



Summary of the Discussion of the Emerging Markets Advisory Council (EMAC)

October 11, 2012
Tokyo, Japan

The Emerging Markets Advisory Council (EMAC) was established by the IIF Board of Directors in 2008 to provide a forum where heads of leading IIF member institutions headquartered in emerging markets could voice their views and articulate their perspectives on key issues on the agenda of global policy and regulatory reform. The Council comprises 42 Chairmen and CEOs of major financial institutions headquartered in 24 EM countries.

The Emerging Markets Advisory Council held its latest meeting on Thursday, October 11, 2012 in Tokyo, Japan. The meeting was hosted by Yasuhiro Sato, Group CEO and Chairman of the Board, Mizuho Financial Group, Inc. It was attended by 26 members and was co-chaired by Roberto Setubal, President and CEO of Itau Unibanco S/A, and Vice Chairman of the Board of Itau Unibanco Holding S/A; Abdul Wahid Omar, President and CEO of Malayan Banking Berhad; and Cezary Stypulkowski, CEO of BRE Bank SA. Co-Chair Ibrahim Dabdoub, Group Chief Executive Officer, National Bank of Kuwait, could not attend. Also attending the meeting were Douglas Flint, Chairman of the IIF Board of Directors and Group Chairman of HSBC Holding, and Yasuhiro Sato.

A key topic of concern for the Council was the **slowdown in emerging Asia** as reflected in the decline of trade and capital flows. Council members deliberated on the extent to which this slowdown was externally induced or caused by factors internal to the region. While both sets of factors were in the end likely responsible, the Council nonetheless called on policymakers to take effective measures that would help reinforce the region's growth momentum, so vital to the global recovery. The Council expressed relief at the results of the most recent Emerging Markets Bank Lending Conditions Survey, which indicated somewhat improved funding conditions for emerging markets financial institutions across all regions. While these results were encouraging, important challenges for financial institutions remain. In particular, the overall weakness in the global economy and the continuing difficulties in the Euro Area have had definite adverse effects on financial conditions in emerging markets as reflected in an increase in the ratios of nonperforming loans.

The Council also addressed the emerging **financial regulatory framework** as articulated by the Financial Stability Board (FSB), the Basel Committee on Bank Supervision and other policymaking, regulatory and standard-setting bodies. The discussion emphasized the importance of effective regulation for the proper functioning of financial markets and expressed support for the principles underlying recent proposals. However, the Council noted that several elements in the new framework merited closer examination as they carried important implications for emerging markets banks. In particular, certain aspects of the regulations on liquidity and capital requirements have implications for trade and commodity financing, credit to SMEs, and infrastructure finance that could unduly constrain the operations of emerging markets banks in areas that are vital to the growth and development of emerging economies.

Another aspect relates to the lack of harmonious implementation of global standards, with some jurisdictions, including in emerging markets, adopting more conservative rules. The misalignment among local regulatory regimes makes the starting points for the calculation of required regulatory capital different in different jurisdictions, with clear implications for the process of global convergence in the application of the new standards. In the case of emerging markets, the more conservative rules are compounded by the direct link between the capital charge of financial assets and the sovereign credit ratings. This treatment is clearly disadvantageous to emerging markets banks and contributes to the higher ratios of risk weighted assets (RWA) to total assets in these banks relative to those in mature markets.

In discussing the broader issue of the applicability of certain elements in the Basel framework to emerging markets banks, the Council took note of the work initiated by the official sector on this subject as reflected in the discussion papers issued by the FSB in collaboration with the IMF and the World Bank. The Council, however, called on the global regulatory bodies to give further consideration to the specific concerns of emerging markets financial institutions as articulated by the

Council and urged national supervisory authorities, especially in emerging markets jurisdictions, to show flexibility in interpreting the relevant principles and guidelines so as to sustain the vital role of financial institutions in supporting local economies.

The Council then **explored modalities for conveying the views and perspectives of emerging markets institutions to the appropriate global regulatory and policymaking bodies.** In this regard, it was generally felt that the FSB should be considered the principal counterparty for exploring a possible dialogue on these issues. Other regulatory bodies, especially the Basel Committee, should also be approached. However, recognizing the diversity of conditions in the different emerging markets regions, the Council also saw merit in a regional approach as a useful way to initiate this effort. In this context, EMAC would remain the umbrella organization for the articulation of the views of emerging markets institutions in general and for coordinating with global regulatory bodies, but the Council's efforts would be informed by the work at the regional level. In this regard, the Regional Consultative Groups recently established by the FSB could also serve as useful points of contact at the regional level.

In conclusion, it was agreed that in pursuing these exploratory efforts, the Co-Chairs would convey these sentiments to the IIF Board and coordinate with other relevant committees and working groups within the Institute. It was also agreed to initiate contacts with the FSB and other relevant organizations. The Council will address the results of these efforts at its next meeting early in the new year.