



Creating an Efficient Asian Bond Market

Presented by

Rafael Consing
Head of Debt Finance, South East Asia

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HSBC 

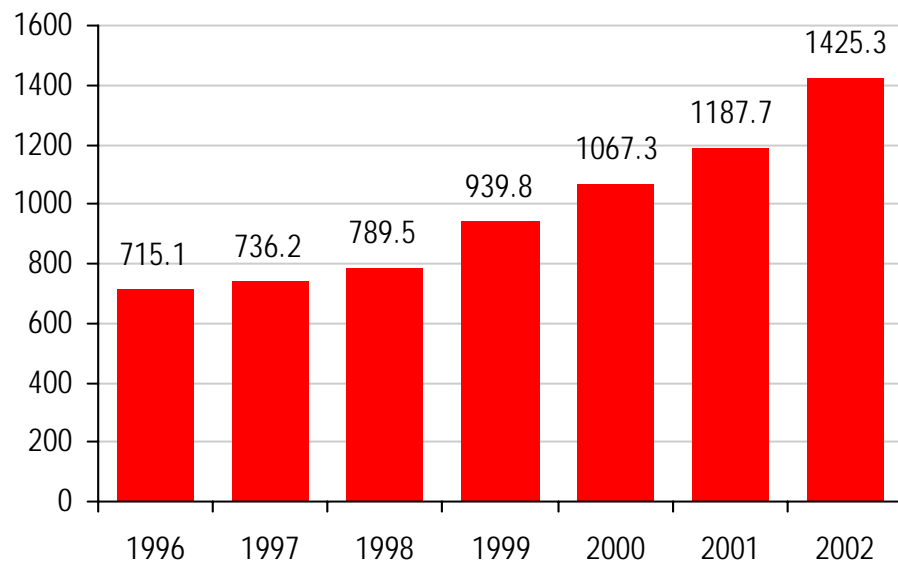


Introduction

- **The Asian Bid – proves Asian demand exists and that work is needed on the supply side**
- **An Asian bond market already exists – Asian sub-sector of the International market**
- **Asia's local currency markets - what needs to be done to develop them into a regional market? Re-visiting the prerequisites of an efficient bond market**
 - **Government Sponsorship**
 - **Issuer Base**
 - **Investor Base**
 - **Legal and documentation framework**

The Asian Bid

**Asian Foreign Currency Reserves (US\$ bn)
1996-2002**



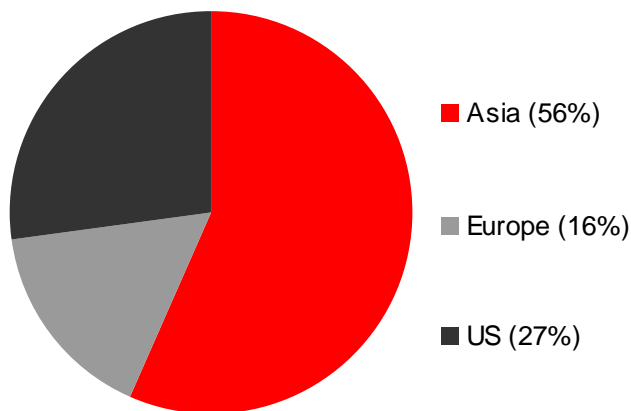
Source: HSBC

- **Growing foreign exchange reserves and excess liquidity in the banking sector has resulted in the emergence of the Asian Bid**
- **But has the Asian Bid resulted in an Asian bond market?**

Asian Bond Market Already Exists

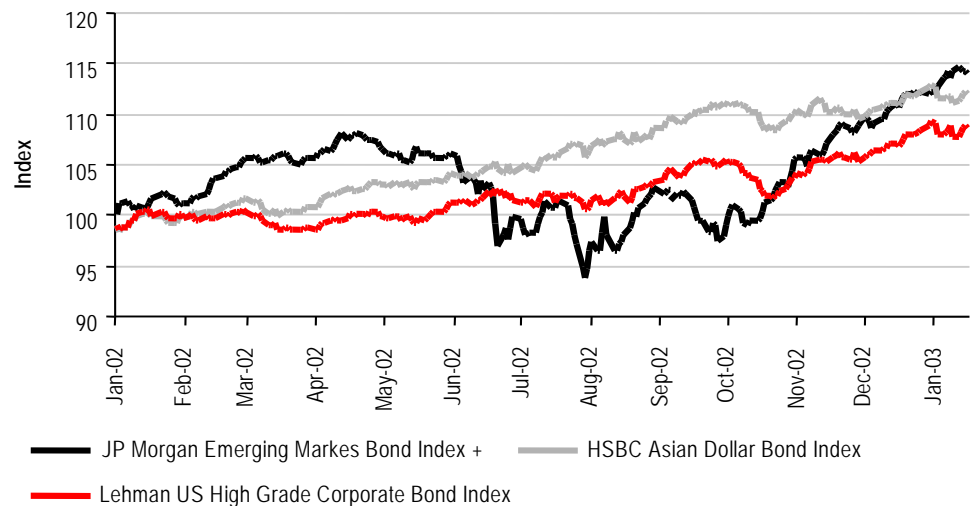
- Arguably an Asian Bond Market already exists, through the Asian sub-sector of the international bond market

Distribution of fixed rate US\$ Asian (ex-Japan) Issues in 2003 ytd

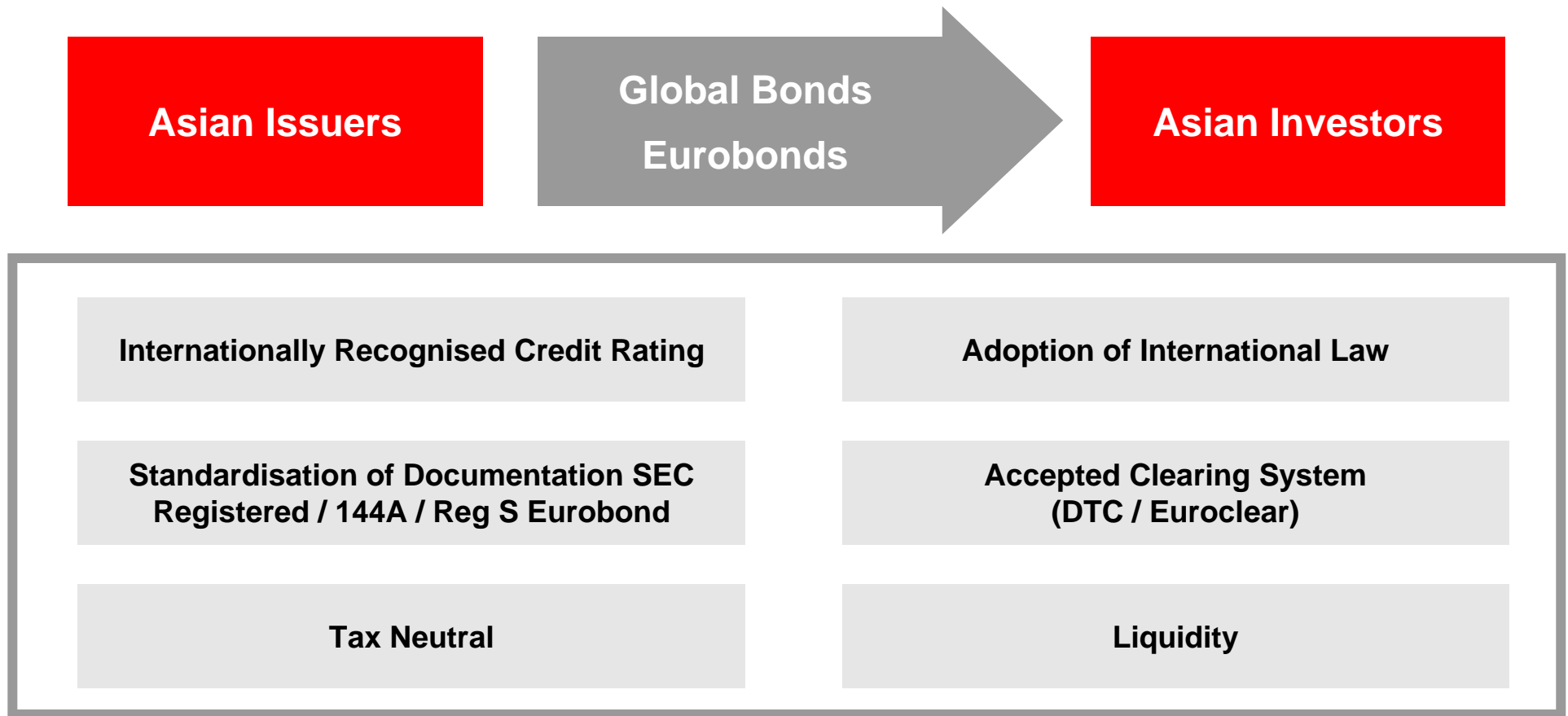


Source: HSBC, as at August 1st, 2003

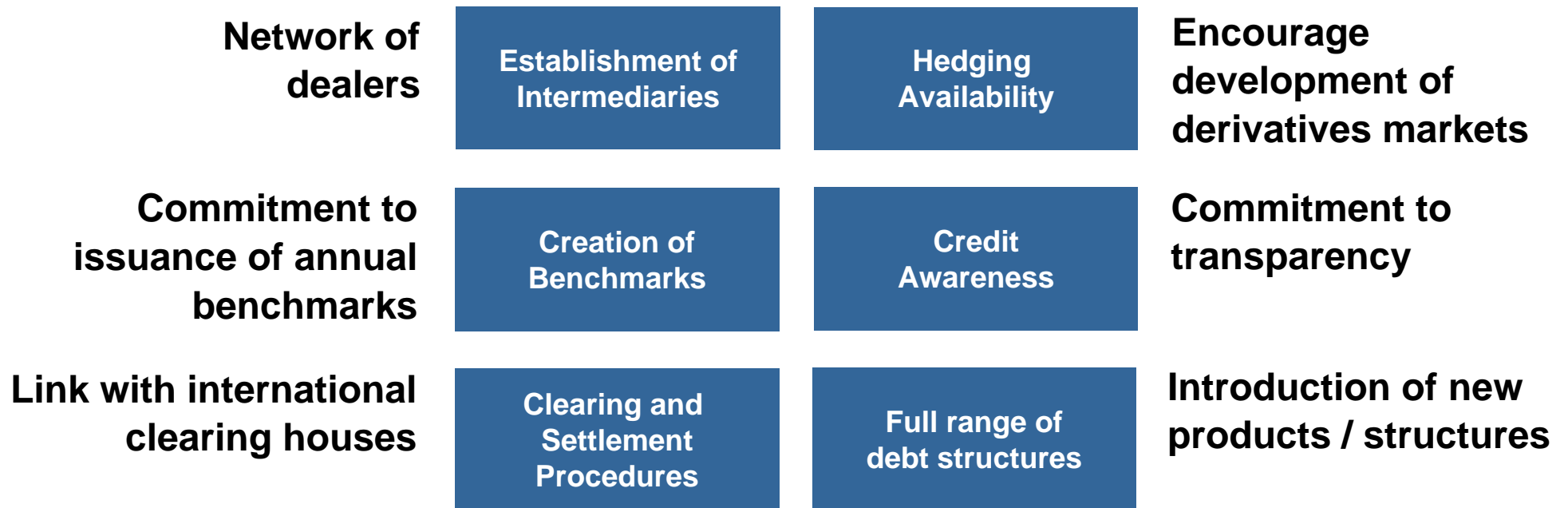
Asian Bonds: An Asset Class of Their Own
ADBI, EMBI and US Corporate Bond Index



The Asian International Bond Market

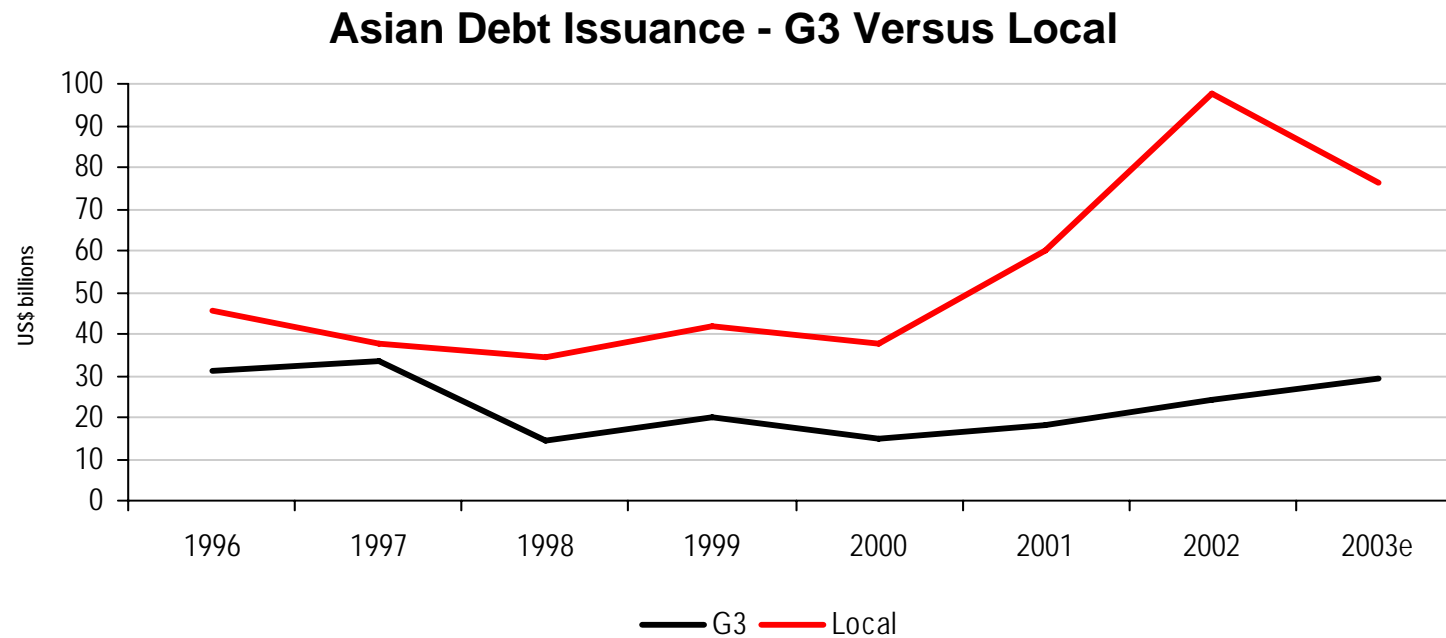


Asian G3 Bond Market – Improving the Foundations



What about Asia's domestic markets?

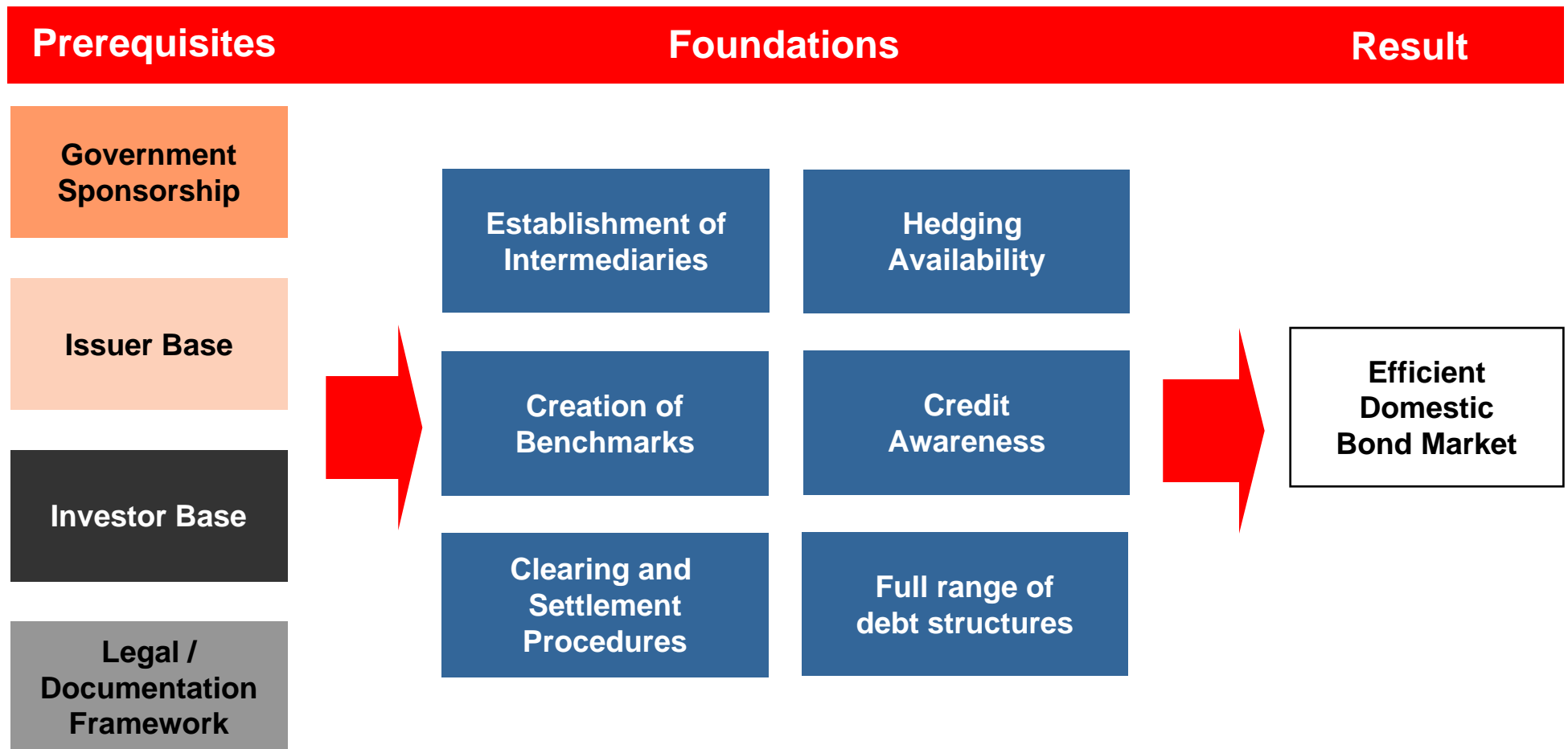
- Domestic bond market growth driven by liquidity and government initiatives



*Source: Thomson Financial & HSBC
G3 ex-JPAU, incl. Samurai & Yankee; Local Currency ex-JPAU, incl. CDs*

- Asia's domestic markets are too diverse to be considered a 'Regional' market
- Clear need to direct development away from divergence and towards convergence

Asian Regional Market – Revisiting the Prerequisites



Critical Issues for Consideration - Government Sponsorship

Government Sponsorship

- Unequivocal government support
- Governments to prove the viability of the market,
 - Regulators
 - Issuers
 - Investors

Issuer Base

Investor Base

- Decisions of the authorities required to create an environment friendly to the development of a regional market
- Government influence on each of the building blocks through changes to existing laws and regulations and the creation of new ones

Legal / Documentation Framework

Critical Issues for Consideration - Issuer Base

Government
Sponsorship

- Expansion of the issuer base a key deliverable
 - Diversified issuer base delivers more investment options to the investor base

Issuer Base

- Regulations to encourage issuance from broad range of issuers
 - Foreign issuers can fill a gap in the credit curve where local entities are absent
 - Removal of barriers and creation of incentives to encourage issuance

Investor Base

- *Governments have the ability to influence the behavior of both domestic and foreign issuers*

Legal /
Documentation
Framework

Critical Issues for Consideration - Investor Base

Government
Sponsorship

- **Extension of the Investor Base another key deliverable**
 - Investor base no longer confined to the domestic market
 - Potential to greatly increase market liquidity as well as diversify the investor base by sector

Issuer Base

- **Government agencies should be encouraged to broaden their investment criteria to include local currencies**

Investor Base

- **While outside funds are desirable, lessons learned from the financial crisis not to be ignored**
- ***Once again, Governments have control over the accessibility to their domestic markets***

Legal /
Documentation
Framework

Critical Issues for Consideration - Regulatory Framework

Government
Sponsorship

- Develop domestic markets towards common standards with the ultimate goal of a common market

Issuer Base

- Best international market practice (IPMA) covering market conventions such as disclosure and new issue procedures
 - Delivers greater confidence in the marketplace
 - Consistent with the considerable work that has gone into developing the domestic markets

Investor Base

- While a common regulator may not be feasible, a mutually accepted 'court of arbitration' should be established with a final say of disputes

Legal /
Documentation
Framework

Conclusion

- **The Asian Bid – proves Asian demand exists**
- **An Asian G3 bond is a sub-sector of the International bond market**
- **Asia's local currency markets need to converge, before a true regional market can develop**