Conference on
"Financial Stability: Towards a Macroprudential Approach"
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Pre- and post-crisis

- **Prior to the GFC**
  - **Implicit regulatory philosophy for Hong Kong given importance of banking sector**
  - **Supervisory tools deployed implicitly for macro-prudential objective (e.g. maximum LTV ratio)**
- **After the GFC**
  - **Seen as critical to safeguarding financial stability**
  - **Ample analyses and discussions, e.g. BIS, IMF, BoE**
  - **Trend toward more formal institutional arrangement**

What ?

- Macro-prudential (MP) vs Macro-economic (ME)
  - MP: affect quantity and price of credit
  - ME: affect mainly price of credit
- Macro-prudential vs micro-prudential
  - Optimal actions for individual components of the financial system may collectively be damaging for the system as a whole

How ?

- **Efforts devoted to :**
  - **Enhance resilience of financial system over the cycles**
  - **Develop tools to monitor build-up of systemic vulnerabilities & risks**
- **Orientation toward:**
  - **Analyzing market dynamics and external shocks**
  - **Watching out for credit growth that outpaces economic performance**
  - **Monitoring of cross border fund flows**
- **Tools deployed for:**
  - **Restraining build-up of risks**

Initiatives taken by HKMA

- **Adequacy of expertise**
  - Product risk analysis
  - Market intelligence
  - Ensure good risk management and disclosures
- **Adequacy of data**
  - Need for more granular data
  - Analysis with macro dimensions
- **Adequacy of communication**
  - Cross Department Working Group to discuss global trends, Identify early warning signals and potential threats, and formulate views on possible stress scenarios

Challenges

- Build-up of risks and possible interactivity difficult to delineate
- Conventional analytical tools fail to incorporate market dynamics e.g. sudden loss of market liquidity
- Effectiveness of countercyclical/through-the-cycle regulatory tools difficult to measure
- Regulatory boundary: systemically important but unregulated FIs

Conclusion

- **A more holistic view of risks:** ***a shift of regulatory philosophy***
- **A more forward looking approach:** ***judgements required, in addition to rules***
- **"Analysis" and "monitoring" not enough:** ***timely action is the key***
- **Ownership of financial stability:** ***institutional arrangement to ensure accountability***