



NATIONAL BANK OF CAMBODIA

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## **Opening Remarks**

by

**H.E. Chea Chanto, Governor of the National Bank of Cambodia**  
**SEACEN-Toronto Course on Recovery and Resolution Planning for Weak Banks**

**Siem Reap, 19-24 April 2015**

- **Mr. Hookyu Rhu, Executive Director of the SEACEN Centre,**
- **Dr. Phang Hooi Eng, Program Director of the Toronto Centre,**
- **Distinguished Resource Speakers, Ladies and Gentlemen,**

Good morning!

Today the National Bank of Cambodia has a great honor and pleasure to host this SEACEN-Toronto Course on Recovery and Resolution Planning for Weak Banks, in collaboration with the SEACEN Centre and Toronto Centre here in Siem Reap Province, after having concluded our New Year Celebration.

Taking this opportunity, I would like to warmly welcome honorable speakers and delegates from central banks of the SEACEN family to Cambodia and especially to our Ancient Capital City of Angkor in Siem Reap province. I would also like to express my sincerest thanks to Mr. Hookyu Rhu, Executive Director of the SEACEN Centre and Dr. Phang Hooi Eng, Program Director of the Toronto Centre for making this course possible.

I would say this course is truly important and provides an excellent opportunity for participants from the SEACEN members to enhance their analytical and technical knowledge on crisis preparedness and crisis management approach, and particularly on the resolution planning for failing or weak banks. This knowledge will be a key foundation for participants to well understand and later be able to design an effective recovery and resolution framework for the time when banks would come across trouble.

## **Distinguished resource speakers, ladies and gentlemen,**

Let me briefly share with you a few points about the rationale of having a strong resolution planning and framework and my views on key components required for an effective resolution framework.

Recent crises taught us several lessons, one of which is the necessity to have such a mechanism in place. If we look back to the financial crisis in 2008 after the collapse of Lehman Brothers, authorities widely realized that bank failures, in large ones and even in smaller ones, can severely cause financial instability, which then creates disruption and losses to economic welfare. What we notice is that the natural policy response from the Government is to bail out those banks, especially when they are considered as too big to fail. These bail-outs may have protected financial stability in the short term but they also constitute a substantial burden on fiscal position. The bail-outs obviously informed the banks about the existence of implicit government guarantee which may result in "Moral Hazard". And, the problem of Moral Hazard has a potential to further weaken market discipline and make future failures and crises more likely.

To deal with the issue of Moral Hazard and minimize the use of public funds, there is now a broad consensus on the necessity to have in place an effective resolution mechanism that will be able to deal with non-viable banks in an orderly fashion, and therefore, allows for the joint fulfillment of two important public policy objectives which are to maintain financial stability and protect taxpayers' money. A proper resolution framework, I would say, is an essential compliment to enhanced regulatory and supervisory framework.

To design an effective resolution framework, what are the key components in which policymakers, authorities, and practitioners need to consider? There are some views on which the course will probably elaborate and add complementary thoughts.

- First is sufficient power and independence given to designated authorities to intervene swiftly and decisively to achieve orderly resolution of a failing bank. The faster the intervention is, the less the likely burden that will have to bear subsequently.

- Power and Independence of decision making naturally goes with clearly defined mandates, roles and accountability of each relevant authority. This is the second key component I would like to highlight.
- Third is close coordination and cooperation between relevant authorities not only in one's own jurisdiction in which a failing bank operates but also with foreign home authorities when a bank has its subsidiaries or branches. Cross-border cooperation would also provide legal gateways and access to information sharing for better support and decision making on resolution. But such information sharing should be subject to confidentiality usually applicable to banking supervision.
- My fourth point is well-organized contingency planning. In order to proceed resolution in a speedy and orderly manner, the concerned authorities of course need to have well in advance the contingency planning on what form the resolution should be taken. This is quite important for a large complex bank that creates systemic risk. This contingency planning should at least identify the existing resolution options available for immediate actions, professional crisis management team, and assessment tools or tests on bank's condition to be done on a regular basis.
- Last but not least, I would like to emphasize on the need of enhanced regulatory and supervisory capacity to compliment and be in the resolution planning. The essence of strong banking regulation and supervision is widely agreed, as it would help protect financial stability, reduce problems of moral hazard and promote banks' attention and careful business, thereby reducing the number of unviable banks that must go into resolution process.

So, I would like to stress that the course you are attending is of utmost importance for central banks and supervisory authorities in the current context to be well prepared should banking crisis arise.

## **Distinguished resource speakers, ladies and gentlemen,**

I do hope that our resource speakers: Mr. Michael Zamorski, Mr. Jan Willem van der Vossen, Mr. Lee Poh Fong, and other experienced speakers will deliberate more on these concepts of crisis management approach and issues surrounding recovery and resolution mechanism, theoretically and practically. I am also excited to know that during this course, the participants will go through very useful simulation exercises that enable them to better understand and well prepare for what is likely to happen in the real situation. It is my hope that, by the end of the course, all of you will obtain additional technical expertise in this area and will be able to usefully apply the principles and measures to be taught in the coming days.

For these reasons, I would like to renew our deep appreciation for effective support from the resource speakers, the SEACEN Centre, and the Toronto Centre and also for your kind cooperation in participating in this workshop.

For this course, I learned that you went on the tour program yesterday to a few famous temples in Siem Reap. I hope you enjoyed it and further find time out of your tight schedule to visit more interesting places, do shopping at night markets, and get to know more about our people, history and culture, beside class activities. I can say that there are many more exciting attractions you can explore.

Also, our team from the National Bank of Cambodia organizes a welcome dinner for distinguished guests, resource speakers and participants in this evening. In this regard, I would like to cordially invite you all to the welcome dinner.

Finally, I wish you all good luck and I sincerely hope that you will have a very pleasant stay in our ancient capital city of Siem Reap Angkor. Now, let me wish you again an active and fruitful learning experience.

**Thank you!!!**