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BOND MARKET DEVELOPMENT: PERSPECTIVES FROM THE ASIAN BANKING SECTOR

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Distinguished guests, ladies and gentlemen, good morning.

Before I begin, let me express on behalf of the Asian Bankers' Association our appreciation to the ADB Institute, ABAC and PECC for inviting me to present the ABA's views in this conference.

Banks in Asia have an interest in the development of domestic and regional bond markets. This is crucial for financial stability in Asia, where banks play a dominant role. Deep and liquid bond markets offer a way to cushion the impact of banking crises when they arise.

Banks are also major players in Asian bond markets. Banks have been actively borrowing in these markets since the Asian crisis in order to recapitalize. They also hold substantial portions of local currency bonds in the region. Banks and affiliated securities firms are active in underwriting domestic corporate bonds.

Developing Asia's domestic bond markets and promoting the emergence of a regional market require progress in a number of areas.

Central to the success of these efforts is **ensuring more effective coordination**. First, coordination *among agencies* involved in various aspects of bond market development. These include those responsible for sovereign debt management, financial sector development and regulation, fiscal and monetary policy, and taxation.

Second, coordination *between the public and private sectors*. This is essential for promoting private sector issuance, holding and trading of bonds. Inputs from the private sector will be valuable in the design and reform of policies and market infrastructure.

Third, coordination *among governments*. APEC has tremendous potential to serve as a forum for sharing experiences between advanced and emerging markets, and for private sector participation, particularly through ABAC and PECC. We believe that APEC should develop a more permanent mechanism to deal with bond market development as a long-term objective. This mechanism could be established within the Finance Ministers' process to address key issues over the next few years.

What are these key issues? Within the ABA, our member banks have identified a few, which we believe should be given priority by governments. These have also been the subject of our policy advocacy efforts over the past several years.

The first is **improving the reliability and comparability of credit ratings for local currency bonds**. Five years ago, the ABA commissioned a study entitled “Development of Regional Standards for Asian Credit Rating Agencies.” This study recommended that local rating agencies in Asia form a regional association and seek the help of the ADB to promote the regional convergence of rating practices. This has become a reality, with the establishment of the Association of Credit Rating Agencies in Asia, or ACRAA, and its cooperation with the ADB.

I am happy to note that the decision to establish ACRAA was made in this very same place four years ago, at a conference of Asian rating agencies that was co-organized by Jeffrey Koo on behalf of the ABA, Masaru Yoshitomi who was then dean of ADBI and former ADB president Masao Fujioka, who was at that time president of Japan Credit Rating Agency.

We still have a long way to go in developing the capacity of Asian rating agencies and credit ratings that are useful for regional investors. Thus, we would like to see the cooperation between ADB and ACRAA continue and expand in the years ahead.

The second area is **promoting regional convergence toward robust global accounting standards**. This would significantly reduce the costs of comparing opportunities across borders. Robust accounting standards are also the foundation of reliable credit ratings. Improvements in this area are therefore needed to promote investment, particularly across borders, in the region’s bond markets.

Much progress has been achieved with the development of the International Financial Reporting Standards, or IFRS. However, much remains to be done. First of all, IFRS need to more fully take into consideration specific concerns in Asia. Second, the need for capacity-building must be addressed, in particular to improve accounting expertise among users and makers of financial statements, as well as auditors and regulators.

APEC could play a catalytic role in this area. It could undertake capacity-building to assist developing economies in their convergence efforts. It could also provide a regional forum for accounting standard-setting bodies to facilitate convergence and provide regional inputs into the work of the International Accounting Standards Board.

The third area is **promoting effective region-wide insolvency and creditor rights systems**. In a number of Asian economies, credit discipline is weak. Investors find it difficult to assess their risks with a high level of predictability and confidence, especially when it comes to cross-border investment.

The ADB has done a lot of work to help address these issues. This includes proposals on a regional arrangement for cross-border recognition of insolvency administrations, promoting consistency between insolvency and secured transactions laws and practices, and promoting insolvency law reforms. It is now up to the public and private sectors, and regional organizations such as APEC, to translate these ideas into reality.

We in the ABA are doing our part in this process. We are currently working with the ADB to develop a model agreement for informal work-outs that can find acceptance among financial institutions throughout the region, starting with our member banks.

As you know, informal work-outs provide a less costly and more efficient and flexible alternative to the legal process in resolving financial difficulties of debtors. However, informal work-outs can only be viable if the enforceability of insolvency law regimes are effective enough to provide a credible threat. Thus, we need the collaboration of governments in this long-term undertaking.

The fourth area is the **development of asset-backed securities and credit guarantee markets in the region**. We believe there is considerable potential for the long-term growth of these markets, and for these to help accelerate the growth of bond markets. We welcome the efforts undertaken by APEC in this area. I will not go into further details, since this topic will be discussed tomorrow in Session 6.

But let me just mention the key measures that we in the ABA have identified to promote these markets. The first is the development of consistent and clear legal and tax frameworks, drawing on existing legislation that can be used as models.

The second is regulatory reform to facilitate the process of asset securitization. This includes streamlining of approval schemes, clear and transparent requirements for financial institutions, and the updating of regulations to facilitate synthetic securitization, among others.

The third is encouraging and supporting private sector efforts to develop the market, including efforts to standardize debt obligation contracts, strengthen underwriting and servicing standards and educating domestic investors regarding securitized assets.

The fourth is stimulating the development of asset-backed securities and credit guarantee markets at their early stages. This would include securitizing public assets and encouraging financial institutions to take the lead in developing credit guarantee markets.

These are areas where the ABA believes intensified efforts can accelerate bond market development. For those who are interested in further details, I would refer you to our position papers, which can be viewed in our website. We continue to explore other areas where we as an organization can provide valuable inputs and collaborate with the public sector.

For over six years now, the ABA has been advocating the development and integration of Asia's bond markets. Our member banks welcome the initiatives that have been undertaken by APEC and ASEAN Plus Three, which have been progressing with the support of governments in the region, as well as the ADB.

We hope that governments intensify these efforts and work closely with the private sector to strengthen domestic bond markets and promote the emergence of a commercially viable regional bond market. The ABA is prepared to actively engage in partnership with the public sector to attain these objectives.