

Norman T L Chan: Responding to the financial crisis – financial reform impacts and regulatory regime changes

Opening remarks by Mr Norman T L Chan, Chief Executive of Hong Kong Monetary Authority, at the Asian Financial Forum 2010, Policy dialogue: “Responding to the financial crisis – financial reform impacts and regulatory regime changes”, Hong Kong, 20 January 2010.

* * *

1. “It has often been said that history, especially financial crisis, tends to repeat itself. Notwithstanding the disturbingly frequent occurrence of seemingly similar financial crises, I am inclined to believe that history does not repeat itself because, upon close scrutiny, no two crises are exactly the same. It may be more correct to say that mistakes will be punished by the market. If people do not learn from their mistakes, then the market will continue to repeat its punishment. The only difference between the major financial crises is that the punishment is getting more and more severe, if not violent.”

2. “Going forward, I can see two possible ways to learn more about the financial markets. One is to learn from past mistakes and do something now. The second is to wait until the next disaster strikes and try to do something there and then. Given what we have experienced in the last two years, it is my hope that the international community will see the wisdom of not waiting for the next crisis to learn how we can make the international financial system a more robust and safe one for all of us.”

3. Ladies and Gentlemen, I made the above remarks over 10 years ago, in June 1999. It was ten months after the Asian Financial Crisis hit Hong Kong, which was then followed by the turbulence of the global financial system as a result of the abrupt collapse of the LTCM. It was rather unfortunate that the fear I expressed in 1999 has come true ten years later. The international community has failed to learn the lessons from the Asian Financial Crisis and the LTCM debacle and to make the financial system more robust and safer. As a result, we have been punished, and punished very, very severely. The latest Financial Tsunami, dubbed as “Once in a Century”, has demonstrated that somehow all the key safety valves and gatekeepers have failed functioning properly to prevent excessive leverage and risk-taking within the financial system, leading to very heavy fiscal and social costs in the subsequent bail-outs.

4. Now the international community, led by G20, is trying very hard to draw lessons from this latest financial crisis. I sense that there is a very strong resolve to do something this time round. There is at present a long list of reform agenda items being debated internationally: these include strengthening financial institutions by requiring them to hold more capital and liquidity; changing compensation practices to discourage excessive risk taking by bankers and reforming regulatory structures to ensure more effective supervision, especially of large and complex firms that have systemic implications.

5. It is therefore very timely today that we have five very distinguished speakers joining this Panel to share with us their insights into this complex and important question of how we should go about reforming the international financial architecture and regulatory regimes in different jurisdictions. They are, by order of their appearance in the programme:

- (i) Mr Rintaro Tamaki, Vice Minister of Finance for International Affairs of Japan;
- (ii) Dr Jong-Goo Yi, Standing Commissioner of the Financial Services Commission of Korea;
- (iii) The Honourable Chris Bowen, Minister for Financial Services of Australia;

- (iv) The Honourable Mr Ahmad Husni Hanadzlah, Minister of Finance Two of Malaysia;
and
- (v) Professor KC Chan, Secretary for Financial Services and the Treasury, HKSAR.

I understand from the organiser that we will invite Professor Chan to speak first as he may need to leave earlier for the Legislative Council meeting. The order of other speakers will follow the programme. Professor Chan, please.