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# Finance in Asia: Regulating Regional Markets

## Mechanisms for Coordination and Application in Specific Areas

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- Regional coordination and integration in the area of financial regulation in Asia
- Areas include:
  - Basel compliance and international standards
  - The Asia Region Funds Passport
  - Shadow banking
  - Bank resolution regimes
  - OTC derivatives market reforms
  - Financial benchmarks
  - Depositor protection and deposit insurance
- Preliminary conclusions



- What is coordination and integration?
- Mechanisms:
  - Enforcement cooperation (IOSCO MMoU)
  - Supervisory cooperation (IOSCO Principles)
  - IOSCO Final Report on Cross-Border Regulation (September 2015):
    - National treatment
    - Deference or recognition (unilateral or multilateral)
    - Passporting arrangements
- Challenges to coordination and regulation



# Mechanisms for Regulatory Coordination and Integration – Points of Difference

Points of Difference	National Treatment	Deference (weak form)	Deference (strong form)	Passporting
Level of coordination required	Low	Low to Moderate	Moderate	High
Level of integration required	-	Low	Low to Moderate	High
Level harmonisation required	-	-	None to Low	High
Level of granularity of regulation required	-	Low	Low to Moderate	High
Potential reduction in regulatory arbitrage	-	Low	Low to Moderate	High
Potential increase in transparency	Low to High	Low to High	Low to High	Low to High
Potential reduction in risk/systemic risk	Low	Low	Low to Moderate	Low to High
Ease of implementation	Low	Moderate	Moderate	High
Resources (in establishment phase)	Low	Low to Moderate	Moderate	High
Resources (in working phase)	Low	Low to Moderate	Low to Moderate	Low
Flexibility (to change)	Low	High	High	Low
Flexibility (to national differences)	High	High to Low	High to Low	Low
Applicability to emerging markets	High	High	Moderate	Low



<b>Criterion</b>	<b>National Treatment</b>	<b>Deference (weak)</b>	<b>Deference (strong)</b>	<b>Passporting</b>
Applicability to product, service or activity	Low to Medium	Low to Moderate	Low to Moderate	Low to High
Effectiveness at reducing risk (including systemic risk)	Low to Medium	Low to Moderate	Low to Moderate	Low to High
Net benefit to market participants (benefits minus burdens)	Low	Low to Moderate	Low to Moderate	High
Net benefit to regulators (benefits minus burdens)	High	High to Moderate	Moderate	High to Low
Tolerance of variation in national regulatory preferences	High	High	High to Low	Low
Tolerance of variation in national market structures	High	High	Moderate	Low
Impact of national regulatory differences	Low	Low	Moderate	High
Reliance on regional-international integration	Low	Low	Low to Moderate	Low to High
Reliance on regional integration	Low	Low	Low to Moderate	High



- OTC derivatives
  - weak deference
- Asia Region Funds Passport
  - passporting
- Bank resolution regimes
  - weak/strong deference
- Shadow banking, financial benchmarks and depositor preference
  - national treatment accompanied by moves towards greater harmonisation



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