



BANK FOR INTERNATIONAL SETTLEMENTS

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The Financial Stability Forum (FSF) held its fourth Asia-Pacific regional meeting on 16 March in Sydney, Australia. Senior representatives from finance ministries, central banks and supervisory and regulatory authorities from 10 FSF member economies and 8 regional non-member economies attended the meeting. Senior officials from international institutions represented on the FSF, as well as the Asian Development Bank, also took part. A list of institutions represented at the meeting is attached.

Participants exchanged views on the outlook for the global and regional economies, which remains good. They noted that benign global economic and financial conditions in recent years have supported growth and financial markets in the Asia-Pacific region. These conditions, together with a build-up of foreign exchange reserves, the adoption of more flexible exchange rate arrangements and strengthened financial systems, have enabled countries in the region to reduce external vulnerabilities. They have supported efforts to strengthen local financial and corporate sector balance sheets, although the pace of progress varies from country to country. Regulatory and supervisory frameworks have been enhanced.

Nevertheless, participants highlighted several challenges, including those associated with high oil and other commodity prices. They pointed to high risk appetites on the part of investors, as evidenced by risk spreads that not only are historically low but also show little dispersion among borrowers. While low spreads largely reflect improved fundamentals, a sudden reversal in risk appetites, especially if it were accompanied by unexpected increases in global bond yields or a sharp increase in asset price volatility, could alter the current positive outlook for financial stability.

In the context of concerns about persistent global imbalances, participants noted efforts by authorities in the region to increase domestic absorption, through stronger domestic consumption and investment, and intentions elsewhere to increase national savings. They noted that lending to households has risen rapidly recently in some economies, supporting consumption, but they stressed the need for lenders to assess carefully the risks arising from such lending to ensure it does not jeopardise stability. Investment, including for needed infrastructure, could be strengthened by better

developed domestic corporate bond markets. Bond markets add to the diversity of channels for saving and financing in domestic financial systems, most of which are still largely dependent on banks. Participants noted a number of national and regional initiatives that are underway to foster development of these markets.

Participants discussed the role played by foreign-owned financial institutions in strengthening domestic financial systems. They noted that the presence of foreign financial institutions calls for effective coordination and information exchange between home and host supervisors.

Participants shared their assessments of the potential impact of a flu pandemic on their economies and financial systems; the discussion benefited from a briefing by the World Health Organization. They agreed on the need for business continuity planning, focusing in particular on maintenance of the operation of payments systems, and stressed the importance of effective communication in the event of a pandemic. They discussed areas in which there may be scope for risk-mitigating actions, including steps that financial authorities in individual countries in the region are already taking to ensure that their financial sectors prepare for such an event.

Progress toward convergence and harmonisation in international accounting standards is underway, with growing participation from countries in the region. Efforts by the IASB to produce a set of standards for small and medium sized enterprises and by regulators and audit oversight authorities to promote more effective cooperation and enhancements to audit quality were welcomed.

Participants shared experiences with strengthening financial systems, drawing on lessons learned from the Financial Sector Stability Assessments conducted by the International Monetary Fund and the World Bank. Assessments against international standards provided useful reference for reform goals. Prioritisation of reforms was recognised as a particular challenge, when countries were faced with multiple reform goals and with resource limitations.

**Institutions and Groups Attending the FSF  
Regional Meeting**  
Sydney, 16 March 2006

**Chairman - Mr Roger W Ferguson, Jr.**

**Australia**

Reserve Bank of Australia  
The Australian Treasury  
Australian Prudential  
Regulation Authority  
Australian Securities and  
Investments Commission

**Canada**

Ministry of Finance  
Bank of Canada  
Office of the Superintendent  
of Financial Institutions

**Pakistan**

State Bank of  
Pakistan

**Philippines**

Central Bank of the  
Philippines  
Philippine Deposit  
Insurance  
Corporation  
Securities and  
Exchange  
Commission

**China**

Ministry of Finance  
 People's Bank of China  
 China Banking Regulatory  
 Commission  
 China Securities Regulatory  
 Commission

**Singapore**

Monetary Authority  
 of Singapore

**France**

Ministry of the Economy,  
 Finance and Industry  
 Banque de France  
 L'Autorité des Marchés  
 Financiers

**Thailand**

Bank of Thailand  
 Securities and  
 Exchange  
 Commission

**Germany**

Bundesanstalt für  
 Finanzdienstleistungsaufsicht  
 (BaFin)

**United Kingdom**

Bank of England  
 Financial Services  
 Authority

**Hong Kong SAR**

Hong Kong Monetary  
 Authority  
 Securities and Futures  
 Commission

**United States**

Department of the  
 Treasury  
 Board of Governors  
 of the Federal  
 Reserve System  
 Securities and  
 Exchange  
 Commission

**India**

Reserve Bank of India  
 Insurance Regulatory and  
 Development Authority

***International  
 Financial  
 Institutions***

Bank for  
 International  
 Settlements  
 International  
 Monetary Fund  
 Organisation for  
 Economic Co-  
 operation and  
 Development  
 World Bank

**Italy**

Ministry of the Economy and  
 Finance  
 Bank of Italy

***International  
 Regulatory and  
 Supervisory  
 Groupings***

Basel Committee  
 on Banking  
 Supervision  
 International  
 Accounting  
 Standards Board  
 International  
 Association of  
 Insurance  
 Supervisors  
 International  
 Organization of  
 Securities  
 Commissions  
 The Joint Forum

**Japan** Ministry of Finance  
 Bank of Japan  
 Financial Services Agency

***Regional Financial  
 Institutions***

Asian Development  
 Bank  
 European Central  
 Bank

**Korea**  
Bank of Korea

**World Health  
Organization**

**Malaysia**  
Bank Negara Malaysia

**New Zealand**  
Reserve Bank of New  
Zealand Securities  
Commission

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