Presentation to the Conference on Asian Banking and Finance at the
Federal Reserve Bank of San Francisco
San Francisco, CA
By John C. Williams
President and Chief Executive Officer
For delivery on June 11, 2012

Welcoming Remarks

Good morning. I'm delighted to welcome you to the San Francisco Fed for our biennial international Asian Banking and Finance conference. Over the years, we've brought together policymakers, bankers, academics, and regulators to examine how global economic and financial trends are playing out in Asia. We initiated this conference series back in 2007, ten years after the Asian financial crisis of the late 1990s. This is our fourth gathering, and the theme this year is "Challenges in Global Finance: The Role of Asia." There is no shortage of important topics to explore over the next two days, particularly in light of the current European debt crisis and its effects on the global financial system.

It has been about five years since the beginning of the global financial crisis. In the United States, the health of the financial system has greatly improved. The largest and most complex banks are stronger in terms of capital and liquidity. Loan demand is improving. And most banks have returned to profitability. Recent stress tests indicated that, even under a severely adverse scenario, most of the largest banking companies would have adequate capital and could continue to lend.

In addition, we are making important strides in addressing flaws in our framework for supervising systemically important financial institutions. The Dodd-Frank Act responds to many of the lessons learned from the crisis. Importantly, it brings major nonbank financial companies into the regulatory framework. It creates disincentives for large companies to keep on growing in size, complexity, and interconnectedness. And it also creates a process to liquidate large financial companies in an orderly fashion. In these ways, Dodd-Frank helps address the too-big-to-fail problem. Similar efforts are under way in many countries, including in Asia. These should make the global financial system stronger and more resilient.

While the global financial system is stronger than it was three years ago, it remains vulnerable. The European sovereign debt crisis threatens banks in that continent, and, by extension, elsewhere. Clearly, it represents a significant threat to financial stability. In the worst case, the European crisis could undermine the financial improvements in North America and Asia. But this crisis is by no means the only risk. Economic trends in many parts of the world appear to be deteriorating. Although growth in the United States remains moderate, Europe looks to be in recession. And, in China, recent indicators point to a marked deceleration in growth. Many large global financial institutions remain highly leveraged and rely on volatile wholesale funding. Others are still working through troubled loan portfolios. Efforts by regulators to close loopholes exposed by the crisis remain a work in progress. They will take years to complete.

Asian financial institutions did not take part in the excesses that caused the financial crisis of 2007–09. Of course, they had been battered and bruised during the Asian financial crisis a decade before. In the aftermath of that episode, they built strong balance sheets with high capital levels and solid liquidity buffers. Still, most Asian banks were hit hard by the global crisis. When international credit markets froze in 2008, institutions across Asia faced severe funding challenges. This was especially so for banks that needed to raise U.S. dollars. Some institutions experienced marked deposit outflows as consumer and depositor confidence plummeted. And it wasn’t just Asia’s financial sector that got hit. The recessions in the United States and Europe spilled over to Asian economies through trade and investment channels. As in the West, consumer confidence fell and domestic demand for loans dropped sharply. Asian policymakers used many of the same tools that their counterparts in North America and Europe did to boost economic growth and strengthen their financial sectors, including aggressive monetary policy, fiscal stimulus, and regulatory reform.

At the same time, Asia played an important role in stabilizing the economic and financial situations. China's rapid growth supported economic activity in many parts of the world. Several Asian institutions contributed capital to U.S. and European banks. Others expanded internationally. Some Asian banks got new customers and footholds into new businesses. Moreover, Asian financial regulators participated actively in international efforts to redefine supervisory standards. Most recently, Asian governments have played vital roles in international initiatives to support stabilization efforts in Europe. Clearly, in today's interconnected economy, Asia is both affected by global financial events and positioned to influence them.

These observations bring me back to this conference. The sessions over the next two days will focus on global finance through an Asian lens. One of the strengths of this conference series is how it knits together questions of finance, banking, and supervision. We are fortunate to have a diverse and distinguished roster of speakers, discussants, and panelists. I'm certain we'll have a lively exchange of ideas. I want to thank my colleagues in the Division of Banking Supervision and Regulation for organizing and hosting this event, and all of you for taking part. Let me now turn things over to Walter Yao, who will introduce our keynote speaker.