DRAFT as of 5/19/02

Financial Conference on
"How to Strengthen Banks and Develop Capital Markets in Post-Crisis Asia"
June 6-7, 2002, ADBI Conference Room, Tokyo
Co-sponsored by the ADB Institute, Keio University and PECC FMD Committee

Following a symposium in Hong Kong last September, "Financial Cooperation and Regionalism in East Asia", PECC Financial Market Development Project (FMD) now convenes another in Tokyo, "How to Strengthen Banks and Develop Capital Markets in Post-Crisis Asia", in collaboration with the ADB Institute and Keio University with a view to deepening discussion on strengthening financial systems in Asia.

PECC FMD has been strongly motivated with financial regionalism in East Asia in the past several years, recognizing that without some cooperative arrangements in financial and currency areas the region will remain vulnerable to volatility, intra-regional trade and investment retarded, and massive savings forced to be recycled through foreign institutions. Bilateral or regional free-trade arrangements, if implemented, will lose their value through continued currency volatility. While not achievable in a short term, financial integration does benefit East Asia and perhaps the world as well through enhancing Asian vitality.

Firmly holding the view and following the Hong Kong symposium that discussed a broad range of issues relating to financial regionalism in East Asia, PECC FMD decided to look into more concrete issues facing Asian economies to consolidate the foundation of regional integration. Without robust and efficient financial system in each economy of the region, regional integration would lose its grounds.

Thus, Session One addresses the question of improving incentive structure facing Asian banks and regulatory norms on them, followed by Session Two focusing on an issue of current importance, privatization/reprivatization of, and foreign participation in, banking sector in Asia. Turning to capital markets, Session Three seeks the possibility of developing the markets through changing portfolio selection by households, while Session Four concentrates on the issue of financial player to be charged with developing capital markets in Asia.

Throughout, basic motivation is a strong belief that financial strengthening in the region is a vital answer to what happened four years ago and the real basis on which we can effectively build up the regional cooperation and integration.

Thursday, 6 June

AM Registration (9:30-12:00 FMD meeting (to be confirmed))

14:00-14:45

Opening Session

Conference Chair & Speech: **Excellency Cesar E.A. Virata** ,Former Prime Minister of the Philippines, Chairman, Banking Association of the Philippines

Opening remarks: **Dr. Masaru Yoshitomi**, Dean, Asian Development Bank Institute
Dr. Naoyuki Yoshino, Professor of Economics, Keio University
Senator Adlai Stevenson,III, US FMD

14:45-17:45

16:15-16:30

<coffee break>

Session 1: "Improving the Incentive Structure and Regulatory Norms towards Stronger Banking Sectors in Asia"

Strengthening banks lies in the heart of endeavors to avoid another financial crisis in the region, a key to which being the improving of incentive structure facing banks and regulatory norms on them. To what extent, Asian policymakers have achieved the objective of providing banks with sufficient incentive to act independently and at arm's length, free from government intervention and "crony" relationships? What are further needed? Is disclosure of connected lending a "killing two birds with one stone", enabling the advantages of business conglomeration and minimizing the adverse impacts on the soundness of banking operations? How do we evaluate Japan's experience with "main bank" system in this context? Is increased competition among banks an answer? Doesn't it rather threaten systemic stability and detract from banks' capability to sustain long-term relationships with clients?

Improving regulatory norms means strengthening banks from inside after sufficient incentive has been provided. Has the sequencing been duly recognized by policymakers in Asia? How do we assess the usefulness of traditional prudential norms, such as capital adequacy, in view of the experience of the Asian crisis? Can they effectively fight a boom-bust-cycle of asset prices? How should the questions particular to Asia, such as "correlation" between bank equity and assets, be addressed? Need to gauge more dynamically the performance of banks is being emphasized for Asia. Should traditional norms be supplemented with market-related indices such as deposit rates and interest rate spreads? Is CAMEL a better alternative to conventional norms?

Session Chair: **Dr.Masaru Yoshitomi**, Dean, Asian Development Bank Institute
Main Reporter: **Prof. Yoon Je Cho**, Director, Institute of International and Area Studies, Sogang University, Graduate School of International Studies, Korea
Lead Discussants: **Mr.Kenneth Waller**, Group Economic Advisor, Commonwealth Bank
of Australia, Australia FMD
Dr.Xu Zhong, Researcher, Assistant Professor, Research Department, the People’s Bank of China, China
Mr.Susumu Taketomi, Former Member of Policy Board of Bank of Japan, Senior Advisor, Daiichi Life Research Institute, Inc.

18:00-20:00
<Dinner>（Silver Star Room, Tokyo Kaikan）
Dinner Speech: **Mr. Haruhiko Kuroda**, Vice Minister for International Affairs, Ministry of Finance of Japan, introduced by Mr. Mitsuo Sato

<u>Friday, 7 June</u>

9:00-11:30
Session 2:<u>“Relationships between the Ownership Structure and Strength of Banking Sector”</u>

Asian banks face the question of ownership, privatization / re-privatization and foreign participation. How should we recognize the relationship between the ownership structure and strength of banking sector in Asia? What is basic policy thinking guiding re-privatization of banking institutions in crisis-affected countries? Have policymakers emphasized "diluting" of conventional bank ownership by affiliated firms to achieve better resource allocation and sounder banking operations? Foreign participation has been advocated on the grounds of knowledge spillover, up-grading of prudential oversight and better capitalization, but systemic instabilities and loss of banking capabilities might ensue from increased competition. How should we view the matter? What are experiences of countries with increased foreign participation in banking sector? Privatization of state-owned-banks is an important issue for some Asian countries. How should we evaluate "gradualism" towards deregulating banking sector? Is privatization inevitable to realize full benefits of deregulation? While privatization of state-owned-banks in transitional economies requires broader reforms, such as privatization of borrowing enterprises and strengthening of fiscal capacity of government, how should such an overall reform program be drawn up?

Session Chair: **Mr.Russell Cheetham** , President, Asia Pacific Investment Services Corp., Former Vice President for East and Asia Pacific, World Bank, Chair, US FMD

Main Reporter: **Prof. Akira Suehiro**, Professor, Institute of Social Science, Division of
Comparative Contemporary Societies, University of Tokyo, Japan

Lead Discussants: **Dr.V.V.Desai**, Advisor, ICICI Limited, India
Dr.Soedradjad Djiwandono, Visiting Fellow, Institute of Southeast Asian Studies, Singapore
Dr.Veerathai Santiprabhob, Vice President, Corporate Planning and Information, Siam Commercial Bank, Thailand

11:30-13:00
<Luncheon> （Silver Star Room, Tokyo Kaikan）
Luncheon Speaker: **Prof. Hideki Kanda**, Professor of Law, University of Tokyo, Japan, introduced by Mr. Yuichiro Nagatomi, Chair, Japan FMD,"Implications of Enron Debacles for Asian Corporate Governance"

13:00-15:30
Session 3：“Mobilizing Domestic Savings by Enhancing Investment Opportunities”

To reduce dependence on foreign savings and associated volatility, Asian economies should mobilize domestic savings through diversifying investment opportunities for household savers. Massive issue of government debt has provided a basis to develop bond markets in crisis-affected countries. Looking at the issue from the side of household savers, what are major elements affecting their portfolio selection? Accessibility to financial networks, risk-return differentials, or others? If implicit government guarantee was a major cause for the dominance of bank deposits in household portfolios, how should a deposit insurance scheme be designed to encourage diversification of investment opportunities? Equity markets have developed much faster then debt markets in Asia. Why? Banks' reluctance to develop a close substitute for their long-term lending, contractual difference between equity and debt instruments, underdeveloped state of issuers and subscribers of debt instruments, or others? What are policy implications of these arguments for changing the pattern of portfolio selection by households?

Session Chair: **Prof.Naoyuki Yoshino**, Professor of Economics, Keio University, Japan
Main Reporter: **Dr.Kee-Jin Ngiam** , Senior Fellow, Regional Economic Studies, Institute
of Southeast Asian Studies (ISEAS), Coordinator, Singapore FMD and
Ms Lixia Loh, National University of Singapore
Lead Discussants: **Mr.Ranjit Ajit Singh**, Director, Securities Commission, Malaysia, Chair, Malaysia FMD
Prof. Sun Jie, Senior Research Fellow, Chinese Academy of Social Science, Director, Editorial Board of World Economy, China
Mr.Chalee Chantanayingyong, Assistant Secretary-General, Securities and Exchange Commission, Thailand
Dr. Zhenmin Fang, …, Hong Kong

15:30-15:45
<Coffee Break>

15:45-18:15
Session 4：<u>"Who Should Play Major Roles to Develop Capital Markets in Asia?"</u>

What financial institution should play major roles to develop capital markets in Asia? Consideration of the paucity of financial resources available in Asia on one hand and difficulties involved in having commercial banks themselves directly engaged in securities and derivatives businesses, such as the possibility of banks' dominating the entire financial sector, conflicts of interest between banks and investors and adverse impacts on stability of banking system, on the other ,has led experts to prefer a commercial bank's subsidiary as major player in the markets. While persuasive, doesn't a capital market require a player who is genuinely interested in, and fully committed to, its development? In the Asian environment where banks themselves have been vulnerable to pressures from affiliated groups, is it realistic to expect their subsidiaries to act independently, devoting themselves solely to the development of capital markets? Might not an end result be continuation of banks' dominance in the entire financial sector? Legal separation of banking and securities businesses in the U.S. and Japan seems to have promoted the development of capital markets. What are implications of the experience for Asian countries? Is there any alternative way of thinking the matter?

Session Chair: **Mr. Mitsuo Sato**, Former President, Asian Development Bank
Main Reporter: **Dr. Masaru Yoshitomi** and **Dr. Sayuri Shirai**, ADBI Visiting Scholar and Associate Professor, Faculty of Policy Management, Keio University, Japan
Lead Discussants: **Dr. Shamshad Akhtar,** Director, Governance, Finance and Trade Division, East and Central Asia Department, Asian Development Bank
Dr.Pichit Akrathit, Director, Office of Capital Market Research & Development, Securities and Exchange Commission, Thailand
Mr.Sadakazu Osaki, Head, Capital Market Research Unit, Nomura Research Institute, Japan

18:15-18:45
Closing Session
Closing remarks: **Excellency Cesar E.A. Virata**, Former Prime Minister of the Philippines, Chairman, Banking Association of the Philippines