OPENING REMARKS BY
MR. HOOKYU RHU, EXECUTIVE DIRECTOR,
THE SEACEN CENTRE
AT THE
25TH SEACEN-FSI REGIONAL SEMINAR ON THE BASEL FRAMEWORK – SUPERVISORY REVIEW PROCESS
Kuala Lumpur, Malaysia, 18-21 March 2013

Ms. Colleen Cassidy, Director, Financial Stability Institute, Bank for International Settlements

Mr. Jeff Miller, Senior Financial Sector Specialist, Financial Stability Institute, Bank for International Settlements' Representative Office for Asia and the Pacific;

Distinguished Resource Speakers;
Seminar Participants;
Ladies and Gentlemen:

On behalf of The SEACEN Centre, I would like to extend a very warm welcome to all of you to the **25th SEACEN-FSI Regional Seminar on The Basel Framework – Supervisory Review Process**.

Our deepest appreciation goes to our Collaborator, the Financial Stability Institute, Bank for International Settlements, and specifically to Ms. Colleen Cassidy and Mr. Jeff Miller for their support and contribution to this learning event. We are fortunate to have with us other distinguished resource speakers who have travelled from far and near to share their wealth of knowledge, expertise and professional experience with participants in this Seminar. They are, in the order of appearance:

- Mr. Tim Rees, Basel II/III Implementation Program Director for Asia-Pacific, Citibank, Australia
- Mr. Konrad Prenzer, Head of Regional Section Bank Examinations, Deutsche Bundesbank, Germany
- Mr. Jacob Abraham, Chief Risk Officer, Maybank Group, Malaysia
- Mr. Cheng Khai Lim, Deputy Director and Division Head, Banking Department 1, Monetary Authority of Singapore

- Mr. Chi-Kau Lee, Senior Manager, Banking Supervision, Hong Kong Monetary Authority
- Mr. Simon Topping, Principal, KPMG, Hong Kong SAR and former Executive Director (Banking Policy), Hong Kong Monetary Authority

With such a list of distinguished speakers, I am confident that our participants would learn much from this Seminar to enhance their knowledge.

Ladies and Gentlemen:

On this opening day of the 25th SEACEN-FSI Regional Seminar on The Basel Framework-Supervisory Review Process, I am happy to share with you some of my thoughts on the right role of bank supervisors in times of uncertain global economic environment.

In this modern economy, a strong and resilient banking system is the foundation for sustainable growth. Banks are at the centre of the credit intermediation process, both directly and indirectly through their roles as deposit mobilizers, lenders, market makers and providers of liquidity and payment services.

As well witnessed in the recent global financial crisis, banking crises were highly costly and associated with much deeper economic and financial downturns. Studies have indentified many factors behind the build-up of the recent global crisis. The vulnerability of the banking sector was primarily due to excess leverage, too little capital with insufficient quality, inadequate liquidity buffers, high dependency on short term wholesale funding, inadequate knowledge of macro-financial linkages and excessive reliance of market forces to correct imbalances. The risk management and supervision of banking sector was much of a firm-specific focus and founded on an insufficient understanding of how broader system-wide risks could play out under stressed situations. Similarly, there were major short comings around corporate governance, market transparency, and the quality of supervision.

In response, international standard setters and national supervisory authorities have been taking actions to improve the financial sector risk management systems and supervisory approaches. In this regard, the Basel Committee on Banking

Supervision has further enhanced international regulatory framework for bank supervision addressing weaknesses revealed by the crisis.

Moving forward, the Basel committee issued enhancement to Basel II framework in 2009 and announced Basel III in 2010, further strengthening the international regulatory framework.

Ladies and Gentlemen,

Under the Basel framework, Pillar-2, i.e., supervisory review process, plays a critical role in strengthening banks' risk management and resilience. Pillar-2 involves three key parties, i.e., risk management staff in banks, management of banks and supervisory authorities in assessing banks' capital need relative to their risks and taking actions if necessary. As such, the supervisory review process of the Basel framework is intended not only to ensure that banks have adequate capital to support all the risks in their business, but also to encourage them to develop and use better risk management techniques. The adoption of the advanced approaches in Pillar-I is of course helpful in promoting better understanding and quantifying Pillar-2 risks.

These new standards are in the right direction. However, we should not forget that better regulation is critical but it alone is not sufficient. It is just one piece of the complex puzzle. The promotion of financial stability requires a broad policy framework, of which prudential policy is only one key element. It has been increasingly accepted that the combined roles of macroeconomic policies and macro-prudential policies are critical in ensuring financial stability. Similarly, the crisis has reiterated the importance of effective bank supervision to ensure full implementation of prudential policies in order to promote strong risk management practices and appropriate disclosure. Similarly, the crisis has also revealed a number of short comings related to governance, risk management and due diligence that the private sector itself needs to address.

Since the outbreak of global financial crisis in 2008, many advanced countries have held short term interest rates near zero and have taken other measures to lower long term interest rates, first to overcome the financial crisis and later to shore up economic recovery. With the euro-zone's sovereign debt crisis having persisted since 2010, many countries, whether advanced or emerging economies, still appear to keep their monetary policies accommodative until well into the recovery.

In this circumstance, I believe that central bankers in this region should carefully monitor whether the long period of low rates is causing any sectors of credit markets to overheat again, potentially sowing the seed of the next financial crisis. In this context, our SEACEN-FSI Regional Seminar provides us with a good opportunity to build our perspectives on how we can reshape our financial system into a more robust and resilient one, well founded on The Basel Framework.

Ladies and Gentlemen,

This learning event, organised in collaboration with FSI, is a part of SEAECN's such efforts. The key learning objective of this seminar is to enable participants to apply the concepts and techniques being discussed to a case study in which they assess a bank's risk profile and regulatory capital requirements in accordance with Pillar 2.

The importance and relevance of the topics in this Seminar is evident from the encouraging response we received to our invitation for nomination. It is a pleasure to inform that we have here with us today a total of 34 well-qualified and suitable participants representing 16 institutions. I am confident that the next three days will be a highly intensive time of learning. The SEACEN Centre believes that the interactions between participants and speakers would enrich their learning experience. Furthermore, this event also provides a regional platform for sharing of knowledge and experiences as well as fostering closer co-operation among central bankers and regulators.

Ladies and Gentlemen,

Allow me to say a few words about The SEACEN Centre. Our new vision is "***To be the Regional Learning Hub for Central Banks in the Asia-Pacific Region***". As a Learning Hub, SEACEN aspires to drive central bank excellence in learning for the region, by being a platform for collaboration to synergise efforts in central bank learning among themselves, and across SEACEN's network base. The vision would be achieved through SEACEN's mission in building capacity in central banking and fostering networking and collaboration. With strong commitments from our stakeholders as seen in this Seminar, we are confident that our vision will become a reality.

Coming back to the Seminar, I hope that the participants will find it both fruitful and rewarding. Above all, the interaction among participants and with the resource speakers will provide an opportunity to learn from one another and strengthen the bond of friendship and cooperation. Also, I hope that you will be able to find the time to enjoy the culture and beauty of Kuala Lumpur.

Allow me to conclude by thanking once again the Financial Stability Institute for the valuable collaboration, all resource speakers and their respective institutions for the generosity and support; and finally to all our member central banks and associates for nominating suitable participants to this Seminar. I wish you a productive and rewarding learning experience.

Thank you.