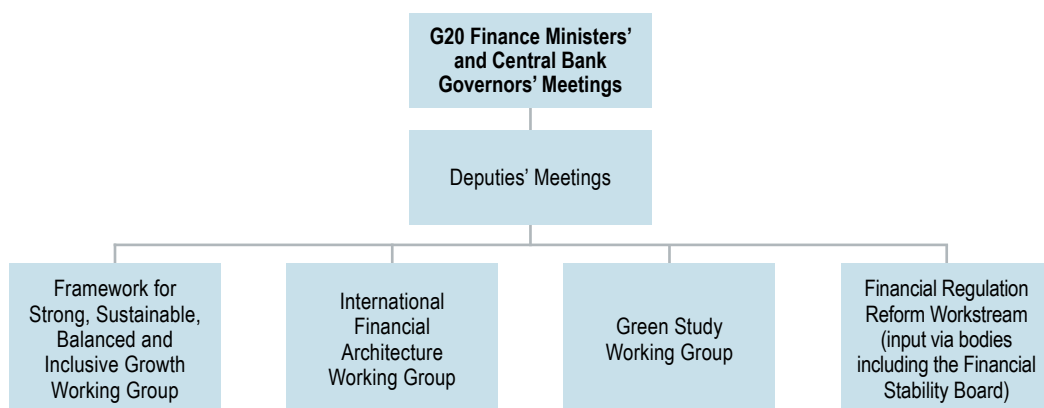
The G20 facilitates international cooperation on economic and financial policy issues.

Reserve Bank Involvement

The Reserve Bank participates in meetings of the G20 covering issues such as developments in the global economy and financial regulation. The Reserve Bank is represented at high-level meetings by the Governor and Assistant Governor (Economic), while other senior staff participate in G20 working groups and contribute to the G20's financial regulation reform agenda.

The G20 presidency was held by China from December 2015 to November 2016. In December 2016, the G20 presidency rotated to Germany. A key theme of the German presidency in 2017 was resilience. In this regard, the G20 Framework (for Strong, Sustainable, Balanced and Inclusive Growth) Working Group agreed on a set of non-binding principles to enhance economic resilience. G20 members also continued to update their comprehensive growth strategies, outlining policies that G20 members are undertaking to increase GDP. In 2017, members were encouraged to incorporate policies that enhance resilience (using the 'resilience principles') and promote inclusiveness.

The Reserve Bank's Involvement in the G20



In 2017, the G20 has remained committed to strengthening the international monetary system. In line with this objective, the G20 International Financial Architecture Working Group reiterated its support for maintaining the International Monetary Fund (IMF) as a strong institution with adequate resources, and discussed further enhancing the IMF's lending 'toolkit'. Members of the G20 considered a range of other ways to increase the resilience of the international monetary system, including by enhancing the monitoring and management of risks associated with capital flows, improving sovereign debt sustainability and strengthening the global financial safety net. This year, there was some emphasis on encouraging multilateral development banks to mobilise private sector finance for infrastructure investment.

Financial regulation reform, both to address the problems revealed by the global financial crisis as well as to mitigate new and emerging risks, remains a continuing priority of the G20. In this context, over recent years the G20 and the Financial Stability Board (FSB) have focused on several core areas for financial regulation reform, in particular:

- building resilient financial institutions, especially the Basel III reforms
- ending 'too big to fail'
- addressing 'shadow banking' risks
- making derivatives markets safer.

As many of the core post-crisis policy reforms have been implemented, or are in the process of being adopted, there is an increasing focus on assessing their effectiveness. Accordingly, the FSB, at the request of the G20, developed a framework for the post-implementation evaluation of the G20 financial regulatory reforms. The framework aims to guide assessments of whether the G20 core financial reforms are achieving their intended outcomes,

and to help identify any material unintended consequences that may have to be addressed.

Financial Stability Board (FSB)

Purpose

The FSB promotes international financial stability by coordinating national financial sector 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 main international financial institutions – including the Bank for International Settlements (BIS) and the IMF – 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), the Steering Committee and the Standing Committee on Assessment of Vulnerabilities (SCAV). The Governor is also co-Chair of the Regional Consultative Group (RCG) for Asia, taking up a two-year appointment in July 2017.

Senior staff members of Financial Stability Department participate in meetings of the:

- Analytical Group on Vulnerabilities (AGV), which supports the work of the SCAV
- Resolution Steering Group (ReSG)
- Financial Innovation Network (FIN).

A number of other staff members have participated, or continue to participate, in several FSB working groups.

As has been the case since the financial crisis, the FSB has continued to play a key role in progressing the global financial regulatory

reform agenda.¹ The FSB's agenda includes monitoring the implementation of the post-crisis reforms in the areas noted above, as well as assessing new and evolving risks, and potential regulatory responses. The FSB conducts this work mainly through several committees, with overall direction provided by the FSB Plenary.

The Governor and senior executives from the Reserve Bank and other Council of Financial Regulators (CFR) agencies are members of the main FSB bodies.²

The SCAV is the main FSB body for identifying and assessing risks in the global financial system. Supporting the SCAV is the AGV, with the FIN providing input to both groups in the area of financial innovation, in order to assess its potential as a source of systemic risk. Risks associated with financial technology ('fintech'), including cyber risks, remain a focus of the SCAV. Fintech and the spread of digital technology more generally were themes of the German G20 presidency. The Australian Treasury, in liaison with the Reserve Bank and the Australian Securities and Investments Commission (ASIC), contributed to a new FSB body, which examined the financial stability issues related to fintech. Its report was presented to the G20 Summit in early July 2017.

The SCAV has also been considering structural vulnerabilities posed by asset management activities. In January 2017, the FSB published its final policy recommendations to address vulnerabilities in the sector. The work on asset management is linked to ongoing post-crisis efforts by the G20/FSB to address the risks posed by 'shadow banking'. The Reserve Bank continues to be directly involved in the FSB's work on shadow banking through membership of the

Shadow Banking Experts Group. This group coordinates the collection and review of shadow banking data, as part of the FSB's annual global shadow banking monitoring exercise.

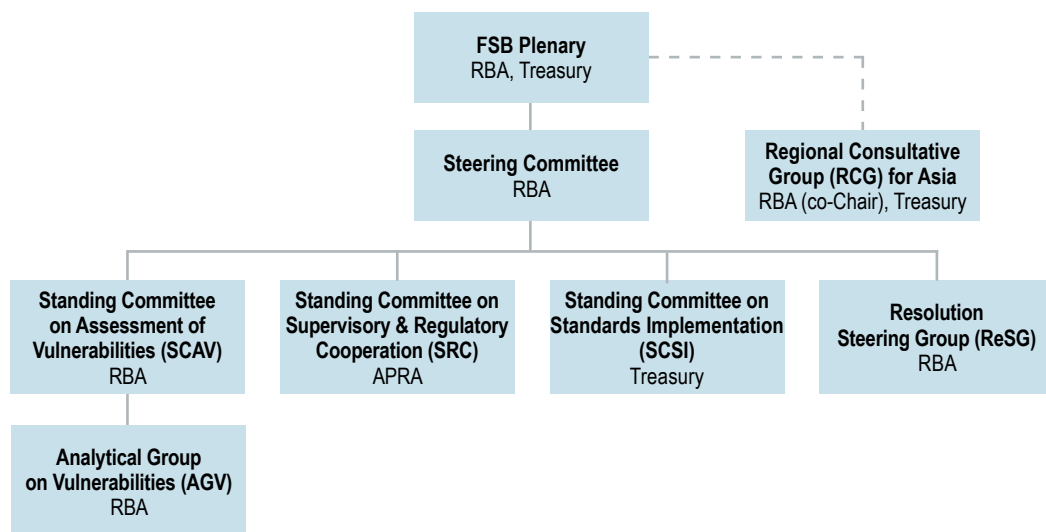
In addition, Reserve Bank staff members have been involved in other key FSB work areas over the past year, including:

- assessing the effectiveness of recent financial regulatory reforms. A Deputy Head of Financial Stability Department chaired one of the two working groups that developed a framework to evaluate the effects of the G20 financial regulatory reforms. The framework was presented to the G20 Summit in July 2017
- contributing to the FSB's peer review process. FSB members have committed to strengthening their adherence to international standards. To do this, the FSB conducts a regular program of country and thematic peer reviews of its member jurisdictions. During the year under review, a staff member from Financial Stability Department joined a country peer review of South Korea. The peer review report is due to be published later in 2017
- meetings of the FSB's ReSG, which is progressing the FSB's work on resolution in line with its *Key Attributes of Effective Resolution Regimes for Financial Institutions* (the *Key Attributes*). The ReSG has worked on several specific areas during the year in review, including enhancing central counterparty (CCP) resolvability (see below), internal total loss-absorbing capacity, and the continuity of access to financial market infrastructures (FMIs) by a firm in resolution
- meetings of the Cross-border Crisis Management Group for Financial Market Infrastructures, a ReSG subgroup, which is working on resolution regimes for CCPs.

1 Further detail on FSB activities is reported in the RBA's semiannual *Financial Stability Review*.

2 The CFR is a non-statutory coordinating body for Australia's main financial regulatory agencies, namely the Reserve Bank (which chairs the CFR), the Australian Prudential Regulation Authority, the Australian Securities and Investments Commission and the Australian Treasury.

The Reserve Bank and CFR Involvement in Key FSB Committees



Arising from this group's work, the FSB published guidance on CCP resolution and resolution planning in July 2017. This guidance complements the FSB's *Key Attributes*, and is intended to assist authorities in their resolution planning and to promote international consistency

- participating 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.

Bank for International Settlements (BIS)

Purpose

The BIS and its associated committees play an important role in supporting collaboration among central banks and other financial regulatory bodies. They do 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 holding shares in the BIS.

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

The Deputy Governor chaired the Markets Committee (MC) until January 2017 and was also chair of the Foreign Exchange Working Group (FXWG), which was established under the auspices of the MC.

The Assistant Governor (Financial Markets) is a member of the MC and the Committee on the Global Financial System (CGFS).

The MC considers how economic and other developments, including regulatory reform and technological change, may affect market functioning, particularly central bank operations. In the past year, topics of discussion have included: developments in major financial markets, including in China; the implications of extremely accommodative monetary policy in

many economies for market functioning and the transmission of monetary policy; technological change and monetary policy implementation; the changing structure of foreign exchange markets; and approaches taken by central banks to gathering market intelligence. The CGFS also monitors developments in financial markets, but focuses on identifying and assessing potential sources of stress in the global financial system.

The FXWG released the Global Code of Conduct for the Foreign Exchange Market in May 2017, together with principles and mechanisms for fostering adherence to the Code. The first phase of the Code had been published in May 2016. The Code was developed in partnership with a private sector Market Participants Group and establishes a common set of guidelines for good practice in the foreign exchange market. In addition to the Deputy Governor chairing the Group, a Deputy Head of International Department made a significant contribution to the work of the FXWG. The Code will be maintained by a new Global Foreign Exchange Committee, comprising public and private sector representatives from the foreign exchange committees of 16 trading centres, including the Australian Foreign Exchange Committee (which is chaired by the Deputy Governor).

In the past year, Reserve Bank staff have participated in a number of other MC and CGFS working groups, including:

- a CGFS study group on the nexus between objective-setting and communication of monetary and macroprudential policies, which published its final report in November 2016
- a CGFS study group on repo market functioning, which published its final report in April 2017
- a CGFS working group on liquidity assistance, which published its final report in April 2017.

A Reserve Bank staff member also contributed to an MC paper on Market Intelligence Gathering at Central Banks, which was published in December 2016.

Basel Committee on Banking Supervision (BCBS)

Purpose

The BCBS is hosted by the BIS, and is the international standard-setting body for the banking sector. It provides a forum for regular cooperation on banking supervisory matters among its 28 member jurisdictions. It 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 (GHOS), which is the oversight body for the BCBS.

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

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

Upon appointment to their current positions, the Governor and Assistant Governor (Financial System) became members of GHOS and the BCBS, respectively. In addition to ongoing enhancements to its supervisory standards, a recent focus of the BCBS has been the finalisation of outstanding Basel III capital reforms, which aim to reduce the observed variability in banks' risk-weighted assets. During the year in review,

discussions continued at the BCBS on reaching a final agreement, with the Bank and the Australian Prudential Regulation Authority (APRA), as BCBS members, contributing. The BCBS also continues to monitor the implementation of the Basel III capital and liquidity standards for banks and regularly reports its findings to both the FSB and the G20. In its April 2017 progress report, the BCBS reported that all member jurisdictions had implemented risk-based capital rules, liquidity coverage ratio regulations and capital conservation buffers. Domestically, APRA continues to implement BCBS standards in line with internationally agreed timetables.

Over the past year, the MPG has worked on the BCBS's methodology for identifying global systemically important banks (G-SIBs), including the three-year review of the G-SIB framework. Proposals to revise the methodology arising from that review were released for consultation in March 2017. The MPG also continued discussion of issues related to the design and implementation of countercyclical capital buffer policies and the different policy approaches to managing systemic risk in the banking sector.

Committee on Payments and Market Infrastructures (CPMI)

Purpose

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

Joint working groups of the CPMI and the International Organization of Securities Commissions (IOSCO) bring together members of these two bodies to coordinate policy work on the regulation and oversight of FMI.

Reserve Bank Involvement

Senior staff members from Payments Policy Department are members of the CPMI, and have participated in the CPMI Working Group on Retail Payments and the CPMI Working Group on Digital Innovations.

Senior staff members from Payments Policy Department are also members of the CPMI-IOSCO Steering Group, CPMI-IOSCO Implementation Monitoring Standing Group (IMSG), and CPMI-IOSCO Policy Standing Group (PSG).

A senior staff member from Payments Policy Department contributed to a July 2017 CPMI-IOSCO report that set out further guidance on CCP resilience, including for approaches to stress testing and margining. This work is part of the CCP work plan developed in conjunction with the FSB and BCBS. Staff members from Payments Policy Department contributed to an implementation monitoring report for Hong Kong, as well as participated in the broader implementation monitoring work of CPMI-IOSCO. Senior staff members from Payments Policy Department also contributed to a CPMI report on faster retail payments, and a CPMI report on the use of distributed ledger technology in payment, clearing and settlement systems.

Cooperative Oversight Arrangements

Purpose

Several overseas-based FMIs hold Australian clearing and settlement facility licences, for which the Reserve Bank has certain regulatory responsibilities under the *Corporations Act 2001*. As well, a number of overseas-based payments systems play an important role in

Australia's financial system. The Reserve Bank participates in several multilateral and bilateral arrangements to support its oversight of these FMIs.

Reserve Bank Involvement

Staff from Payments Policy Department 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 and a crisis management group for LCH Limited, both chaired by the Bank of England
- an information-sharing arrangement with the US Commodity Futures Trading Commission, in relation to CME Inc.
- the Society for Worldwide Interbank Financial Telecommunication (SWIFT) Oversight Forum, chaired by the National Bank of Belgium.

International Monetary Fund (IMF)

Purpose

The IMF is mandated by its members to oversee the stability of the international monetary system. The IMF performs this role through: bilateral and multilateral surveillance, which involves monitoring, analysing and providing advice on the economic and financial policies of its 189 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 1.39 per cent quota share in the IMF and is part of the Asia and the Pacific Constituency. This constituency was represented on the IMF's Executive Board by an Executive Director from Australia until November 2016, and by an Executive Director from South Korea for the remainder of the 2016/17 financial year.

The Reserve Bank supports the Constituency Office at the IMF by seconding an advisor with expertise in financial markets and financial sector issues. The Bank also works with the Australian Treasury to provide support to the Constituency Office on issues that are to be discussed by the IMF's Executive Board.

The IMF has continued to provide financial assistance to member countries. During the IMF's 2016/17 financial year (which runs from May to April), the total value of new lending arrangements (excluding concessional facilities) rose to its highest level since 2010/11, supported by a large volume of new lending. There have been two new lending arrangements since the start of the IMF's 2017/18 financial year.

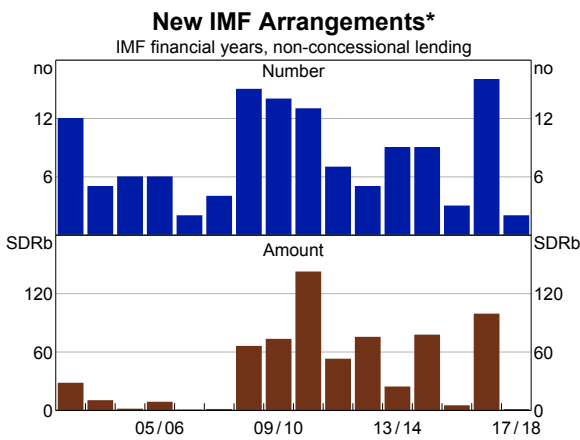
The pick-up in new lending during the IMF's 2016/17 financial year was accompanied by an increase in IMF credit outstanding, following declines over the previous four consecutive IMF financial years. At the end of July 2017, IMF non-concessional credit outstanding was 47 billion Special Drawing Rights (SDRs), 60 per cent of which was accounted for by Greece, Portugal and the Ukraine.

The Reserve Bank and other CFR agencies have commenced preparations for the next IMF Financial Sector Assessment Program (FSAP) review of Australia's financial system and regulatory framework, which is likely to take place in 2018. Australia's previous FSAP was in 2012.



Photo: IMF

Deputy Governor Guy Debelle (left, front) and Treasurer the Hon Scott Morrison MP (centre) at the International Monetary and Financial Committee Plenary, Washington DC, October 2016



* IMF financial year runs from May to April; the observation for 17/18 is for May to July 2017; excludes augmentations of existing arrangements
Sources: IMF; RBA

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

Purpose

EMEAP brings together central banks from 11 economies in the east Asia-Pacific region – Australia, China, Hong Kong SAR, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand – to discuss issues relevant to monetary policy, financial markets, financial stability and payments systems in the region.

Reserve Bank Involvement

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

Senior staff also participate in the EMEAP Working Groups on Financial Markets, Banking Supervision, and Payment and Settlement Systems, and in meetings of Information Technology (IT) Directors.

The EMEAP meetings consist of the Governors' and the Deputies' meetings, as well as the Monetary and Financial Stability Committee (MFSC) meeting. Support is provided by several working groups, which focus on a wide range of central banking issues. These groups also continued to maintain close relationships with international institutions, such as the IMF and the BIS, through regular dialogue on topical issues.

The Reserve Bank of New Zealand hosted the Governors' and Deputies' meetings during the year in review. Members discussed a range of topics at these meetings, such as the potential impact of global factors on monetary policy in EMEAP jurisdictions, as well as recent supply-side developments in EMEAP economies.

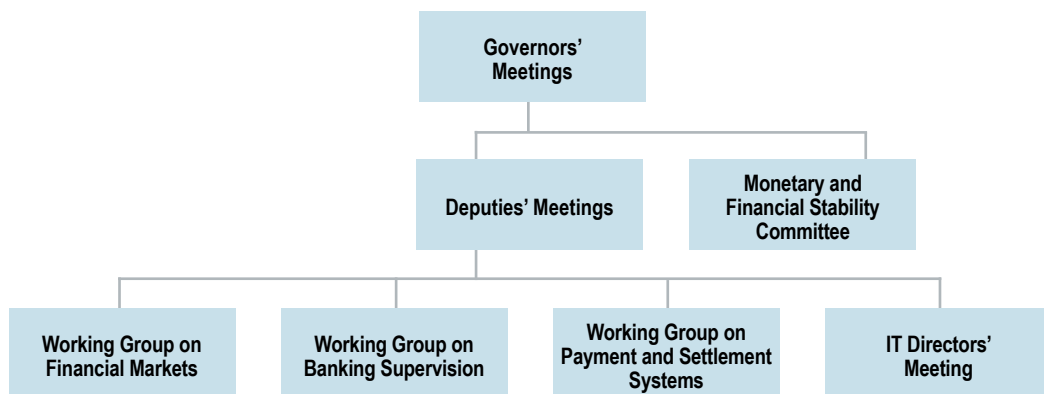
The MFSC provides an important forum for the discussion of current economic and financial

market issues of direct relevance to EMEAP members. As current Committee Chair, the Reserve Bank has chaired two meetings of the MFSC in 2016/17. Developments in fintech have been an important focus of recent meetings given the potential risks and benefits for the financial system and implications for policy. These meetings also included representation from international institutions, such as the IMF and BIS, as a way of further facilitating regular discussions on conjunctural issues.

The Working Group on Financial Markets focuses on the analysis and development of foreign exchange, money and bond markets in the region. Every second meeting of this group is held in conjunction with the BIS Financial Markets Forum. In the year in review, the group continued to hold regular discussions on the impact of global policy developments and regulatory reform measures on regional financial markets. The group also continued its work on developing local currency bond markets, through the Asian Bond Fund (ABF) Initiative (see the chapter on 'Operations in Financial Markets' for details of the Reserve Bank's investments in the ABF). The recent focus has been on development of money markets and securities lending in Asia.

The Working Group on Banking Supervision (which also comprises representatives of EMEAP members' prudential regulators, including APRA)

The Reserve Bank's Involvement in EMEAP





Governor Philip Lowe (front, second from right) with participants at the 22nd EMEAP Governors' Meeting, Auckland, May 2017

provides a regional forum for sharing experiences about best practices in banking supervision. The group discussed several issues over the previous year, such as the Basel III and over-the-counter derivatives market reforms, and potential future issues in banking supervision.

The Working Group on Payment and Settlement Systems (WGPSS) is a forum for sharing experiences relating to the development, oversight and regulation of payment and settlement systems. The group focused on several issues over the year in review, including: the application of new technologies such as distributed ledger technology to payment and settlement systems; central bank initiatives to support fintech development; the development of fast retail payment systems; and cyber resilience and oversight of FMIs. A study group of the WGPSS is currently examining the development of payments-related fintech in the EMEAP region and the implications for central banks.

The IT Directors' Meeting provides a forum for discussions on developments in IT and their implications for central banks. Recent meetings have focused on data management, technology planning and system resilience.

Organisation for Economic Co-operation and Development (OECD)

Purpose

The OECD comprises the governments of 35 countries and is committed to promoting policies that improve economic and social development globally.

Reserve Bank Involvement

The Reserve Bank's Chief Representative in Europe participates in the OECD's Committee on Financial Markets and the Advisory Task Force on the OECD Codes of Liberalisation.

The OECD Committee on Financial Markets is responsible for financial market issues and aims to promote efficient, open, stable and sound financial systems. In the past year, the committee has held discussions with private sector experts on the implications of the digitalisation of finance and about market-based solutions to address the problem of high levels of non-performing loans on bank balance sheets in some countries. The committee has continued to review and

contribute to OECD work on financial sector guarantees, long-term investment financing and green financing.

The Advisory Task Force on the Codes (ATFC) provides advice on policy measures introduced by adherents to the Codes of Liberalisation assessed against their obligations under the codes. It also contributes to the assessment of policy measures of countries that are applying for adherence with the codes. In the past year, the ATFC has focused on the implementation of a broad review of the code of capital movements.

Technical Cooperation and Engagement in the Asia-Pacific Region

The Government Partnership Fund (GPF)

Purpose

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

In 2016/17, a total of seven Bank Indonesia staff members were attached to the Reserve Bank, covering the areas of economic analysis, financial stability and auditing. These visits brought the total number of individual attachments since the start of the program to 197.

The Reserve Bank fosters close ties with South Pacific countries through participation in Governor-level meetings, staff exchanges and the provision of technical assistance across a wide range of central banking issues.

In December 2016, the Reserve Bank participated in the annual meeting of South Pacific Central Bank Governors held in Dili, Timor-Leste; the group has recently expanded to include the Central Bank of Timor-Leste. In addition to discussing recent economic developments in the region, there was considerable discussion of developments in remittance flows in the region and the use of technology to foster economic development. The Governors also met with the major regional commercial banks to discuss banking issues.

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 and computing. This Reserve Bank of Australia Graduate Scholarship was first awarded in 1992. The Bank also hosted short-term visits of officers from the Reserve Bank of Fiji and the Bank of Papua New Guinea.

Bilateral Relations and Cooperation

As in previous years, the Reserve Bank hosted 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, Indonesia, Lebanon, New Zealand, Papua New Guinea and the United States. The Bank also hosted a number of secondees from the Bank of Canada, the Bank of England and the Bank of Thailand. A number of Reserve Bank staff are currently seconded to other central banks and various international organisations, which facilitates a valuable exchange of skills and expertise between the Bank and the broader global economic and financial policymaking community.