



# NPLs Disposal Calls for Regional Bond Market

Presented by  
Wang Haijun

China Cinda Asset Management Corporation  
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China Cinda Asset Management Corporation



## Executive Summary

- ⊙ The Regional Bond Market is important and necessary. Participants should not limit to government bodies. Private sectors should be encouraged.
- ⊙ Asset Backed Securitisation is going to be an important tool to solve Asian non-performing assets problem. It is already proven by Korea and Japan experiences. The Regional Bond Market should seriously take the product into consideration.
- ⊙ Set-up of a Regional Bond Market is a time-consuming work. There are obstacles to overcome.



## Background

- ⊙ Vulnerable financial systems in many Asian countries
- ⊙ Substantial NPL ratio in Asian banks, amounting to more than US dollar 2 trillion. Prompt disposal is needed.
- ⊙ Disproportionate indirect financing by Asian enterprises



## Background (Cont'd)

- ⊙ State foreign exchange reserves of more than US dollar 1 trillion in the region.
- ⊙ Highest regional savings ratio in the world.
- ⊙ Booming economy with great potential.
- ⊙ Determination to promote financial system reform by most Asian governments.



## **Non-Performing Assets Securitisation Is Feasible**

- ⊙ Some non-performing assets holders may have timing pressure. Some after restructuring are suitable for securitisation.
- ⊙ Investors have appetite for NPLs. They are looking for return between equity and “normal” fixed income product.
- ⊙ Closed deals:
  - ⊙ KAMCO
  - ⊙ Japanese Real Estate NPLs



## What We Learn from the Asian Cases

- ⊙ There are only some international bond issues and domestic issues. Regional investors are limited.
- ⊙ NPL securitisation issues:
  - ⊙ Lack of concern from the international market
  - ⊙ Low trading volume
  - ⊙ Poor liquidity



## Why Do NPL Securitisation in Regional Bond Market?

- ⊙ Originator:
  - ⊙ Timing pressure relief
  - ⊙ The relative low cost of accessing the capital market
  - ⊙ Broader investor base



## Why Do NPL Securitisation in Regional Bond Market?

- ⊙ Investor:
  - ⊙ Increased portfolio diversification for Asian region investors.
  - ⊙ Improved liquidity of the product
  - ⊙ Arbitrage opportunities
  - ⊙ Risk Based Capital relief





## Issues for Consideration

- ⊙ Poor information flows:
  - ⊙ Accounting Rules
  - ⊙ Accuracy of accounting financials
- ⊙ Legal context:
  - ⊙ Lack of visibility
  - ⊙ Claims to assets
- ⊙ Rating
- ⊙ Credit Enhancement