

5.June,2008

## Development of Clearing and Settlement Infrastructures in the Asian Securities Markets

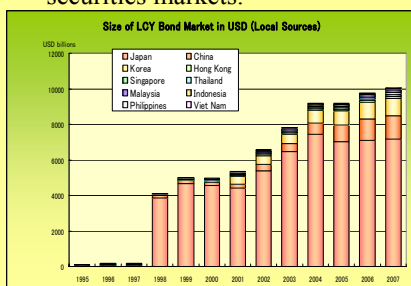
The Bank of Tokyo-Mitsubishi UFJ  
 Transaction Services Division  
 Taketoshi Mori



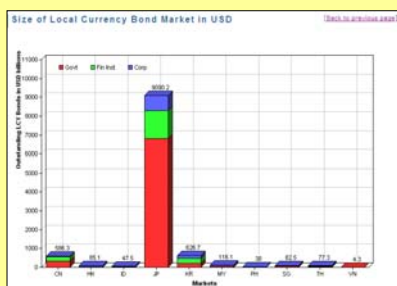
### Change in the balance in Asian bond and securities markets



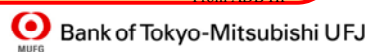
- Balance of Bonds and Securities is increasing substantially in this decade. Total amount is more than USD10 Trillion.
- Japanese public sector constitutes a large portion reflecting the country's deficit of the balance of bonds and securities. Amount of securities issued in ASEAN nations is increasing, adding the depth to securities markets.




From ADB HP



From ADB HP

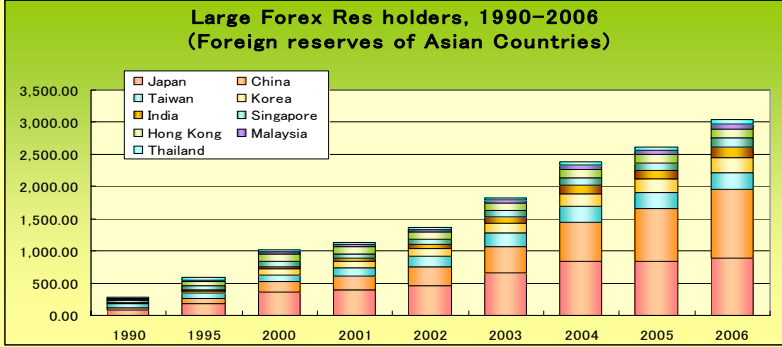


### Change in foreign currency exchange reserve


  
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- ◆ Foreign currency exchange reserves in Asian countries triple in 2006 from the ones in 2000 with the economic development.
- ◆ It is desirable to facilitate investments and recycle those funds not only in the EU and USA but also among Asian countries.

**Large Forex Res holders, 1990-2006  
(Foreign reserves of Asian Countries)**




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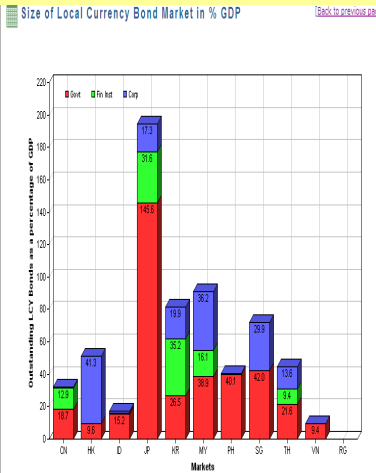
  
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### Size of local currency bond markets against GDP


  
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Size of Local Currency Bond Market in % GDP [Back to previous page](#)



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- ◆ Ratio of local currency bond market against GDP is hovering at a level of somewhere around 10% to 40% of GDP( except Japan).
- ◆ As ratio of securities market other than government bonds against GDP is low, it is necessary to nurture well balanced securities markets other than government bond markets.
- ◆ There is potential to grow these securities markets especially in Vietnam and Indonesia where the ratios are very low.

  
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## ASEAN+3 Bond Markets Initiatives (ABMI)



- ◆ ASEAN+3: Thailand, Indonesia, Philippine, Malaysia, Singapore, Brunei, Vietnam, Cambodia, Myanmar, Laos + China, Korea, Japan
- ◆ ABMI activities were proposed by ASEAN+3 Finance Ministers Meeting in August 2003.
- ◆ ABMI aims to improve efficient and liquid bond markets in ASEAN+3 countries.

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## Purpose and vision of ABMI




- ◆ Circulate and re-channel Asian Savings into more Asian economies.
- ◆ To urge to invest from outside of the ASEAN
- ◆ Promote regional Financial Institution
- ◆ To fix and expand Capital Markets
- ◆ Reduce and mitigate currency and maturity mismatches in financing

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## ABMI WG Activities



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- ABMI has 4 WGs.
- Target of WG3:  
foreign exchange transactions and settlement issues
- To support and make foreign exchange transaction smoothly and to address securities settlement issues on cross-border transactions
- To minimize risk in clearing and settlement
- To remove the barriers to cross-border investment



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## Joint announcement of ASEAN+3 Finance Ministers on 4 May 2008



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- Promotion of expanding issue volume of local currency bond
- Encouraging demand of local currency bond
- Improvement and harmonization of regulatory framework
- Development of bond market infrastructures




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## Main ideas from expand Asian Markets


  
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- To investigate setting up a regional settlement intermediary (RSI)
- To encourage private sector participation in discussing the need for a RSI.
- To harmonize legal framework and regulation to facilitate regional settlement infrastructure
- Possibility of establishing a regional payments bank or to increase the usage of CLS-eligible currencies in ASEAN+3

  
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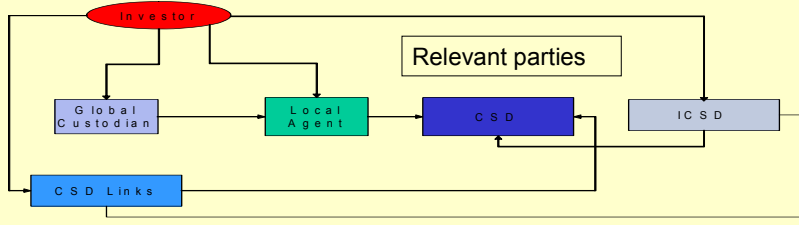
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## Development of securities settlement infrastructure in Asian securities markets

  
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- The establishment of RSI( Regional Settlement Intermediary) is under discussion.
- The basic ideas of RSI are how it can create accessible markets for investors, complete securities settlement by a single instruction, and build a safer and more effective system which is the key success factor among others.

**M e t h o d s o f c r o s s b o r d e r s e t t l e m e n t**

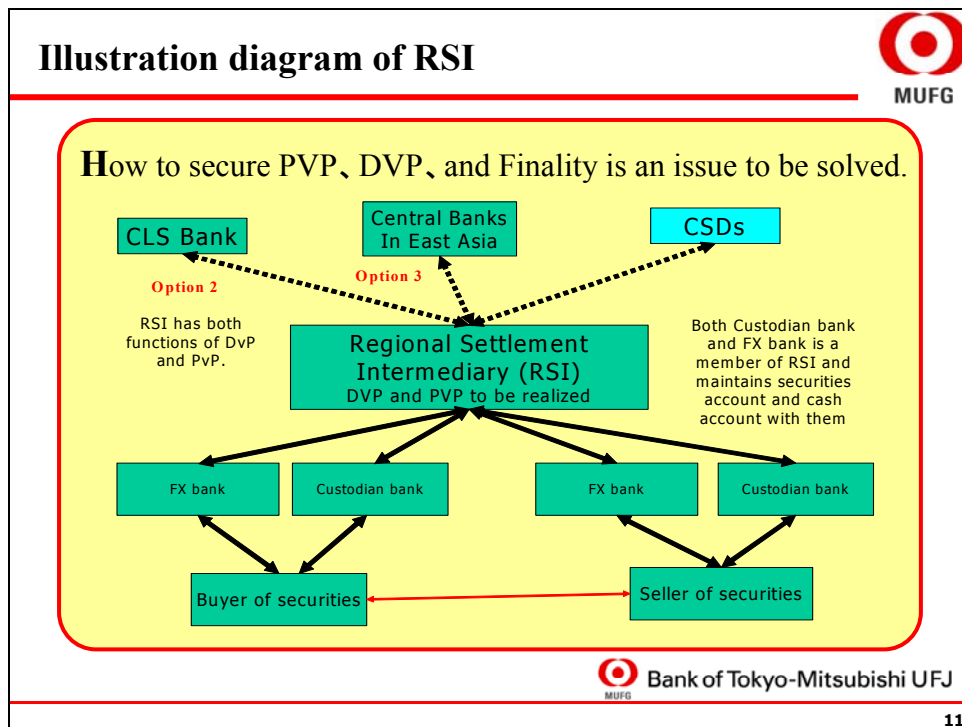


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            graph TD
                Investor([Investor]) --> GlobalCustodian[Global Custodian]
                Investor --> LocalAgent[Local Agent]
                GlobalCustodian --> LocalAgent
                LocalAgent --> CSD[CSD]
                CSD --> ICSD[ICSD]
                ICSD --> Investor
                CSDLinks[CSD Links] --- GlobalCustodian
                CSDLinks --- CSD
                RelevantParties[Relevant parties] --- CSD
                RelevantParties --- ICSD
                
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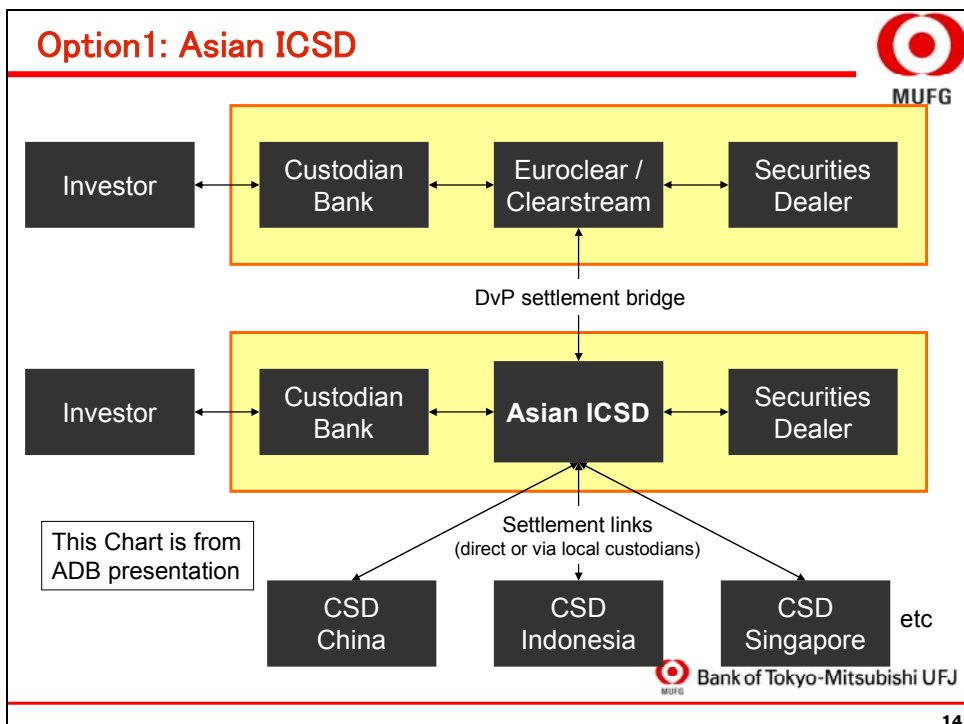
- ### Methods to establish RSI
- There are several methods.
  - To build a new RSI from scratch  
⇒ Europe: Target 2 Securities
  - To strengthen CSD Linkages  
⇒ Europe: Link up Market ( Clearstream)
  - To utilize existing networks such as global custodians, etc.  
⇒ ICSD (Euroclear, Clearstream )
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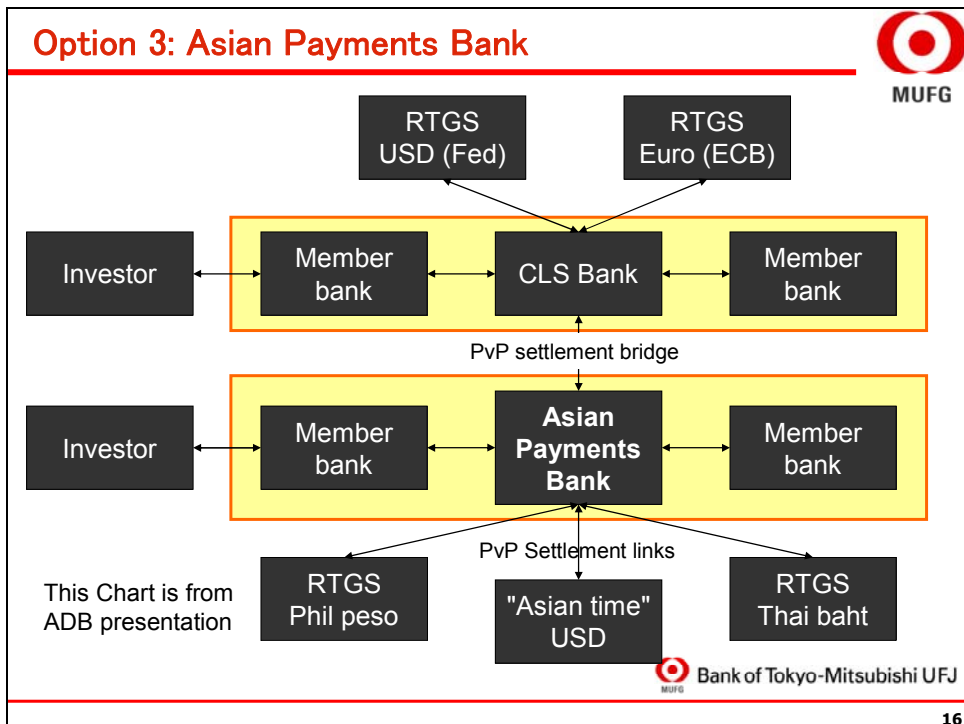
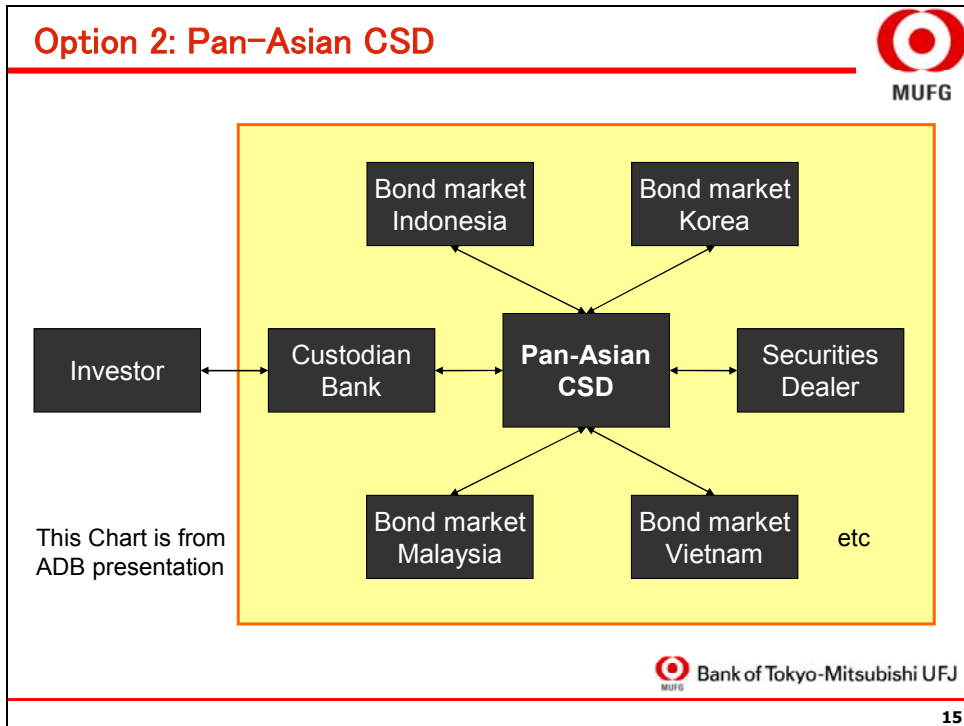
### Options of Regional Settlement Intermediary from ADB presentation

- **Option 1: Asian ICSD**
  - Model A = Using Local Custodians
  - Model B = Direct Link to Local Settlement Systems
  - Model C = Direct Link to Local Settlement Systems & CLS Bank
- **Option 2: Pan-Asian CSD**
- **Option 3: Asian Payments Bank**
  - ➔ All are aimed at reducing settlement risk and cost, harmonizing infrastructure, regional ownership of regional utilities

  
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## Matters to be considered in order to establish RSI



- **Risk management** :  
Management of collateral, Settlement method  
Gross=Gross, Gross=Net, Net=Net
- **Ownership** :  
Many of the participants should be encouraged to invest.
- **Governance** :  
Operation and supervisory function should be separated,  
and a system in which more than one flagship participant  
can join is desirable.
- **Cash settlement** :  
It is necessary to provide sufficient liquidity for each  
currency.

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## Fundamental requirements of RSI



- **For-profit operation** is a basic premise. It is necessary not to depend on subsidies from public sector such as government agencies, to achieve a budget surplus, and to afford to reinvest on the system.
- The followings are essential to achieve this goal by **driving for transaction volume**.
  1. It is necessary to enlarge participants.
  2. It is desirable to deal with not only bonds but also stocks and ETF.
  3. Dealing of bonds other than government bonds are concentrated as of issuance and dealing in the secondary markets are subsequently inactive.

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## In view of the intraregional circumstances in Asia



- It is necessary to take in consideration the state of the intraregional circumstances in Asia
  1. There are various currencies.
  2. There are great differences in political foundations and economic conditions.
- More political decisions and supports are necessary to lay such plans as Target 2 Securities in Europe.

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## Integration of securities markets in Europe – Giovannini Report 2004 (15Barriers)- in Asia



### Securities Markets in Europe are working on the following proposals to create a consolidated securities markets

- Operating hours and settlement deadlines
- Information technology and interface
- Intra-day settlement finality in all links between settlement systems
- National rules relating to corporate actions processing
- Any provision requiring that taxes on securities transactions be collected via local systems should be removed to ensure a level playing field.
- Settlement periods for all equity markets

⇒ Hints for Asian harmonization : Asian Giovannini is required

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## Stimulating activity in the Asian Region



- Although linkage with Euroclear, Clearstream, DTC is a conceivable means in the RSI concept, circulation of Asian funds within the region is the top priority because of accumulating foreign currency exchange reserve.
- It is useful to utilize the experiences and know-how accumulated in Europe; however, it is acceptable if the linkage with CSD and etc. in Europe is subordinated.
- In case that linkage with CSD in Europe goes ahead, it might be delayed to promote to create the intraregional linkage in Asia, insert circulation of investment on funds or securities or stimulate in Asia region as it is, and cause regional gaps within the Asian region.

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## Challenge other than the development of infrastructure



- It is essential to develop an institutional framework for capital markets in each country by simplifying and standardizing the legal framework and tax procedures in order to activate investment in Asian region.
- The development of a flexible and simplified system to enlarge volume of issuance and negotiation of bonds and securities in the offshore markets should be considered in order to expand the capital market in Asian region.
- To draw up a set of rules concerning information disclosure of securities, registration of information, provision of information and etc. is critical as well as formulation of a set of common rules concerning categories or contents of disclosure documents.

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# Thank you!

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