Letter from the Executive Director

Dear Colleagues and Readers

I am very pleased to introduce the seventh issue of the Journal, which also marks the Journal’s third anniversary. We continue to strive to provide our readers with valuable, actionable information on “cutting edge” topics by top experts that evidence thought leadership in financial stability and bank supervision. This issue’s lead-off article by Gerald A. Edwards, Jr., former Chief Accountant of the Federal Reserve Board and a respected international expert on accounting and financial reporting, exemplifies our strong commitment to that goal.

Since the U.S./Eurozone Crisis of 2008-09, bank regulatory policymakers and other standards-setting bodies have been adjusting their rules and policies to take cognizance of lessons learned from the Crisis. For example, pre-Crisis accounting standards inhibited banks from increasing their reserves for possible loan losses during a time of dramatically increasing credit risk. As the Crisis unfolded, many banks’ credit losses greatly exceeded their reserves. This resulted in many institutions confronting the extreme challenge of having to restore reserves during a period when their earnings and capital were already under tremendous pressure. This prompted post-Crisis calls for action by G20 leaders, regulators, industry participants and investors to change accounting standards to provide for more flexibility and prudence in setting aside reserves for potential loan losses.

In 2014, the International Accounting Standards Board, the global accounting standards setter, announced a significant change in accounting for banks’ allowances for possible loan losses. International Financial Reporting Standard 9, Financial Instruments, includes a new standard for loan loss provisioning – known as the expected loss provisioning approach – that allows for more prudent reserving practices. Mr. Edwards’ article provides a comprehensive discussion of implementation issues that banks and their regulators face as they prepare for the fast-approaching mandatory 1 January 2018 implementation date.

Over the past two years, there has been a rapid expansion in the provision of financial services by using new technologies. Some of this has occurred through financial technology (“FinTech”) companies who sometimes offer services on a stand-alone basis, and sometimes in partnership with traditional financial services providers, such as banks. An article by Dr. Herbert Poenisch and Michael Zamorski provides an overview of FinTech trends in Asia Pacific. Bank regulatory policymakers are trying to weigh the need to regulate FinTech to protect consumers of such services without inhibiting sound innovation that may benefit the banking public.

The Financial Action Task Force, the IMF and many bank regulators continue to express concerns about financial stability risks associated with money laundering and terrorist financing. An article by Mark McKenzie, a SEACEN expert on financial
stability and financial crimes prevention, discusses vulnerabilities and risks to banks in dealing with corporate customers whose complex organizational structures may inhibit proper due diligence in identifying who, ultimately, is/are the beneficial owner(s) of bank accounts or transaction counterparty(ies).

An article by Obiyathulla Ismath Bacha and Daud Vicary Abdullah provides insights into the nature of Islamic Finance, where transaction structuring seeks to achieve risk-sharing through financing structures that combine equity and debt.

The establishment of the Journal in 2013 was an important organizational accomplishment. I would like to express my sincere gratitude to Mr. Michael Zamorski, the Chief Editor of the Journal since its inception, for his vital contribution to its success. I would also like to thank our readers, authors, SEACEN member central banks and monetary authorities and the Journal’s Editorial Board for their support in advancing the quality and reputation of the Journal.

Dr. Hans Genberg
Executive Director

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