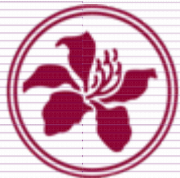


# **OECD-ADBI 10<sup>th</sup> Roundtable on capital market reform in Asia**

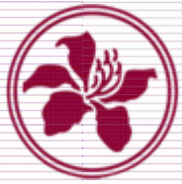
**2-3 March 2009**

The views expressed in this presentation are the views of the author and do not necessarily reflect the views or policies of the Asian Development Bank Institute (ADBI), the Asian Development Bank (ADB), its Board of Directors, or the governments they represent. ADBI does not guarantee the accuracy of the data included in this paper and accepts no responsibility for any consequences of their use. Terminology used may not necessarily be consistent with ADB official terms.



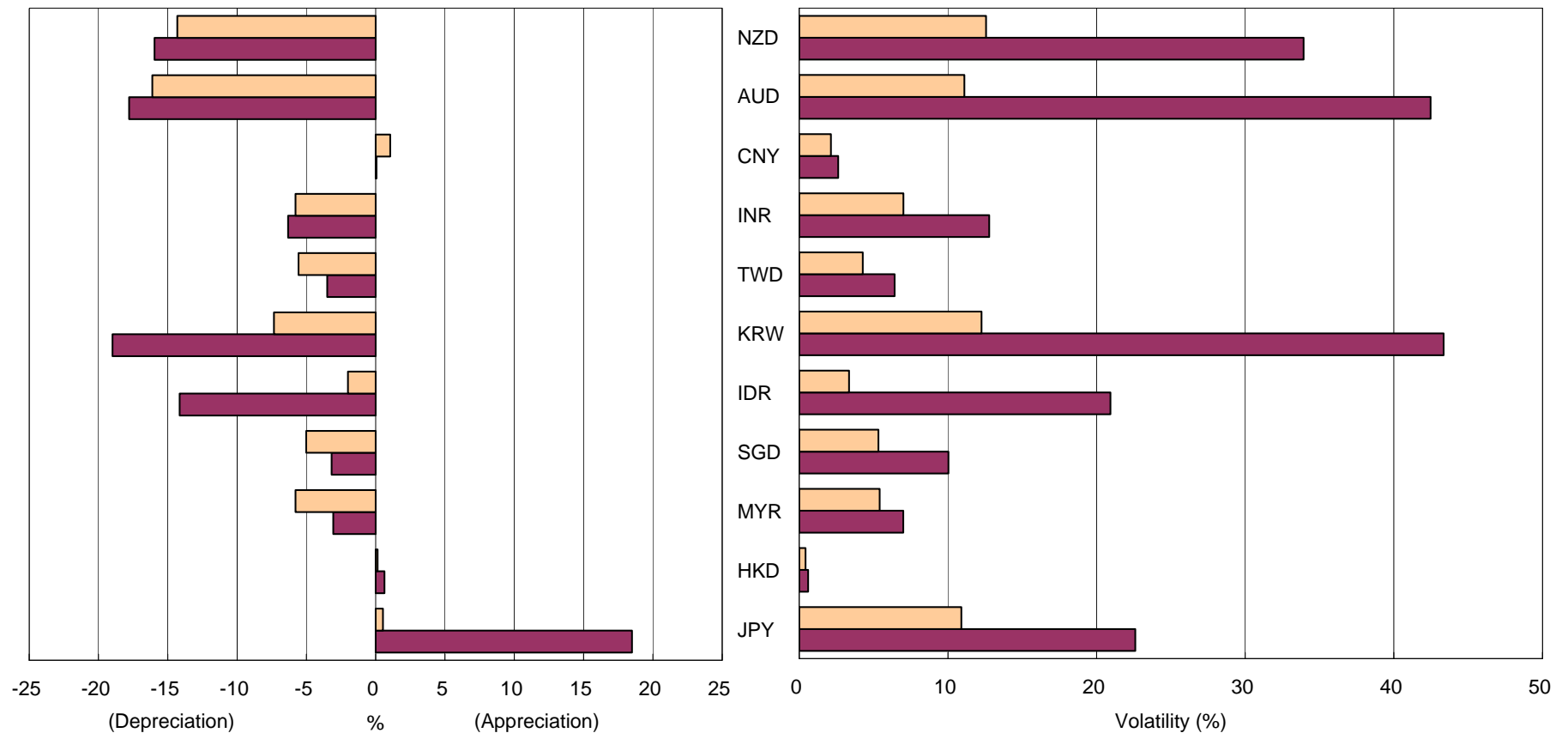
# Outline

- **Impacts of the global financial crisis on the Asian markets**
  - Financial channels
  - Trade channels
- **Policy responses to the crisis worldwide**
- **Hong Kong's regulatory responses**
- **Challenge ahead – second wave**

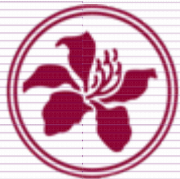


# Impacts on Asian markets (I)

*Exchange rates depreciated and volatilities increased*



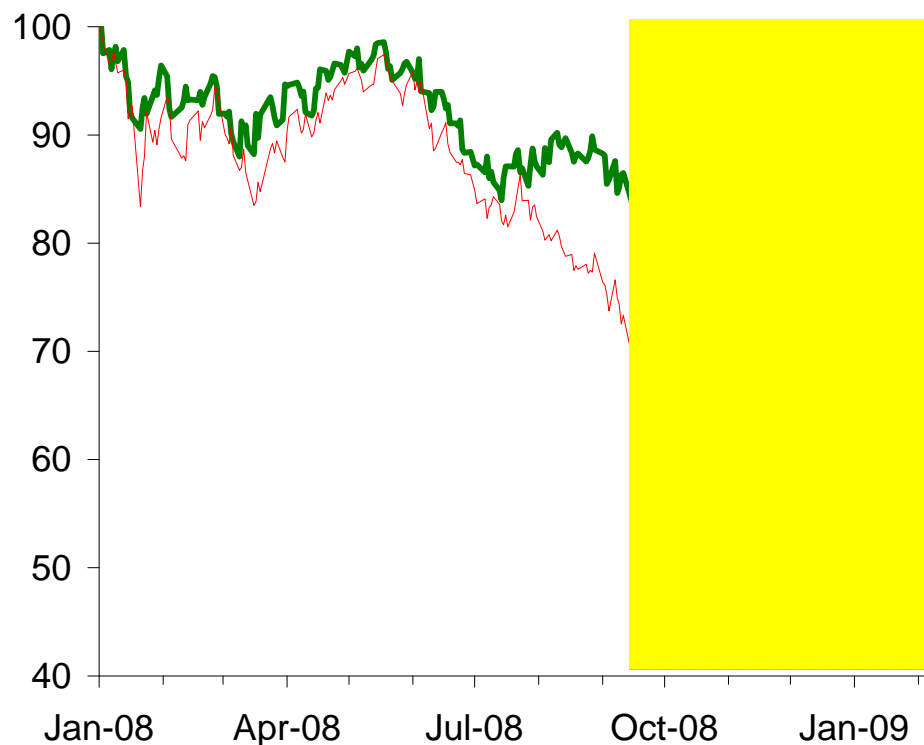
■ Three months after the failure of Lehman Brothers ■ Three months before the failure of Lehman Brothers



# Impacts on Asian markets (II)

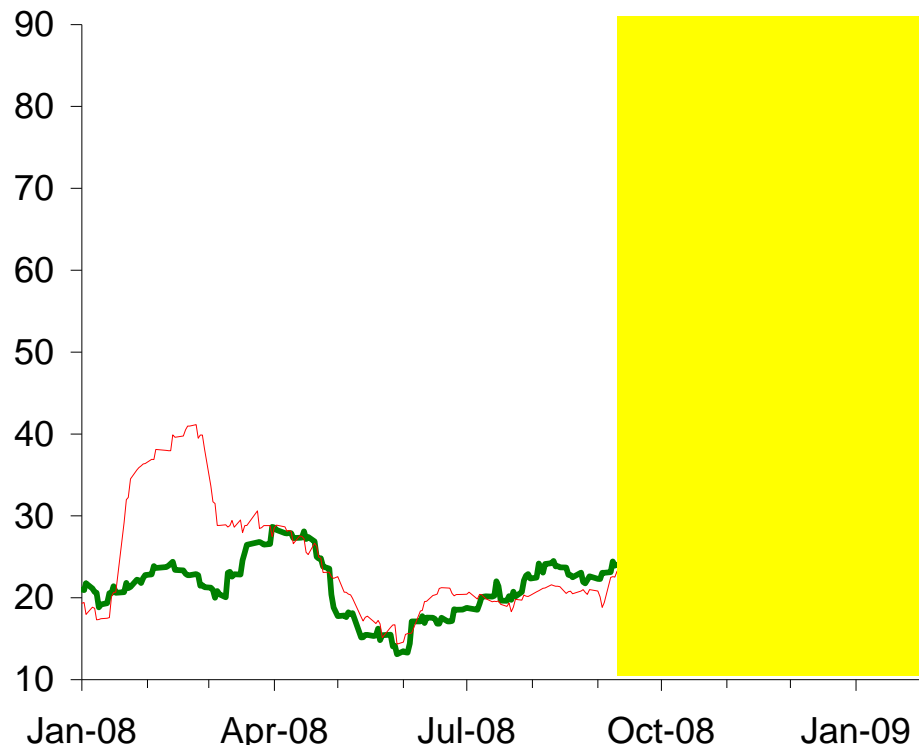
*Equity prices plunged and volatilities rose markedly*

2 Jan 2008 = 100

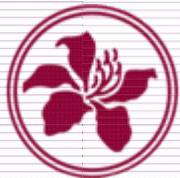


— S&P 500

Volatility, %



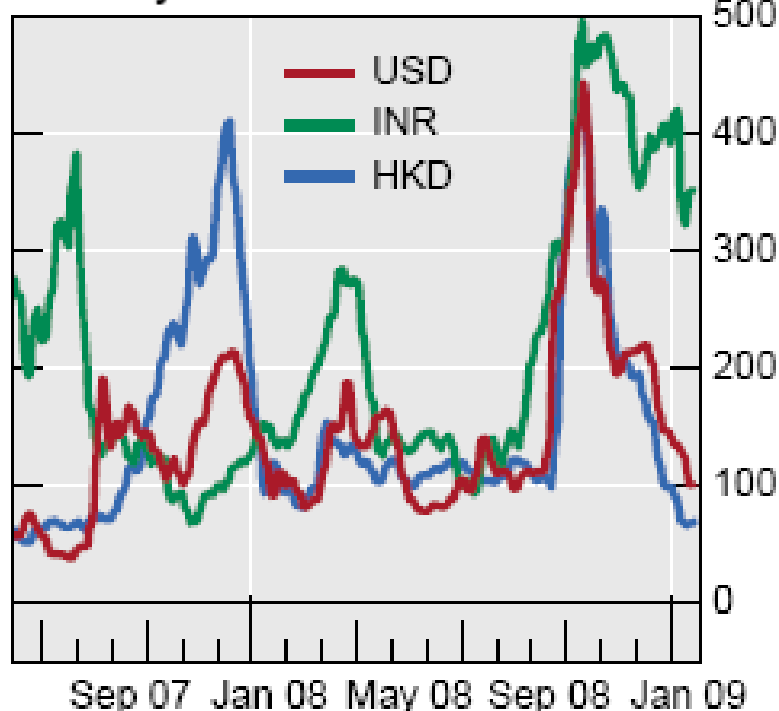
— MSCI Asia Pacific



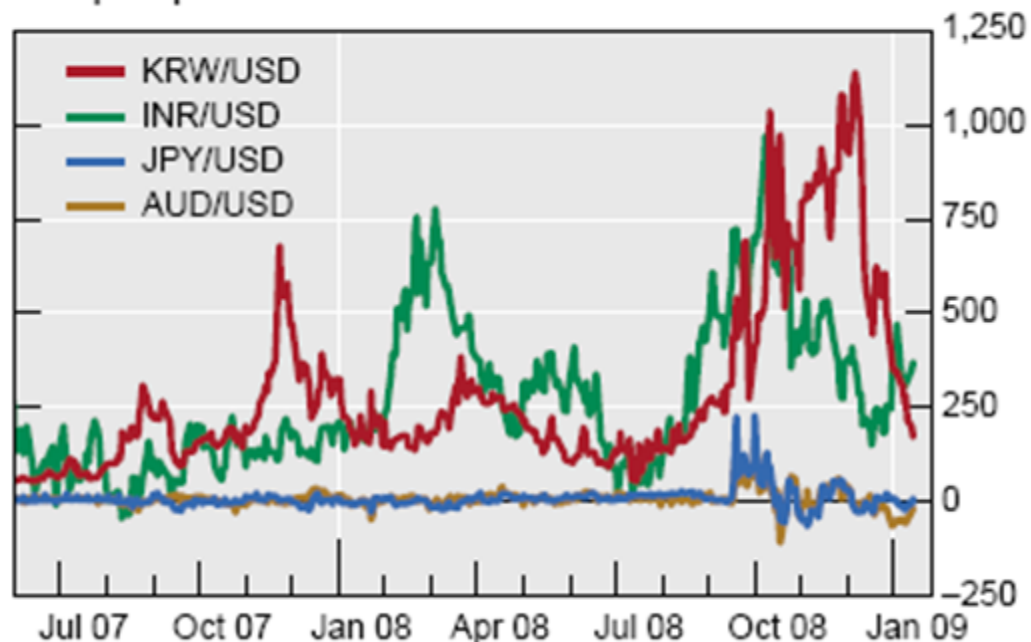
# Impacts on Asian markets (II)

## Money markets came under stress

Spreads between interbank and Treasury bill rates<sup>1</sup>

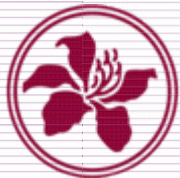


Swap-implied US dollar rates over Libor<sup>2</sup>



AUD = Australian dollar; JPY = yen; KRW = won; HKD = Hong Kong dollar; INR = Indian rupee; USD = US dollar.

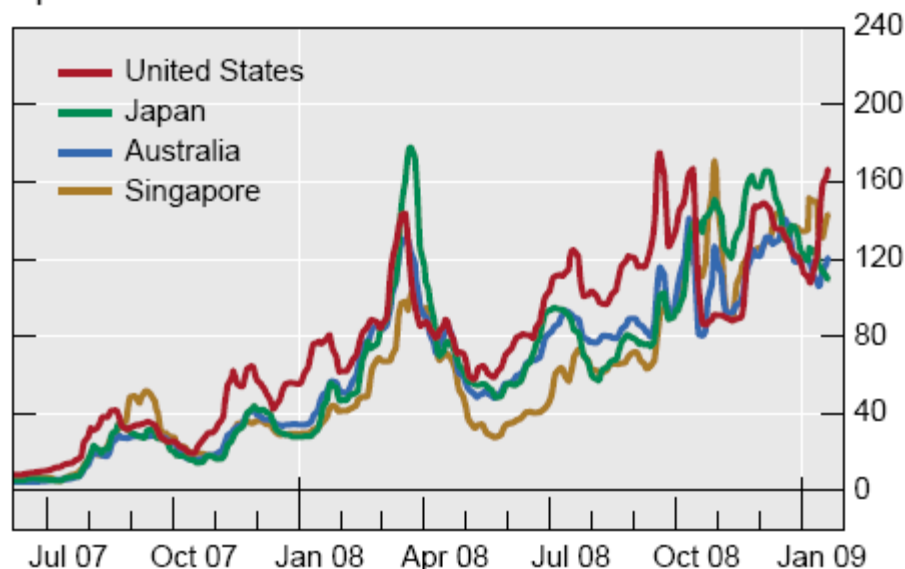
<sup>1</sup> Five-day moving average, in basis points; updated to 20 January 2009. Based on three-month interest rates. <sup>2</sup> Spreads between US dollar interbank rates implied by covered interest parity and three-month US dollar Libor, in basis points; implied rates are calculated from forward and spot exchange rates against the US dollar and local onshore interbank rates.



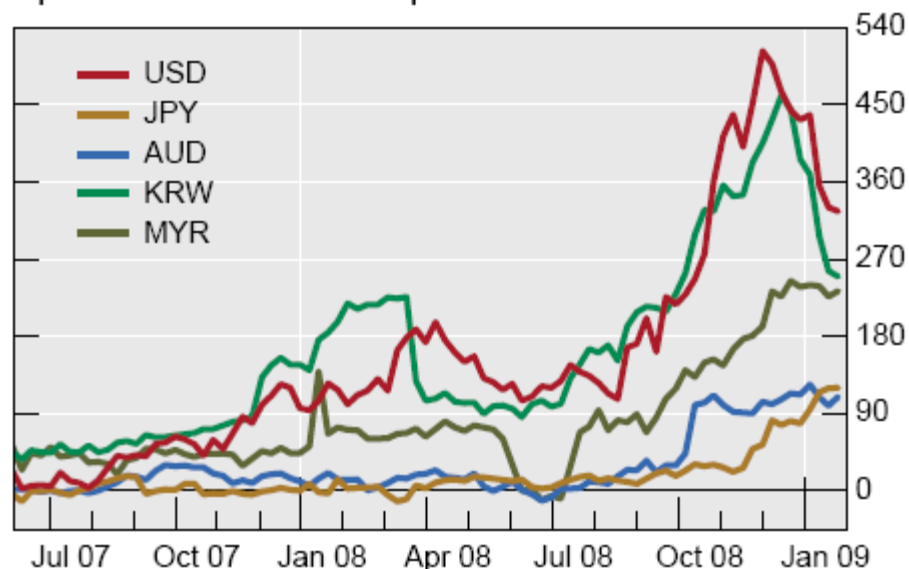
# Impacts on Asian markets (IV)

## Credit market condition tightened

Spreads on US dollar CDS for banks<sup>1</sup>

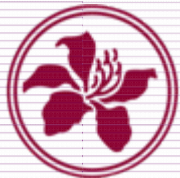


Spreads on AA-rated corporate bonds<sup>2</sup>



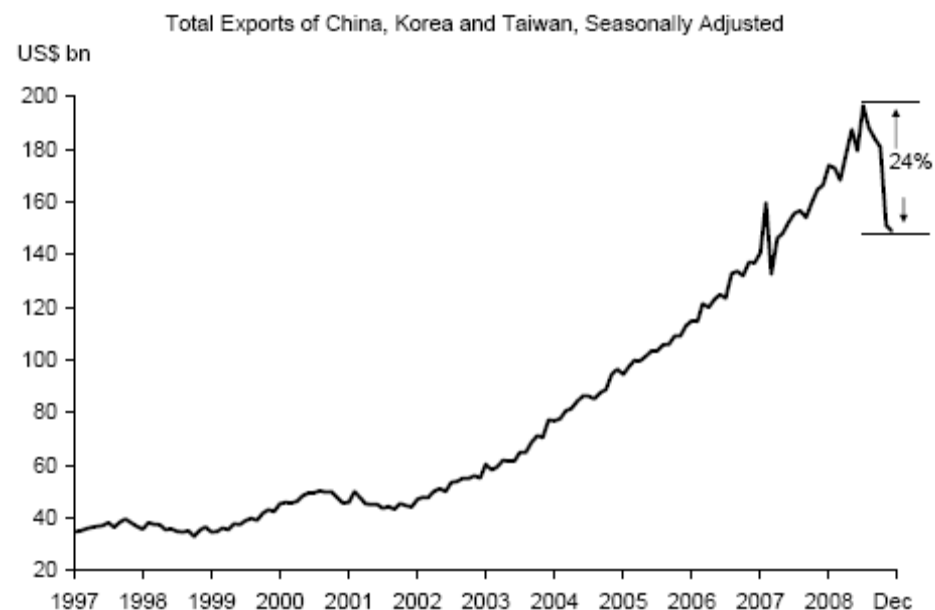
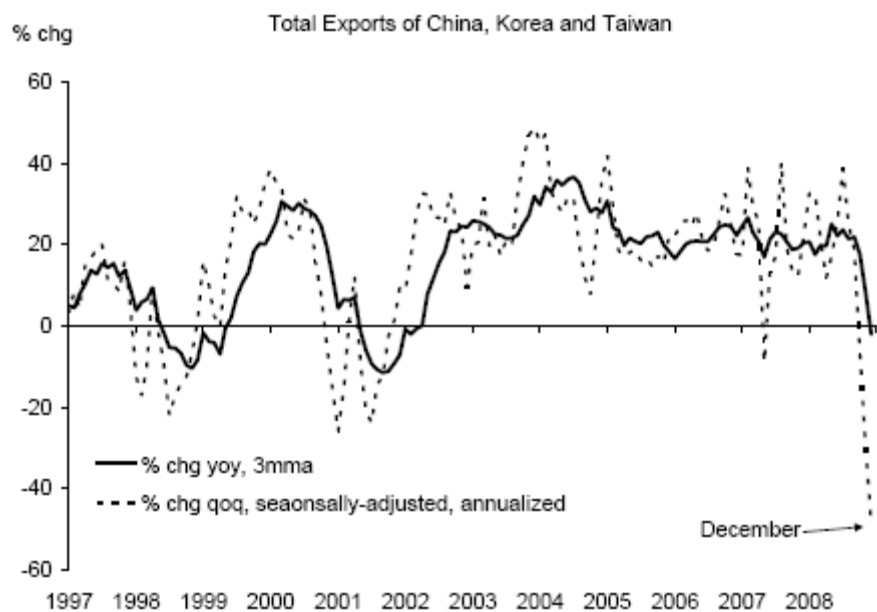
AUD = Australian dollar; JPY = yen; KRW = won; MYR = ringgit; USD = US dollar.

<sup>1</sup> Five-year credit default swap spreads, in basis points. Simple averages across a sample of banks; for the United States, Bank of America, Citigroup, JPMorgan Chase, Wachovia and Wells Fargo; for Japan, Mizuho Corporate Bank, Norinchukin Bank, Resona Bank and Sumitomo Mitsui Banking Corporation; for Australia, ANZ, Commonwealth Bank of Australia, National Australia Bank and Westpac; for Singapore, DBS Bank, Oversea-Chinese Banking Corporation and United Overseas Bank. <sup>2</sup> Spreads over interest rate swaps, based on Bloomberg fair value, five-year corporate bond yields; for USD, AA-rated financial bonds; for AUD and JPY, AA-rated eurobonds; for KRW, industrial corporations' bonds rated AA by Korean rating agencies; for MYR, private debt securities rated AA by Malaysian rating agencies.

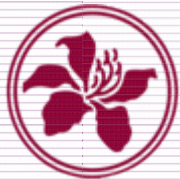


# Impacts on growth in Asia

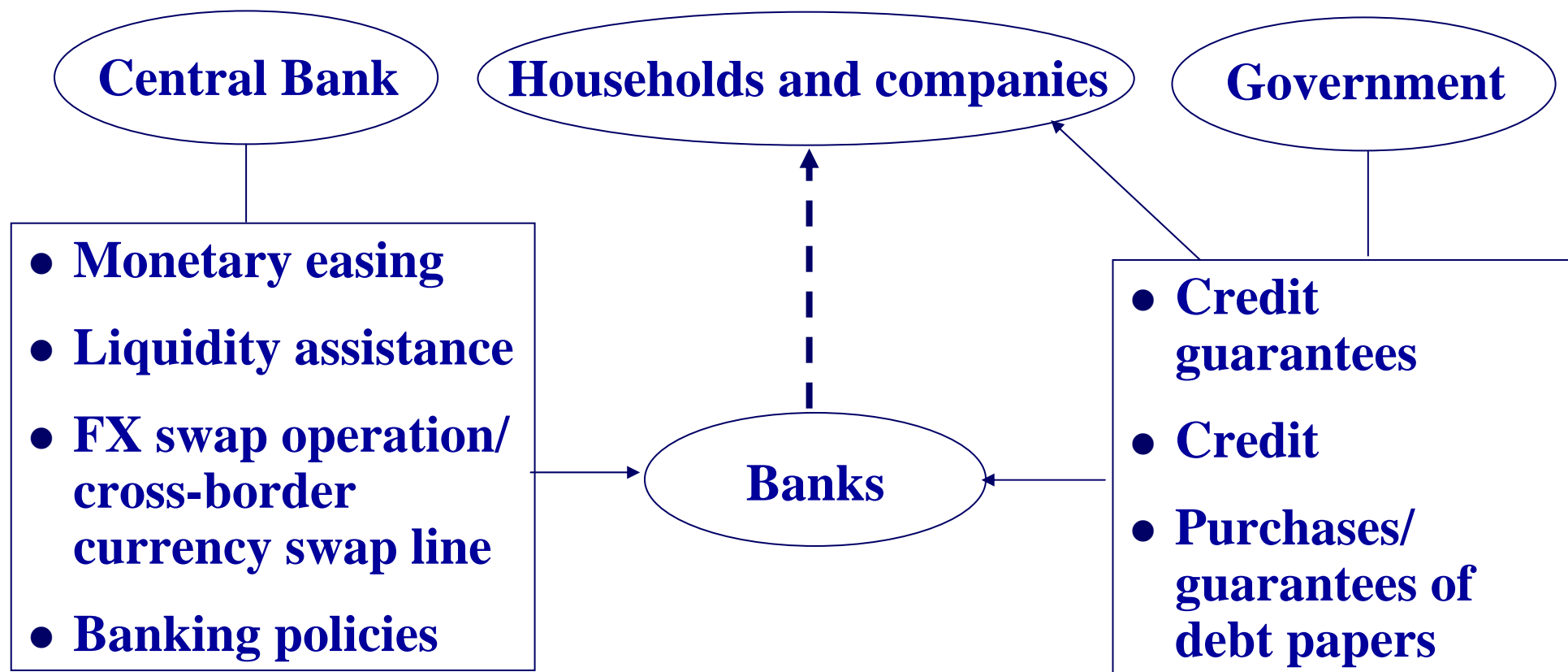
*Exports fell on a marked slowdown in external demand*

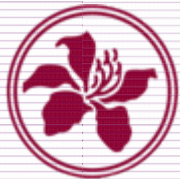


Source : GS research report



# Policy responses worldwide

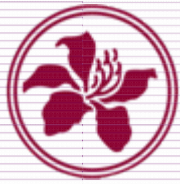




# Hong Kong's regulatory responses (I)

## *Lessons learned and room for enhancement in the regulation of banks*

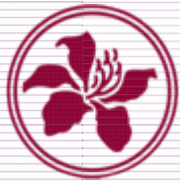
- **Mitigating procyclicality: bank capital and lending policies**
- **Corporate governance issues**
- **Risk management issues**
- **Financial products valuation and risk disclosure**



# Hong Kong's regulatory responses (II)

## *Mitigating pro-cyclicality: bank capital and lending policies*

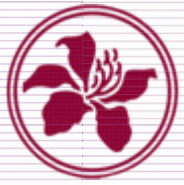
- **Adopt a flexible approach towards the relevant premium over the statutory capital adequacy ratio**
- **Lower the minimum loan-to-valuation threshold of mortgage insurance programme**



# Hong Kong's regulatory responses (III)

## *Corporate governance issues*

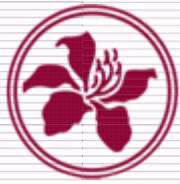
- **Senior management oversight**
  - balance between risk appetite and risk controls
- **Remuneration policies**
  - guard against incentivising excessive risk taking
- **Firm-wide risk management approach**
  - Identify and analyse risk from a firm-wide perspective



# Hong Kong's regulatory responses (IV)

## *Risk management issues*

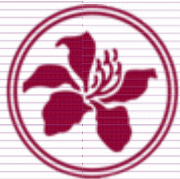
- **Liquidity risk management and supervision**
- **Risk management on complex structured credit products**
- **Stress testing**
- **Counterparty credit risk management**



# Hong Kong's regulatory responses (V)

## *Valuation and transparency*

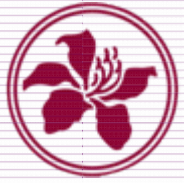
- **Risk disclosure**
  - Adopt the leading disclosure practices developed by the Senior Supervisors Group
- **Valuation of complex securities**
  - Ensure adherence to the accounting standards concerning valuation disclosures



# Key challenges ahead

## *Second wave is looming*

- **Continued weak confidence among financial counterparties**
- **Negative interaction between the economy and the financial sector**
- **Risk of financial protectionism**



**End**