

International Financial Cooperation

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

Group of Twenty (G-20)

The G-20 continues to facilitate international cooperation on economic and financial policy issues. G-20 Leaders met in Cannes in November 2011 and in Los Cabos in June 2012, with much of the ongoing work continuing to be overseen by finance ministers, central bank governors, and their deputies. At the Cannes Summit, it was announced that Australia would be the host country for the G-20 in 2014.

At the Cannes and Los Cabos Summits, G-20 Leaders released 'Action Plans' for the 'Framework for Strong, Sustainable and Balanced Growth'. The Framework is a mechanism under which G-20 members collectively assess whether their policies are consistent with these three aims, and endorse further policy actions as necessary. Ensuring that G-20 members are accountable for meeting their commitments contained in these action plans has been a focus of the Framework process, and the first assessment of progress in meeting past commitments was completed in 2012. The Reserve Bank and Australian Treasury are members of a working group that is guiding this exercise.

Reform of the international monetary system has been a priority for the G-20 in recent years, and work on this topic is currently being taken forward by a working group on the International Financial Architecture (co-chaired by the Australian Treasury). The Reserve Bank also made regular contributions to the G-20's work in this area over the past year. The G-20 helped facilitate an agreement to increase the resources available for International Monetary Fund (IMF) lending (discussed below), and has provided input into discussions on IMF surveillance and the IMF quota formula. At the Cannes Summit, leaders also released a set of principles for cooperation between the IMF and regional financial arrangements, and endorsed an Action Plan for local currency bond markets.

The Reserve Bank has actively contributed to the G-20's work on commodities. In November 2011 the G-20 published a study group report on the determinants of commodity price volatility, while the focus in 2012 has been on the macroeconomic consequences of price movements.

Another ongoing priority for the G-20 is financial regulation. This year's work has focused on implementation of agreed reforms, such as the Basel III capital and liquidity standards.

Financial Stability Board (FSB)

Since the financial crisis began, the FSB has played a central role in improving the international financial architecture – the set of rules, standards and institutional frameworks relevant to financial regulation and financial institutions. FSB members include representatives from 24 economies (including all the G-20 countries), 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).

The Reserve Bank, which along with the Australian Treasury represents Australia on the FSB, has remained actively engaged with the FSB over the past year. The Governor is a member of the FSB Plenary (the ultimate decision-making body) and two of the FSB's committees. The Head of Financial Stability Department is a member of a group that provides analytical support on assessing global financial vulnerabilities. The Bank is also involved in several specific FSB working groups, as detailed below.

The FSB has continued to regularly assess vulnerabilities in the global financial system, as well as coordinating, and in several cases initiating, international reform efforts in key areas relating to financial stability. As discussed in the March 2012 *Financial Stability Review*, a high priority for the FSB over recent years has been dealing with systemically important financial institutions (SIFIs), to address the 'too-big-to-fail' problem they can engender. At their November 2011 Summit, the G-20 Leaders endorsed a policy framework for SIFIs that the FSB had developed in close coordination with the BCBS. Some specific elements of this framework focus on institutions that are systemically important in a global context (G-SIFIs) to reflect the greater risks these institutions pose to the global financial system. As part of this policy framework, the BCBS finalised a methodology for identifying global systemically important banks, including additional capital requirements that will apply to them. Another key part of the framework is a new standard on effective resolution regimes, which promotes the essential features that countries should have in their resolution frameworks for financial institutions.

With the G-SIFI framework now largely established, the G-20 asked the FSB to extend the G-SIFI framework to domestic systemically important banks, a project being undertaken by the BCBS (discussed further below). The FSB is also coordinating SIFI work in other areas. For example, an FSB workstream, in consultation with the International Organization of Securities Commissions (IOSCO), is developing methodologies for identifying global systemically important non-bank financial entities. A Reserve Bank officer is involved in this work. Another FSB workstream, in conjunction with the International Association of Insurance Supervisors, issued its proposed identification methodology for global systemically important insurers.

The FSB has continued its efforts to strengthen the regulation and oversight of the 'shadow banking' system, i.e. those non-bank financial institutions that engage in bank-like activities and hence are in the credit intermediation chain but do not face the same prudential regulation as banks. In October 2011, the FSB released a report outlining high-level principles for monitoring shadow banking systems. Following that report, five workstreams were established to develop policy recommendations, focusing on the following activities/entities: banks' interactions with shadow banking entities; money market funds (MMFs); shadow banking entities other than MMFs; securitisation; and securities lending and repos. The five workstreams are scheduled to provide their recommendations by the end of 2012. The Reserve Bank is represented on the third and fifth workstreams.

Other key areas of the FSB's work over the past year include:¹

- monitoring, and facilitating, the progress of reforms of over-the-counter (OTC) derivatives markets to meet G-20 commitments, to reduce the scope for contagion
- reviewing progress towards implementation of its 2010 recommendations to improve the intensity and effectiveness of SIFI supervision as well as the additional recommendations in its October 2011 *Progress Report on Implementing the Recommendations on Enhanced Supervision*. A senior official from the Australian Prudential Regulation Authority (APRA) has been contributing to the FSB's work in this area
- releasing in April 2012 the *FSB Principles for Sound Residential Mortgage Underwriting Practices*, which is a principles-based framework to promote sound lending practices. The Head of Financial Stability Department was part of the expert team that developed these principles

¹ For further detail, see *Financial Stability Review*, March 2012.

- sponsoring the development of a common global standard for legal entity identifiers, which will uniquely identify parties to financial transactions. This initiative is expected to enhance financial stability by, for example, improving risk management in firms. The standard has now been issued by the International Organization for Standardization and the identifiers are expected to be in use from March 2013.

In May, the Governor attended a meeting of the new FSB Regional Consultative Group (RCG) for Asia, which is one of six regional groups established as part of the FSB's outreach activities. Comprising FSB members and non-members from the region, the Asia RCG discussed current vulnerabilities in the global financial system, as well as key topics on the FSB work agenda, and provided an opportunity for non-members to have an input into the FSB policymaking process.

In early 2012, a senior officer from Financial Stability Department was seconded to the FSB for eight months, to assist the FSB in its work projects and to enhance the links between the two organisations.

Bank for International Settlements (BIS)

The BIS and its associated committees continue to 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 economic conjuncture, discuss vulnerabilities in the global financial system and other issues affecting the operations of central banks.

The Governor or Deputy Governor attends the regular bimonthly meetings of governors at the BIS. Over the past year, in addition to the conjunctural discussion, issues discussed have included the risks associated with high public debt levels, the effects of central bank bond-purchase programs, and OTC derivatives markets reform. The Governor or Deputy Governor also participates 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: the Committee on the Global Financial System (CGFS) and the Markets Committee. The CGFS discusses vulnerabilities in the global financial system and structural developments in financial markets, while the Markets Committee focuses on how current events affect the functioning of financial markets. In the past year, the CGFS has considered issues such as access to central counterparties in OTC derivatives markets; global liquidity indicators; the development and selection of macroprudential instruments; and the use of credit ratings by central banks. The Markets Committee had extensive discussion about the various policy initiatives implemented by central banks over the year in response to the ongoing financial turbulence.

The Assistant Governor (Financial Markets) is currently chairing a Markets Committee working group on collateral policies of central banks, while the Head of Domestic Markets Department is currently participating in a CGFS working group on the implications of increased demand for collateral assets. A senior officer from Financial Stability Department is participating in a CGFS working group on the selection and application of macroprudential instruments. In the past year, the Head of International Department participated in a CGFS working group on global liquidity, while a senior officer from Domestic Markets Department participated in a CGFS study group on the system-wide implications of liquidity regulation.

Basel Committee on Banking Supervision (BCBS)

A key aspect of the BCBS' work over the past year has been to encourage and monitor implementation of Basel III, the new capital and liquidity standards that aim to improve the resilience of banks to financial and economic shocks. In January 2012, the BCBS started a comprehensive process to monitor its members'

implementation of Basel III. 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 BCBS' oversight body, the Group of Governors and Heads of Supervision (GHOS). This monitoring work is ongoing, and the BCBS provides regular updates on progress to both the FSB and the G-20.

Over the past year, APRA released capital and liquidity proposals, detailing how it will implement Basel III in Australia. To make one of the liquidity requirements workable in Australia, given the limited supply of government securities, APRA and the Reserve Bank have agreed that the Bank will establish a committed liquidity facility that authorised deposit-taking institutions (ADIs) can access, subject to an appropriate fee; the committed amount would cover the shortfall between an ADI's liquid asset holdings and the regulatory requirement (see chapter on 'Operations in Financial Markets' for further information).

The BCBS has also worked, at the request of the FSB, to develop a framework for national approaches to identifying domestic systemically important banks (D-SIBs), which also addresses issues associated with the additional capital that may be imposed on them. A consultation paper outlining a principles-based methodology – which is appropriate given the diversity of national financial systems – was released recently by the BCBS. A senior officer from Financial Stability Department has been involved in the Macprudential Supervision Group (MPG) of the BCBS that developed the principles. The MPG has also worked on the technical details outstanding on the BCBS' methodology for global systemically important banks (G-SIBs), as well as reviewing the results of the 2010 and 2011 G-SIB data collection exercises and assessments. In its contributions in the MPG on both G-SIBs and D-SIBs, the Bank liaises closely with APRA.

Among the many other projects currently being undertaken by the BCBS is joint work with IOSCO to determine margin requirements for non-centrally cleared derivatives. The Australian Securities and Investments Commission (ASIC) represents Australia on the relevant working group; several senior Bank officers were involved in preparing the associated consultation document which was released recently.

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.

In April 2012, in conjunction with the Technical Committee of IOSCO, the CPSS released new Principles for Financial Market Infrastructures (PFMIs). At the same time, an assessment methodology and disclosure framework was released for public consultation. The PFMIs, which were drawn up by a CPSS-IOSCO Steering Group, including the Bank's Head of Payments Policy Department, seek to consolidate, update and strengthen existing standards for systemically important payment systems, central counterparties and securities settlement systems. They also extend their coverage to trade repositories and incorporate specific guidance for infrastructures serving OTC derivatives markets.

Building upon the PFMIs and work undertaken by the FSB on the resolution of banks, the CPSS and IOSCO have jointly considered recovery and resolution recommendations for financial market infrastructure (FMI). A consultative report was released in July 2012 outlining the issues that should be taken into account for different types of FMI and seeking views on a number of technical points related to these issues. The Reserve Bank contributed to this and other specific workstreams.

One important issue in this area is how to achieve fair and open access to central-clearing services. The Bank participates in work on this topic through its membership of the OTC Derivatives Regulators' Forum, an international group that provides regulators with a means to cooperate and share information in relation to OTC derivatives, central counterparties and trade repositories. Two complementary working groups, one under

the CGFS and another under the CPSS-IOSCO, have also considered the question of access and, in November 2011, the CGFS released a report assessing the potential implications for financial stability and efficiency of alternative access arrangements. CPSS-IOSCO addressed similar questions in the PFMLs.

The Reserve Bank also participated in a CPSS working group on innovation in retail payments, which released a report in May 2012, and a joint CPSS-BCBS working group on managing settlement risk in foreign exchange transactions, which released a consultation paper in August 2012.

International Monetary Fund (IMF)

As in recent years, the IMF's work over the past year sought to assess and address the risks to the global economic outlook. The IMF has provided financial assistance to a number of member countries, bolstered its own lending capacity, and made further progress towards reforming its surveillance practices and governance arrangements.

In June 2012, various member countries committed to make a total amount of US\$456 billion available for additional IMF lending. Much of this amount had already been committed by April, including a commitment from Australia of US\$7 billion. These additional resources will be drawn upon if needed to meet the future financing needs of member countries.

The IMF continued to support its member countries through financial assistance programs over the year in review. The most prominent was the €28 billion extended arrangement for Greece, which was approved in March 2012 as part of a €173 billion package funded jointly by euro area member states and the IMF. The IMF also continued to provide substantial financial assistance, via scheduled disbursements, to Portugal and Ireland under programs that were agreed in 2010/11.

A number of reforms have also been made to the IMF's lending facilities over the past year. The Precautionary Credit Line, which was available only on a precautionary basis, was replaced by the more flexible Precautionary and Liquidity Line, which also allows member countries to access funding when faced with an actual balance of payments need. A new Rapid Financing Instrument was also introduced to assist countries facing urgent balance of payments needs, including those arising from natural disasters, post-conflict situations and commodity price shocks.

The IMF has continued its efforts to improve its surveillance. In 2012, the Fund released a Pilot External Sector Report, which examines the drivers of members' external positions and the associated risks. The IMF Executive Board also approved a new Decision on Bilateral and Multilateral Surveillance, which is designed to facilitate improvements to the coverage and consistency of IMF surveillance.

The package of quota and governance reforms that was agreed in 2010 is still to be implemented, with the aim being to receive the necessary consent from member countries by October 2012. The main reforms include a doubling of quotas, a realignment of quota shares towards 'dynamic' emerging market and developing members, and a shift to an all-elected Executive Board. A review of the quota formula has also commenced, and is due to be completed by January 2013.

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 continued to support the Constituency Office directly by providing an advisor with expertise in financial markets and financial sector issues.

Australia is currently undergoing an IMF Financial Sector Assessment Program (FSAP) review. This is a follow-up to Australia's first FSAP conducted in 2005/06 and is consistent with a recent commitment of FSB members to undergo an FSAP every five years. The focus of FSAP assessments is on the stability of the financial sector and

the quality of financial supervisory and crisis management arrangements. A stress test of the banking system and a review of progress in addressing key recommendations from the previous FSAP are also key elements of the current review. The agencies that form the Council of Financial Regulators, including the Reserve Bank, prepared background material for the IMF on Australia's financial regulatory framework, financial crisis management arrangements and financial stability policy framework. An FSAP 'advance mission' visited in May while the main mission visited in July 2012. During their visits, IMF staff held discussions with senior officials from the Bank, Treasury, APRA and ASIC. The IMF also met with private sector banks and non-financial businesses. Given the focus on financial stability, the IMF staff had extensive discussions with senior officers from Financial Stability Department. An overall financial stability assessment by the IMF is expected to be released in late 2012, to coincide with its regular annual review of the Australian economy and policy, known as the Article IV Consultation.

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, to 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 Deputy Governor level, the Monetary and Financial Stability Committee (MFSC) focused on enhancing 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. Over the next two years, the Assistant Governor (Financial Markets) will be chairing the Working Group on Financial Markets, which has responsibility for the analysis and development of foreign exchange, money and bond markets (including the Asian Bond Funds) in the region.



An EMEAP meeting in Auckland in November 2011 was attended by senior EMEAP representatives, including RBA staff

At the Governors' and Deputies' meetings, members discussed issues such as the potential implications of high commodity prices, capital flow volatility and international regulatory developments for the EMEAP region. Members also considered the potential flow-on effects of the European sovereign debt situation and European bank deleveraging.

EMEAP is responsible for the ongoing oversight of Asian Bond Fund 1, a US dollar-denominated Asian bond fund, and Asian Bond Fund 2, comprising eight local currency-indexed bond funds and a Pan Asia Index Bond Fund (PAIF). In May 2012, Deputy Governor Philip Lowe was elected as PAIF Supervisory Committee Chair following Ric Battellino's retirement as Deputy Governor.

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. OECD staff recently held discussions with domestic authorities, including the Reserve Bank, as input for the OECD's next economic survey of Australia, due to be released later in 2012.

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 current financial sector developments in Europe, especially bank deleveraging, the capital market implications of increased longevity, financial education and financial consumer protection.

Government Partnership Fund (GPF)

The Reserve Bank continued its involvement with Bank Indonesia (BI) under the auspices of the Australian Government's GPF. This program supports an exchange of skills and knowledge between Australian public sector institutions and their Indonesian counterparts through a series of attachments and workshops.

In 2011/12, a total of 16 BI officers were attached to the Reserve Bank, bringing the total number of attachments to 145 since the start of the program in 2005/06. The attachments continue to cover policy and operational areas of the Bank, including economic research, payments policy and settlements, financial markets and financial stability, as well as human resources. Among the visits by Reserve Bank staff to BI, Reserve Bank economists participated in a workshop in March 2012 on sectoral analysis, short-term forecasting and financial stability issues, representing the culmination of research work over the previous year.

South Pacific Central Bank Cooperation

The Reserve Bank fosters a close relationship with the central banks of the South Pacific region through participation in high-level meetings, exchanges of staff, participation in workshops, and the regular sharing of information on technical issues.

In December 2011, South Pacific Governors met in Apia, Samoa. This group comprises the central banks of those countries in the region with their own currencies – Australia, New Zealand, Fiji, Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu. Representatives from the IMF's Pacific Financial Technical Assistance Centre also participated in the meeting. The main issues discussed were the effects of slower global growth on the Pacific Islands, economic prospects for the region and the challenges for monetary policy. The Governors also met with the major regional commercial banks to discuss banking issues.

A Reserve Bank officer commenced a two-year secondment to the National Reserve Bank of Tonga in May 2012. Another officer, based in Sydney, is working with the Economics Department of the Reserve Bank of Fiji (RBF) on several research projects and several RBF officers will also participate in a Reserve Bank training course. In addition, the Bank continued to provide financial support to an officer of the Bank of Papua New Guinea (PNG) 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 the Bank of PNG to undertake studies at an Australian university in the areas of economics, finance or computing.

Bilateral Relations and Cooperation

As in previous years, the Reserve Bank continued to receive a number of visitors from overseas. Predominantly from foreign central banks, the visits covered the full range of the Bank's activities and included visitors or delegations from Botswana, Brazil, China, India, Indonesia, Iraq, Korea, Mongolia, the Netherlands and Vietnam.