

Session 3: Enhancing Cross- border Transactions and Liquidity of Bond Markets

**Workshop on Developing Asian Bond Market in Financial Crisis:
New Roadmap and Regional Financial Cooperation**

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Topics

- Why worry about cross-border?
- How big is the cross-border segment today?
- What are the main barriers to cross-border activity?
- How can these barriers be reduced?
- ABMI study

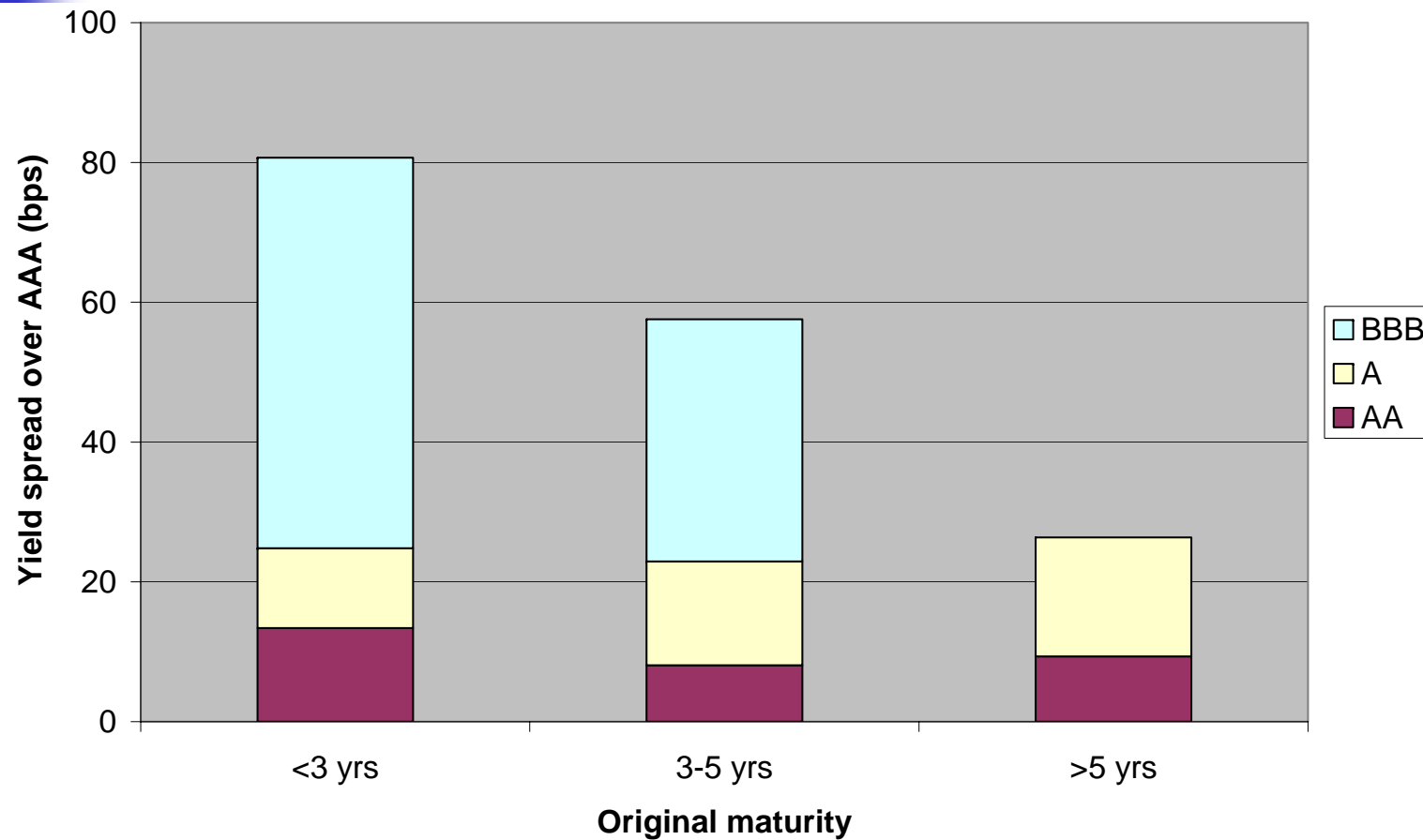


Importance of cross-border bond investment

- Promote depth and liquidity in the local bond markets
- Help integrate the local markets with global markets
- Provide an alternative investor base for issuers
- Allow investors to diversify

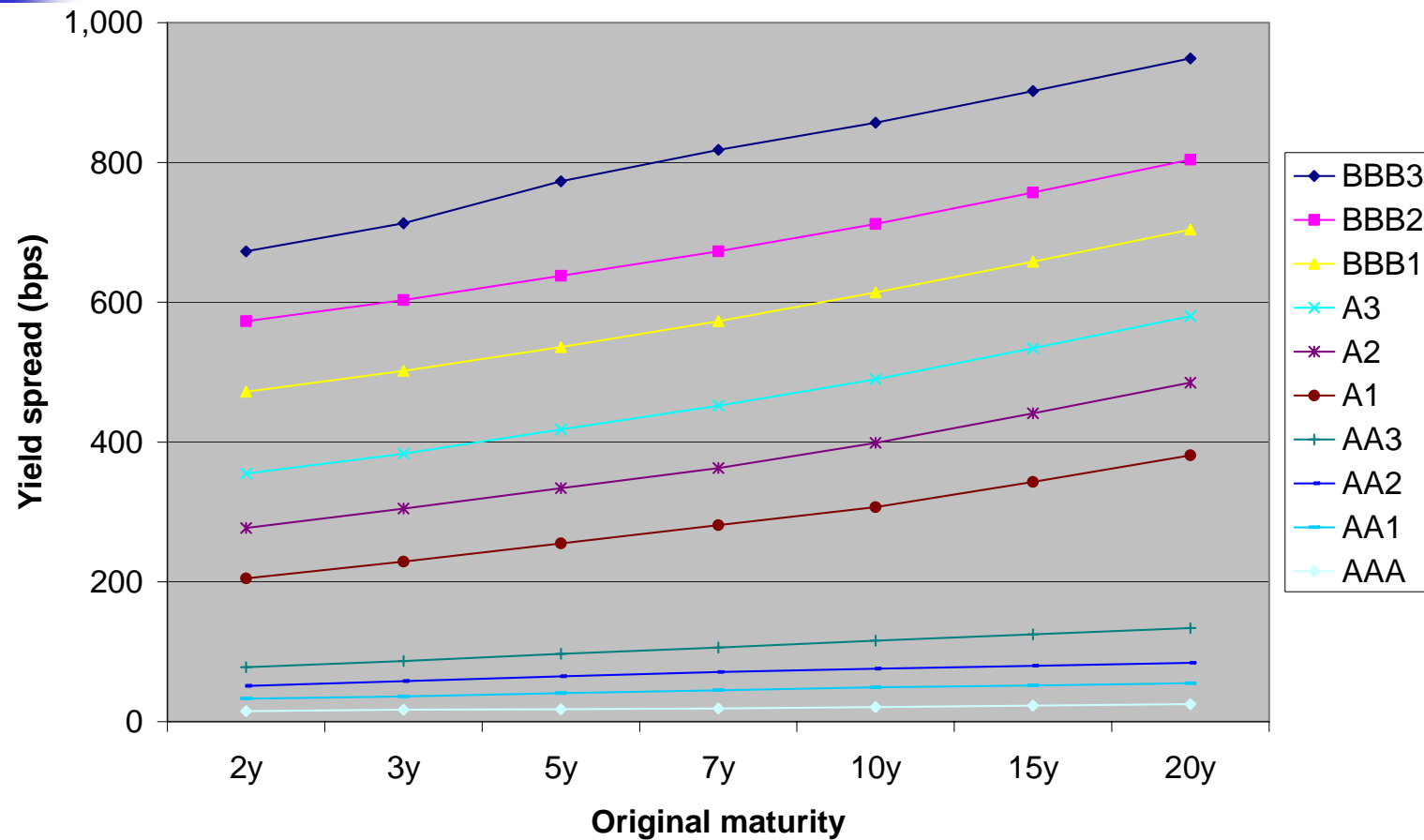
Thailand - corporate bond yield spreads by rating and tenor

Yields over AAA bonds, as at 30 Jun 08



Malaysia - corporate bond yield spreads by rating and tenor

Yields over AAA guaranteed bonds, as at 30 Sep 08

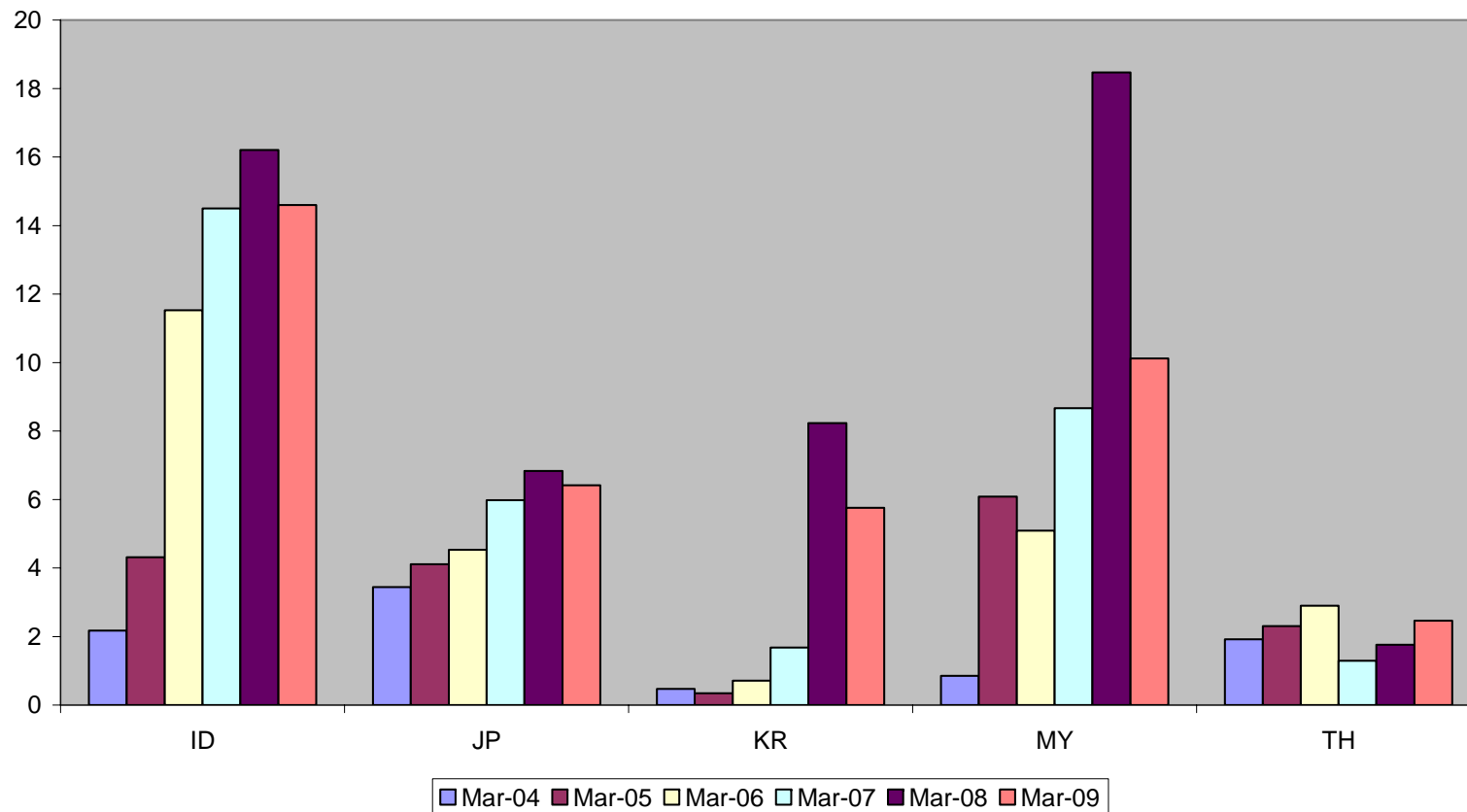




Data on cross-border investment

LCY government bonds Foreign holdings % 2004-09

LCY government bonds - foreign holdings %





Identifying the barriers



ABMI study

- Group of Experts formed under ABMI
- ASEAN+3 bond markets
 - Costs of cross-border investment
 - Barriers to cross-border investment
 - Regional settlement infrastructure
- National and international members
- First meeting in April 2008
- Report due early 2010

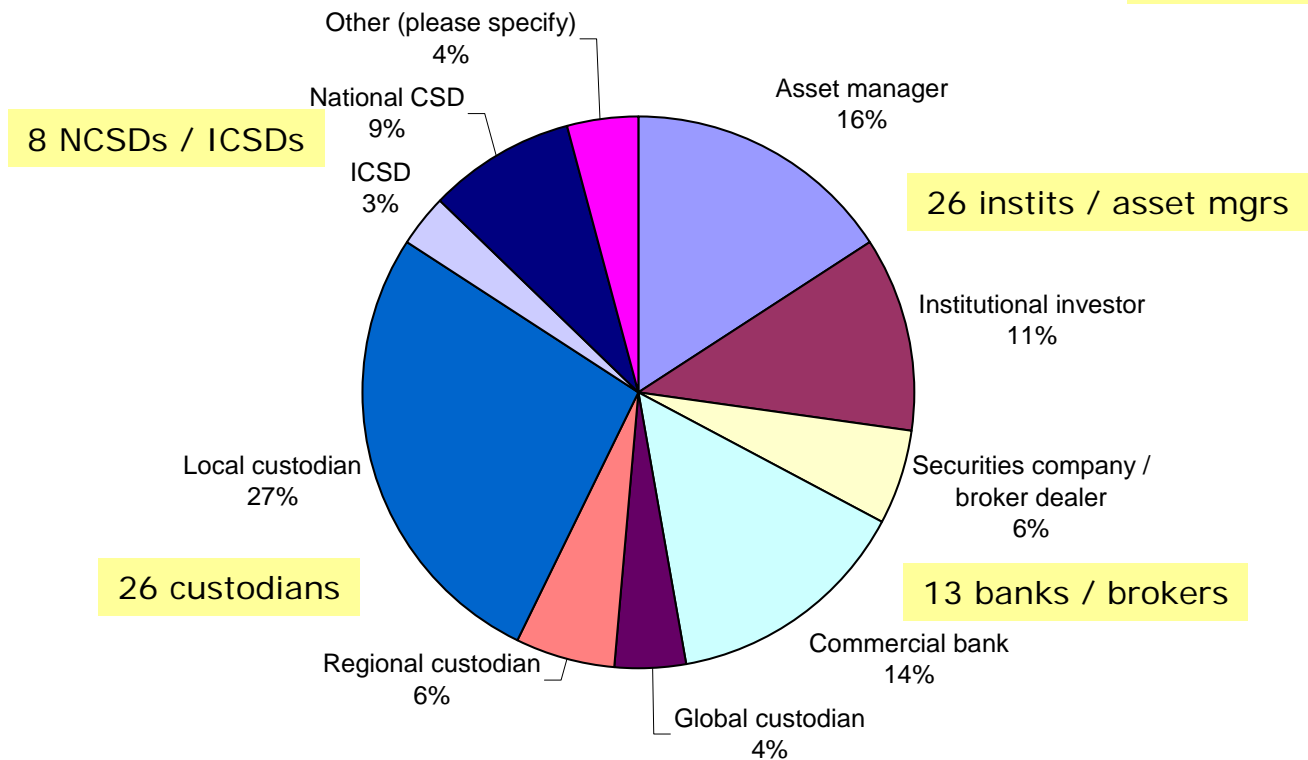


What did the study include?

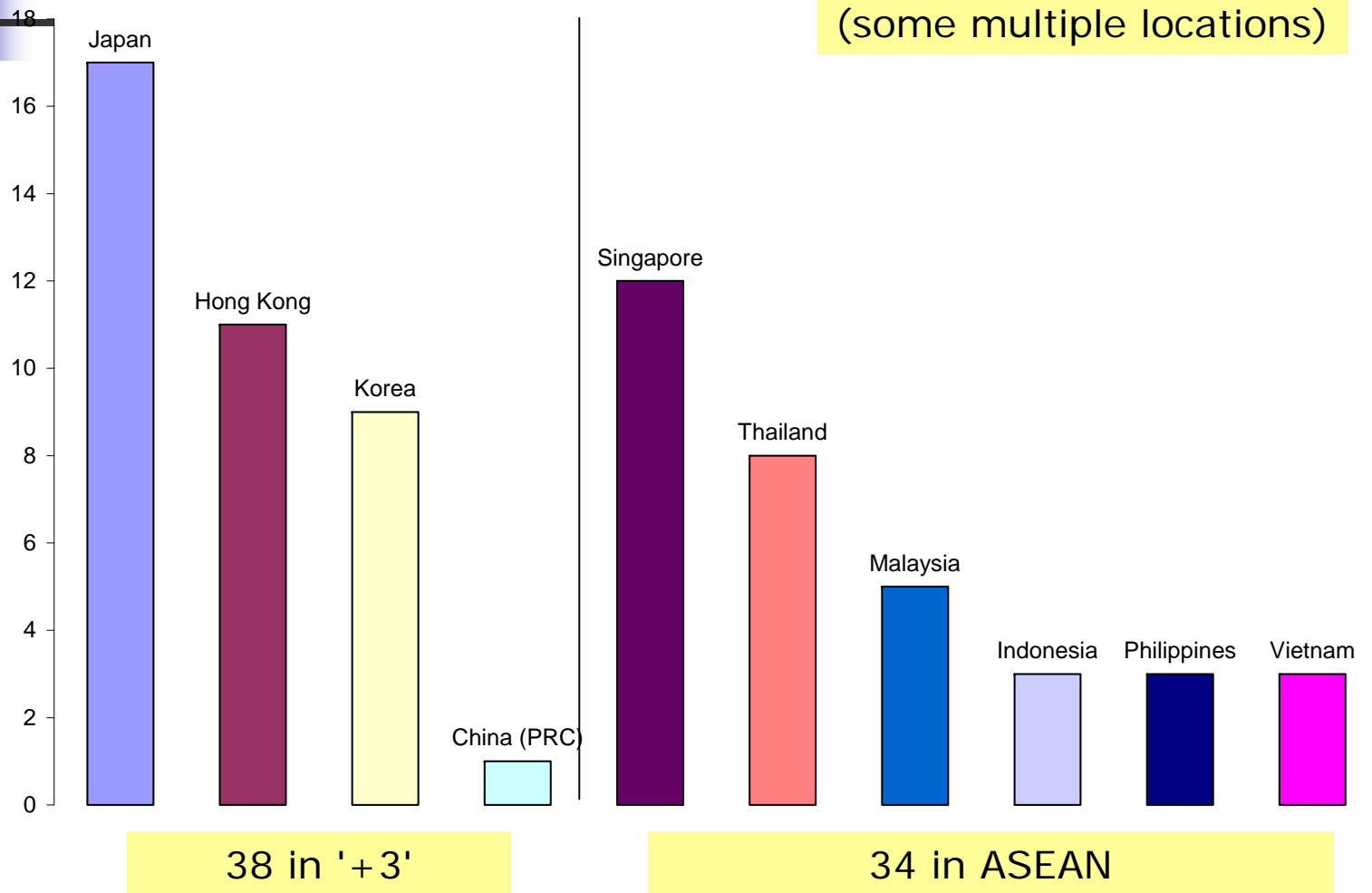
- Survey of market participants
- Market consultations - HK, Japan, Singapore
- Market profiles
- Market assessments
- Recommendations and a roadmap

Survey respondents - sectors

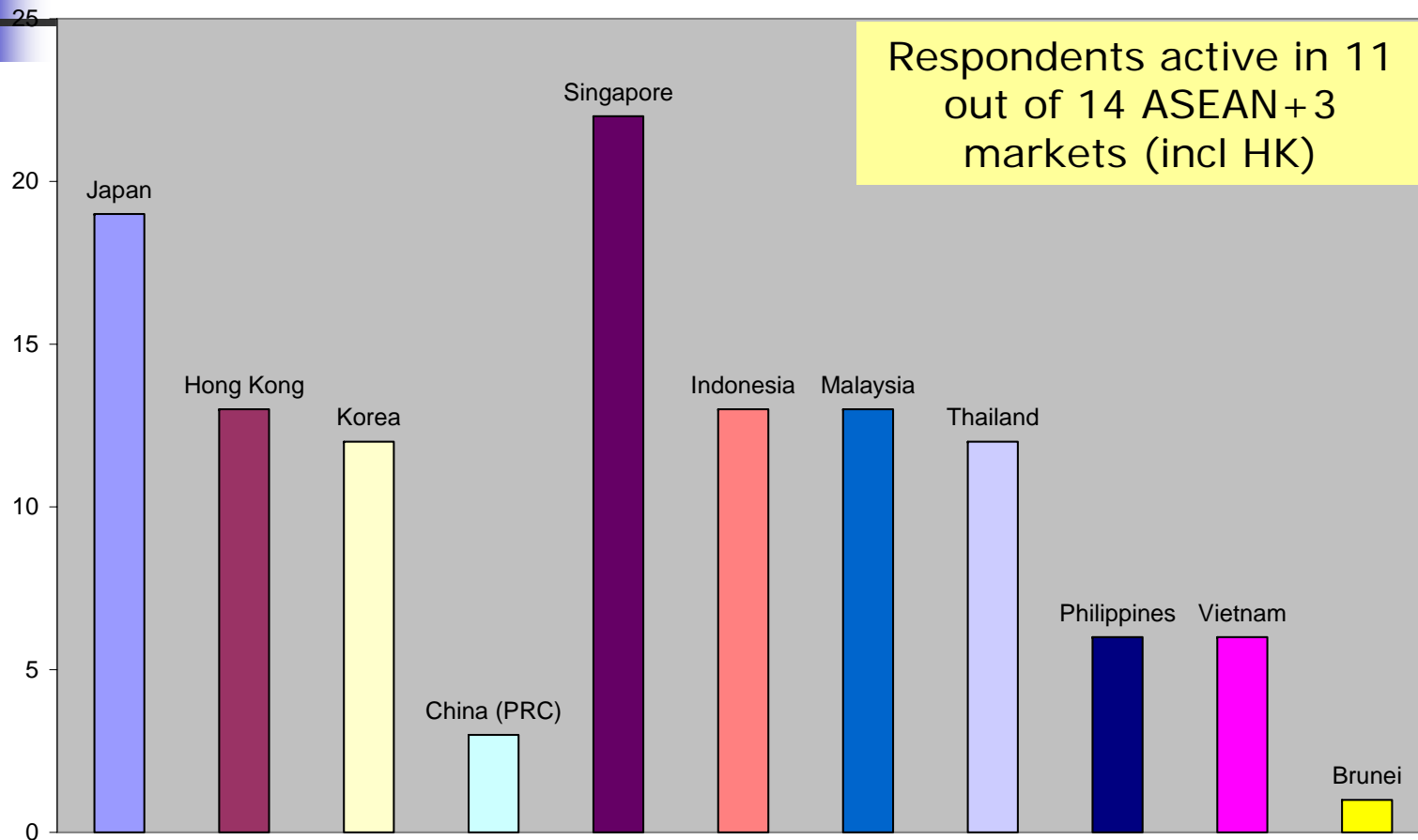
(some multiple roles)



Survey respondents - locations



Survey: Bond markets covered



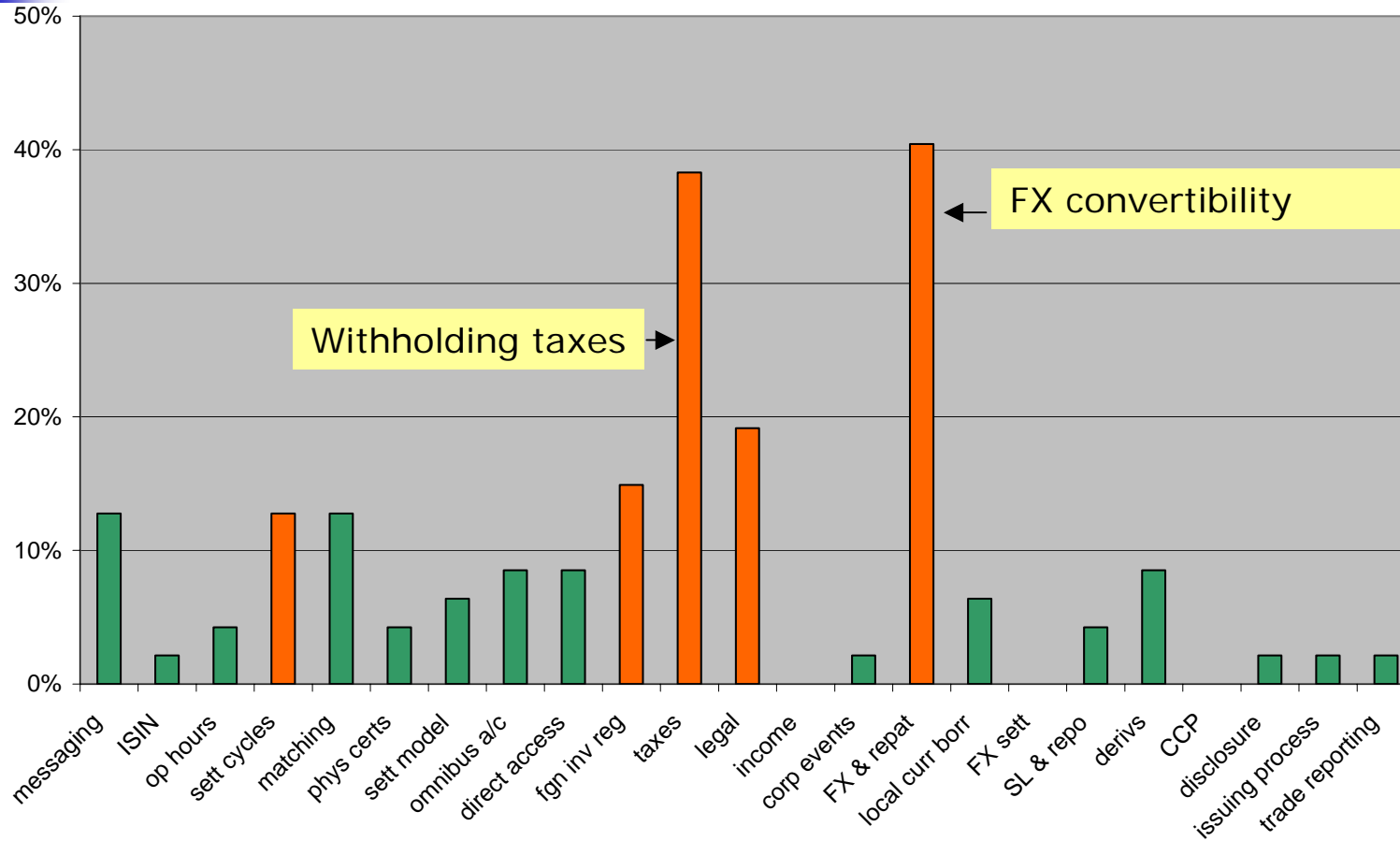
(some multiple markets)




Main barriers mentioned by respondents

- Regulatory barriers:
 - Currency exchange restrictions (85%)
 - Cash repatriation restrictions (77%)
 - Withholding tax (72%)
 - Investor registration process (73%)
 - Lack of omnibus accounts (55%)
- Operational barriers:
 - Non-use of ISIN (74%)
 - Lack of trade matching (65%)
 - Settlement cycles (60%)
 - Non-use of SWIFT (59%)
- Informational barriers:
 - Lack of uniform rating requirements (67%)
 - Lack of uniform disclosure requirements (61%)

Question 25: What aspects would you most like to see improved?





Market access: Quotas and investor registration requirements

- Only 3 markets require foreign investor registration
 - China, Korea, Vietnam
- Perception vs reality
 - e.g. Korea
 - Vietnam recently simplified requirements
- Findings:
 - Not a major problem for most markets, but should be made simple
 - Onerous documentation, time to process are the main barriers
 - Quotas: Equities crowd out bonds



FX controls: Purchase, sale and repatriation of funds

- Typically need evidence of underlying trade
- FX may have to be executed later than bond trade, and via custodian, paperwork can be onerous
 - China, Indonesia, Philippines (BSRD), Vietnam (mainly a liquidity issue), to some extent Thailand
 - Korea liberalised, but perception remains
- Findings:
 - Need not be a major problem if process is streamlined
 - Need for evidence of prior trade before FX can be executed
 - Onerous documentation / delays in approval
 - Restrictions on repatriation



Cash controls: Credit balances, overdrafts and other restrictions

- Few markets now restrict cash credit balances
 - Thailand THB 300 million limit
- Overdraft restrictions are common
 - Indonesia, Korea, Philippines, Thailand, Vietnam, to some extent Malaysia
- Difficulties in timing of sales and purchases, increases cost of holding assets
- Findings:
 - Relaxation of overdraft restrictions (e.g. allow intra-day, short-term) would help investors access the markets



Withholding taxes: Rate, complexity, administration, clarity

- Commonly mentioned problem
 - Indonesia, Philippines, Vietnam
 - To some extent China (lack of clarity), Japan, Korea (NB Korea proposing to remove)
- Some markets largely exempt foreign investors
 - HK, Malaysia, Singapore, Thailand
- Findings:
 - A potential major barrier. Investors accept taxes but want simple rules and procedures, certainty, exemption at source, etc
 - Investor perception may not always be in line with actuality



Omnibus accounts

- Processing efficiency
 - Local custodian at depository
 - Foreign investors at local custodian
- Provide flexibility and convenience, lower cost to the investor
- Only 2 markets restrict for foreign investors
 - China, Korea (Korea now allows for ICSD's T-bond holdings)
- Findings:
 - No longer a major problem in most markets
 - Biggest single obstacle to ICSDs



Settlement cycle

- Clear preference among foreign investors for T+2 / T+3 settlement
- Findings:
 - Not a major problem, however:
 - May affect investors who have centralised settlement in non-Asian time zone
 - May restrict ability to execute spot FX



Messaging and securities numbering

- Seen as problem in 4 markets
 - Indonesia, Philippines, Thailand, Vietnam (recently improved)
- Local broker / fund manager systems can be the barrier to progress
 - Local CSDs can take the lead
- Findings:
 - Markets are moving to international standards, but progress is slow
 - Local depositories often do not use
 - IT investment by local participants
 - This is a do-able step that does not conflict with other policy objectives



Regulatory environment

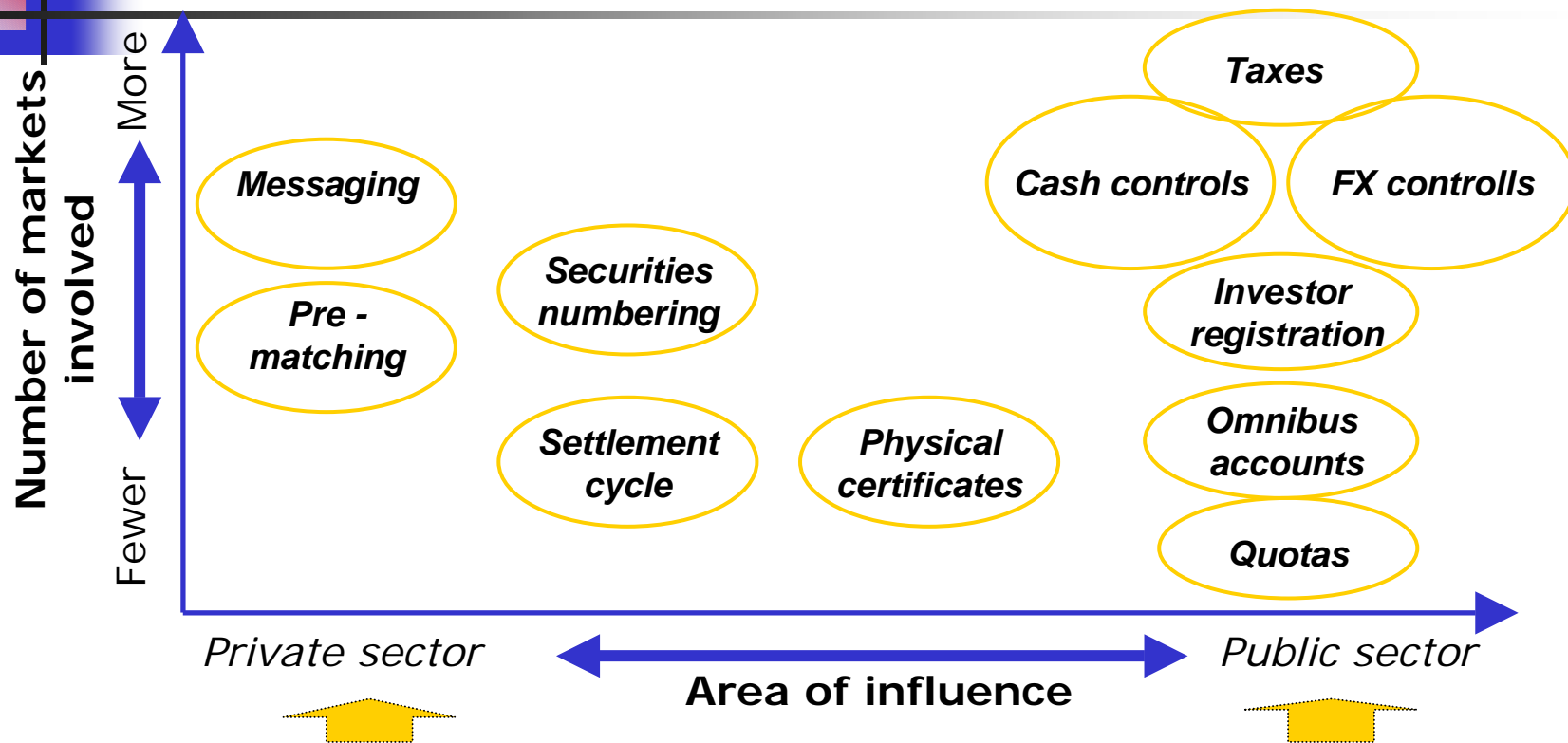
- Market consultations
- Clarity and consistency
- Avoiding major U-turns
- 'Regulatory risk' a major concern



Legal environment

- Finality of settlement laws
 - Needed for CLS eligibility
 - Models exist in EU, UK, HK, Singapore...
- Bankruptcy laws / netting / close-out

Classification of barriers



Improve information flows in the markets

Timely information, uniform disclosure, price transparency, market statistics, and legal information such as bankruptcy and insolvency laws.

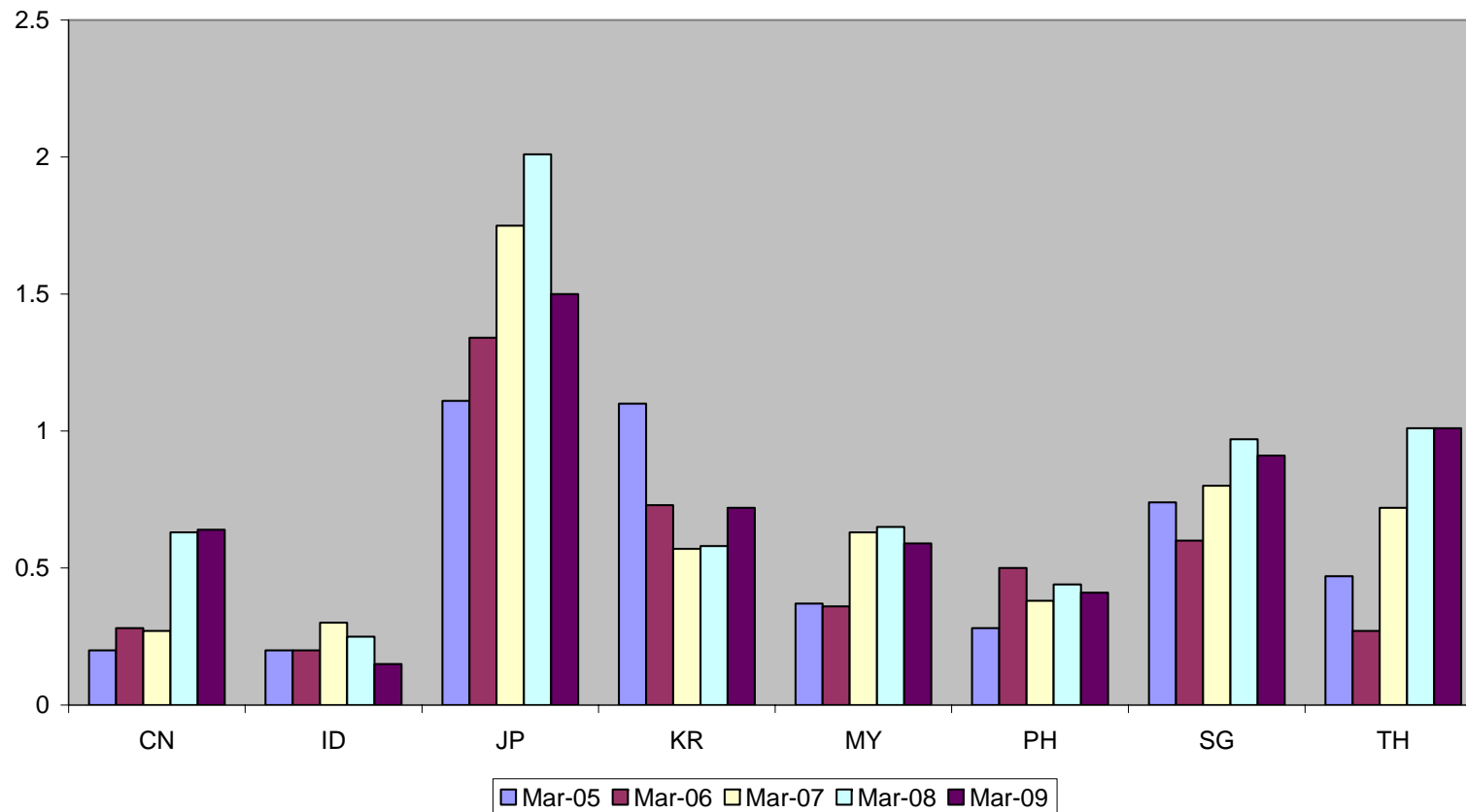


Trading barriers

- Liquidity
- Risk management / hedging
- Transparency

LCY government bonds Turnover ratio 2005-09

LCY government bonds - turnover ratio



Reforms needed to improve liquidity: the market makers' view

	Average	CN	HK	ID	JP	KR	MY	PH	SG	TH	VN
Government bonds											
Increasing diversity of investors	3.49	3.75	3.5	3.2	3.25	3	4	3.8	3.5	3.25	3.6
Increased availability of hedging products	3.33	3.25	3	3.4	3.75	2.67	3.67	3.4	3.75	3	3.4
Increasing intraday price transparency	3.12	2.75	3	3.6	3.5	3	3.33	3	3.25	2	3.8
Improving repo markets	2.9	2.5	2	3.6	2.5	2.67	3.33	3	2.75	3	3.6
Increasing tax incentives	2.69	1.5	3	3.4	2.5	2.33	2.67	3.2	3.25	2.25	2.8
Improvements to clearing and settlement	2.68	1.75	2.5	3	3.75	2.67	1.67	3.2	3.25	2.25	2.8
Mandatory bid-ask spreads by market makers	2.49	2.25	3	3.25	2	2.33	2	2.5	2.5	2.5	2.6
Corporate bonds											
	Average	CN	HK	ID	JP	KR	MY	PH	SG	TH	VN
Increasing diversity of investors	3.39	3.75	3	3.4	3	3.67	3.75	3.6	3.33	3	3.4
Increased availability of hedging products	3.12	3.5	3	2.8	2.75	2.67	3.75	3.4	3.33	2.75	3.2
More consistent secondary market pricing	3.08	3	3.5	3.4	3.25	2.33	3	3	3.33	2.75	3.2
Greater access to credit derivatives	3.07	3.5	3	2.6	3.25	3.67	3.33	3.8	2.33	2.25	3
Increasing tax incentives	2.93	2.5	2.5	3.6	3.25	2.5	2.75	3.4	3.67	2.5	2.6
Credit rating harmonization	2.83	3	3	2.8	2.75	1.67	3.25	3	2.67	2.75	3.4
Introducing pricing agencies	2.66	3.25	2.5	3.2	2.75	1.67	2.75	2.8	2	2.5	3.2
Greater multilateral issuance	2.63	3	3	2.4	2.5	1.67	3	2.8	2	2.5	3.4
Greater access to guarantees	2.57	3.25	3	2.4	2.75	1.67	3	2.8	2	2	2.8



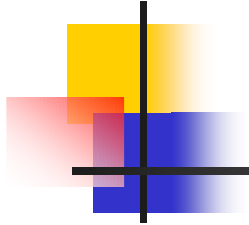
Transparency

- Issuer disclosure standards
- Uniform rating standards
- Trade reporting
 - Central reporting system
 - Timeliness
 - Bond pricing



Summary

- Cross-border investment is important
- Lack of comprehensive data on cross-border flows
- Main barriers are taxes, FX controls, cash controls
 - Not so much the existence of controls as the way they are operated
 - Importance of regulatory risk
- Perception gap, importance of up-to-date information
- ABMI study - a roadmap to reducing the barriers



Thank you!

Q&A

Further information:

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