



**RCI WEEK 2017** | 27–29 November 2017 • ADB Headquarters, Manila, Philippines



# **Progress and Challenges in Financial Cooperation & Integration in Asia & The Pacific**

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Manila, The Philippines

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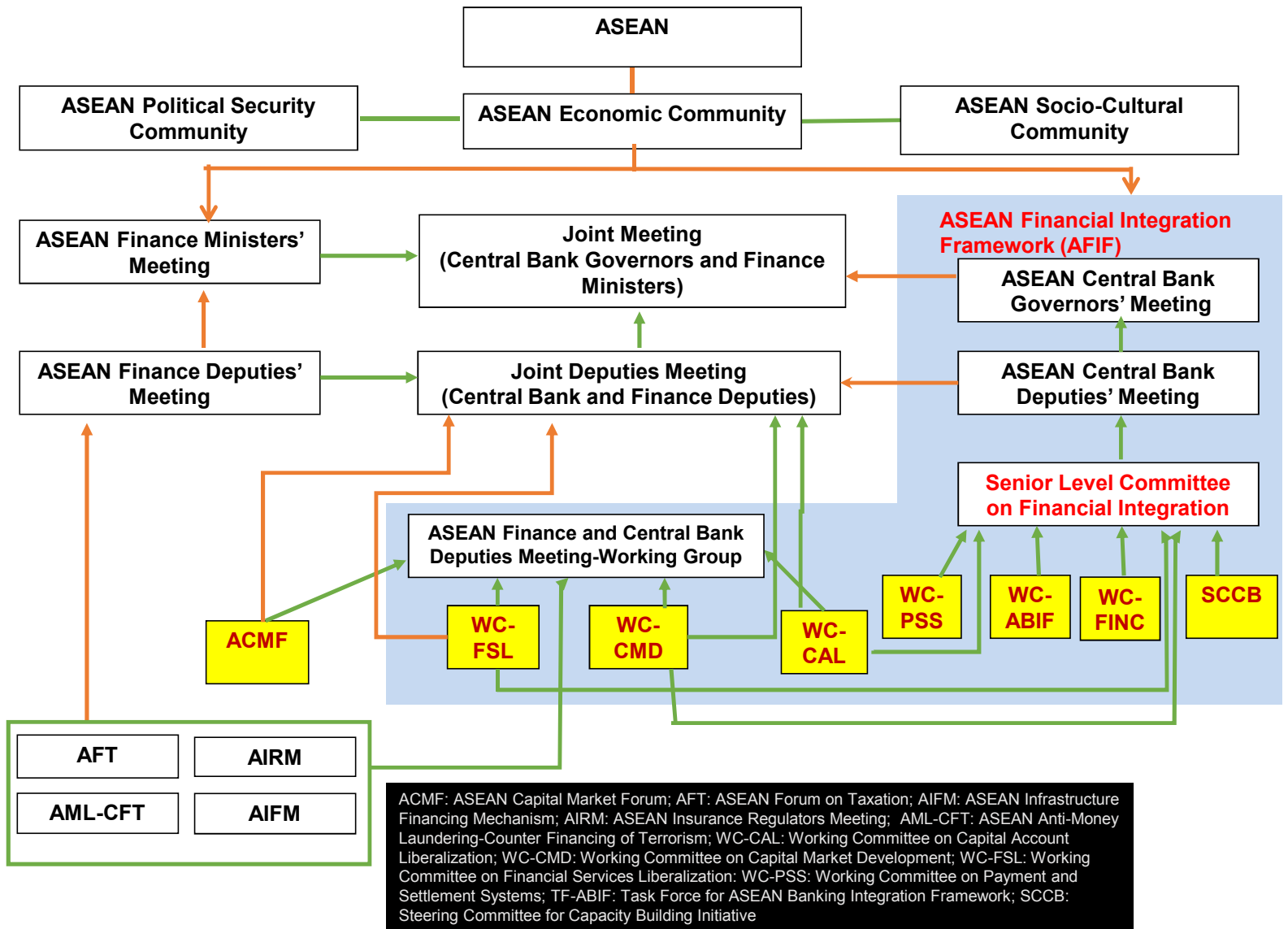
Asian Development Bank

# Financial Cooperation & Integration

- Financial *integration* involves risks as well as benefits
  - Allow cross-border capital flows while: a) making efficient use of resources, b) taking advantage of scale economies and c) providing better access to financial services.
  - Could require weighing of regionalism against sovereignty, e.g., eurozone
- Requires commitment among participating countries.
  - The current three pillars: ASEAN Financial Integration; ASEAN+3 Financial Cooperation; and APEC Financial Cooperation
- ASEAN-centric because ASEAN has a strong drive for regionalism
  - ASEAN is the only “association” of countries with a dedicated and permanent secretariat with financial and human resources.
  - ASEAN Economic Community.

# ASEAN Financial Integration

- ASEAN Central Bank Senior Level Committee (SLC)
  - Plan and guide the implementation of the ASEAN Financial Integration Framework (AFIF) with six Working Committees and SCCB.
  - Implementation of Qualified ASEAN Banks (QABs)
  - The Steering Committee for Capacity Building (SCCB) to guide the capacity building (particularly of BCLMV) to move together on integration
- ASEAN Capital Market Forum (ACMF)
  - Challenge in ASEAN Trading Link and harmonization of disclosure standards
  - Dispute resolution
- Coordination with ABMI of ASEAN+3
  - ABMF to harmonize bond market conventions / regulations
  - Cross-border Settlement Infrastructure Forum (CSIF)
  - Green bond



# Guiding policy documents

- ***“Implementation Plan to Promote the Development of Integrated Capital Markets to Achieve the Objectives of AEC 2015”***, 2009
  - ASEAN Capital Market Forum (ACMF)
- ***“Combined Study on Assessing the Financial Landscape and Formulating Milestones for Monetary and Financial Integration in ASEAN”***, 2012
  - ASEAN Central Bank Senior Level Committee (SLC), six working committees (WCs) and the Steering Committee for Capacity Building (SCCB)
- ***Strategic Action Plan*** along stability, inclusion and integration
  - Qualified ASEAN bank (QAB)
  - Key performance indicators (KPIs)
- Capacity building (mainly for BCLMV) to move together on integration
  - SCCB co-chaired by ADB and SEACEN
  - Learning roadmaps for the six WCs.

# Strategic Action Plan and QABs

- SAP along:
  - Financial integration: ABIF/QAB; financial liberalization; interconnected capital markets; deep and liquid capital markets; access to capital markets; private sector engagements in financial markets; fund passport; payments system linkages; capital account liberalization;
  - Financial inclusion: overall financial inclusion; retail access to bond market; consumer welfare
  - Financial stability: coherent banking regulation; financial resilience with strong banks and confidence in financial market; coordination for financial stability;
- QAB status is based on common principles, but its actual granting is negotiated bilaterally based on reciprocity.
  - Between: i) Malaysia and Thailand; ii) Malaysia and Philippines; iii) Malaysia and Indonesia; and iv) Thailand and Indonesia
- SAP's QAB targets
  - Two QABs by 2019, addition two QABs by 2025
  - Easily achievable?

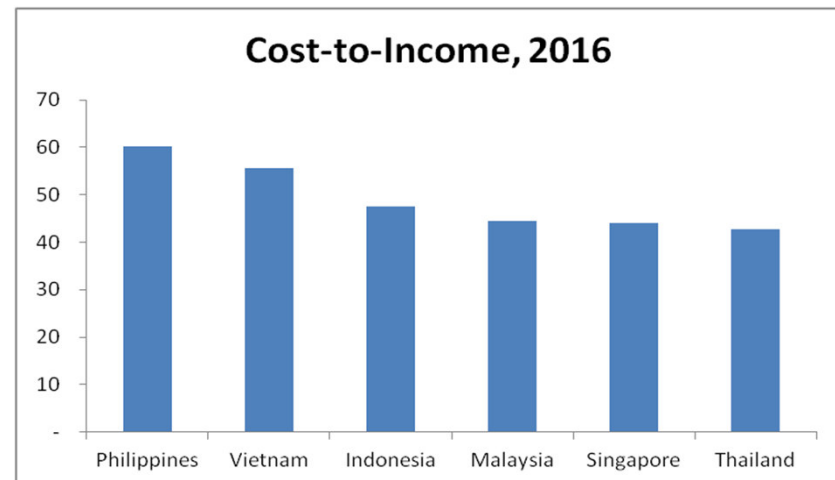
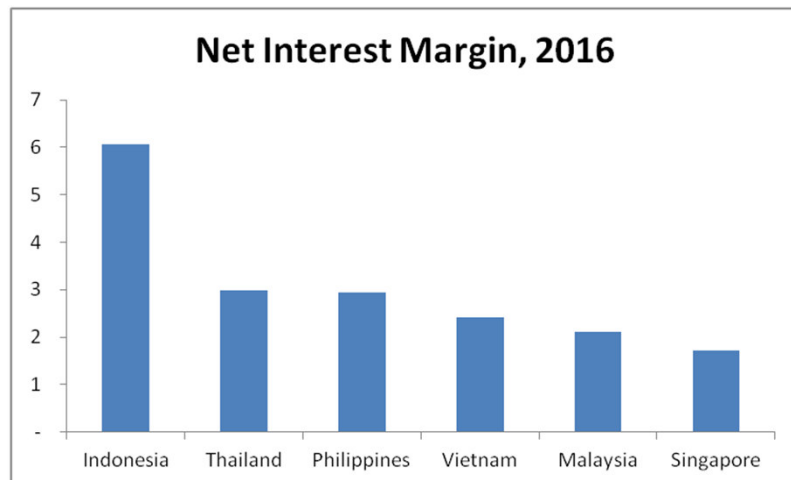
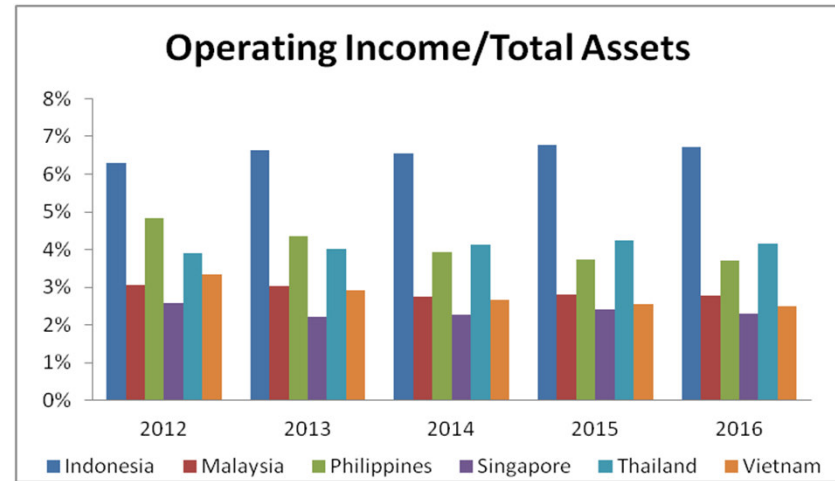
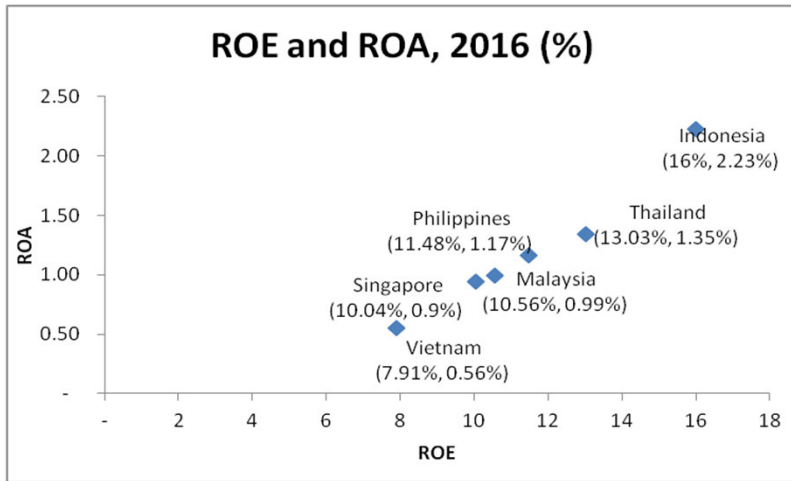
## Banks of ASEAN5 in ASEAN

Institution name	Country of origin	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam	Brunei	Cambodia	Laos	Myanmar
PT Bank Mandiri (Persero) Tbk	Indonesia	2109	1		1						
PT Bank Rakyat Indonesia (Persero) Tbk	Indonesia										
PT Bank Central Asia Tbk	Indonesia	1214									
PT Bank Negara Indonesia (Persero) Tbk	Indonesia	1489			1						
PT Bank Tabungan Negara (Persero) Tbk	Indonesia	825									
Malayan Banking Bhd.	Malaysia	450	362	75	21		2	2	21	2	1
CIMB Group Holdings Bhd.	Malaysia	532	303		2	121	1		13		
Public Bank Bhd.	Malaysia		262						29	4	
RHB Bank Bhd.	Malaysia		215		7	3		1	10	2	
Hong Leong Financial Group Bhd.	Malaysia		296				4		1		
BDO Unibank, Inc.	Philippines			1020							
Metropolitan Bank & Trust Company	Philippines			947							
Bank of the Philippine Islands	Philippines			815							
Land Bank of the Philippines	Philippines	1	1	406							
Philippine National Bank	Philippines			662	1						
DBS Group Holdings Ltd.	Singapore	34	2	1	91		1				
Oversea-Chinese Banking Corporation Ltd.	Singapore	675	42		45	1	1				1
United Overseas Bank Ltd.	Singapore	181	46	1	54	159	1	1			1
Bangkok Bank PCL	Thailand	1	8	1	1	1120	2		1	2	1
Siam Commercial Bank PCL	Thailand				1	1251	1		4	1	
KASIKORN BANK PCL	Thailand					1077			1	2	
Krung Thai Bank PCL	Thailand				1	1182			2	1	
Government Savings Bank	Thailand					1074					
JSCB for Investment and Development of Vietnam	Vietnam						660				1
Vietnam Bank for Agriculture and Rural Development	Vietnam						2253				
Vietnam Joint Stock Commercial Bank for Industry and Trade	Vietnam						1105			3	
Joint Stock Commercial Bank for Foreign Trade of Vietnam	Vietnam						491				
Sai Gon JSCB	Vietnam						236				
Australia and New Zealand Banking Group Ltd.	Australia	23	1	1	4	1	8		17	2	1
Citigroup Inc.	USA	10	11	3	17	3	2				
Deutsche Bank AG	Germany	1	2	1	1	1	1				
HSBC	United Kingdom	97	72	8	12	1	17	3			
Mitsubishi UFJ Financial Group, Inc.	Japan	72	3	1	2	689	2		59	1	1
Mizuho Financial Group, Inc.	Japan	1	2	1	1	2	2		1		2
Standard Chartered Plc	United Kingdom	23	33	6	19	14	3	7			
Sumitomo Mitsui Financial Group, Inc.	Japan	1	2	1	1	2	2				2

Source: SNL Financial

\*Top 5 banks (Top 3 for Singapore); figures combine branches, subsidiaries, representative office, remittance office

# ASEAN 5 bank profitability



Source: SNL Financial  
\*Top 5 banks (Top 3 for Singapore)



## Slide 8

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**MT4** I used Bank Capital to Assets Ratio instead of Asset Turnover Ratio (not available).

Margarita Tirona, 26/11/2015

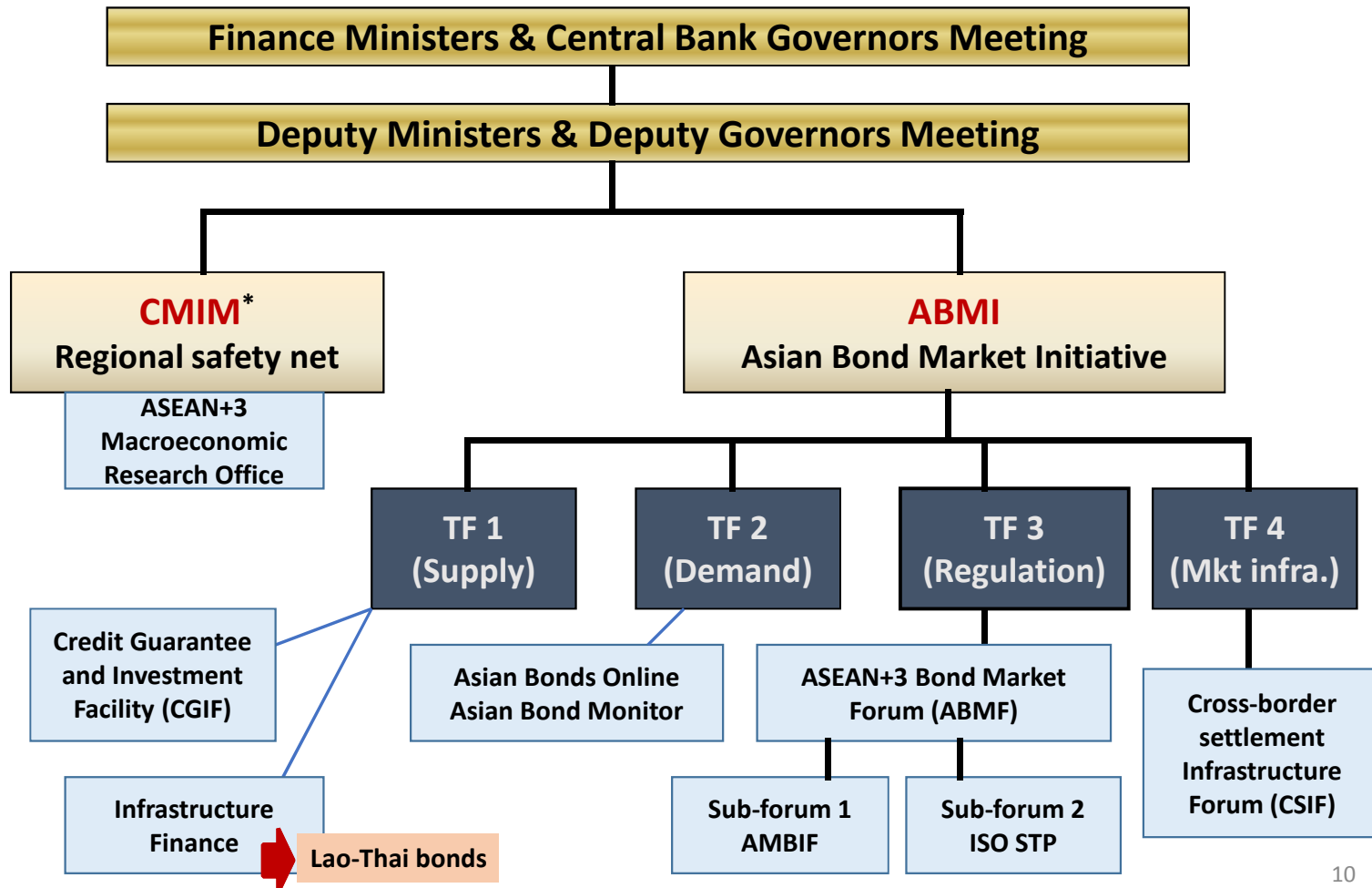
**MT5** Please note that Singapore ROA and Thailand ROE are not updated, data from old ppt were used (all the others are updated to 2014).

Margarita Tirona, 26/11/2015

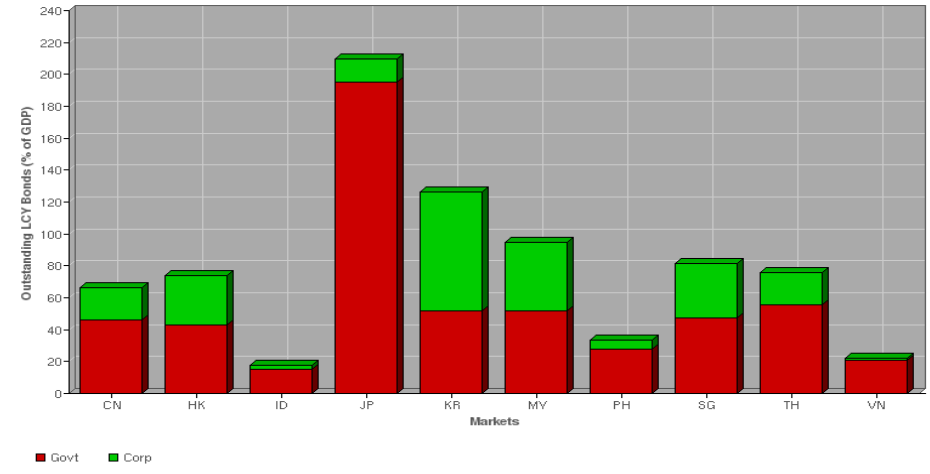
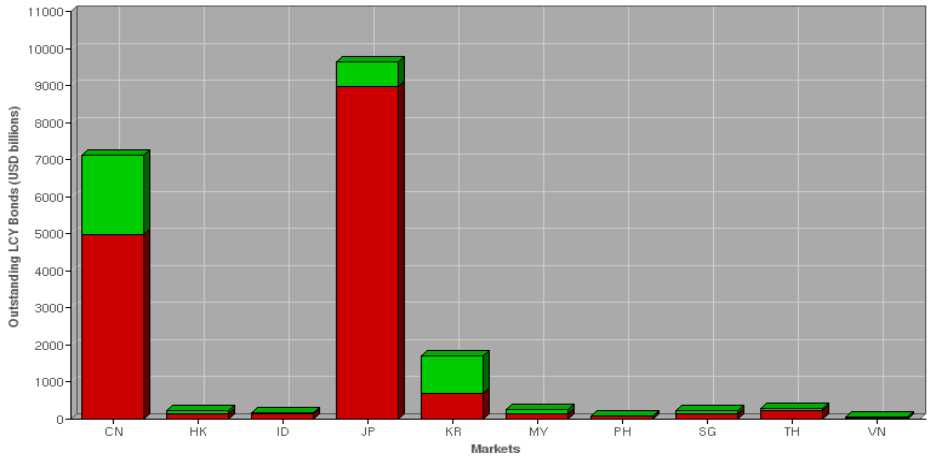
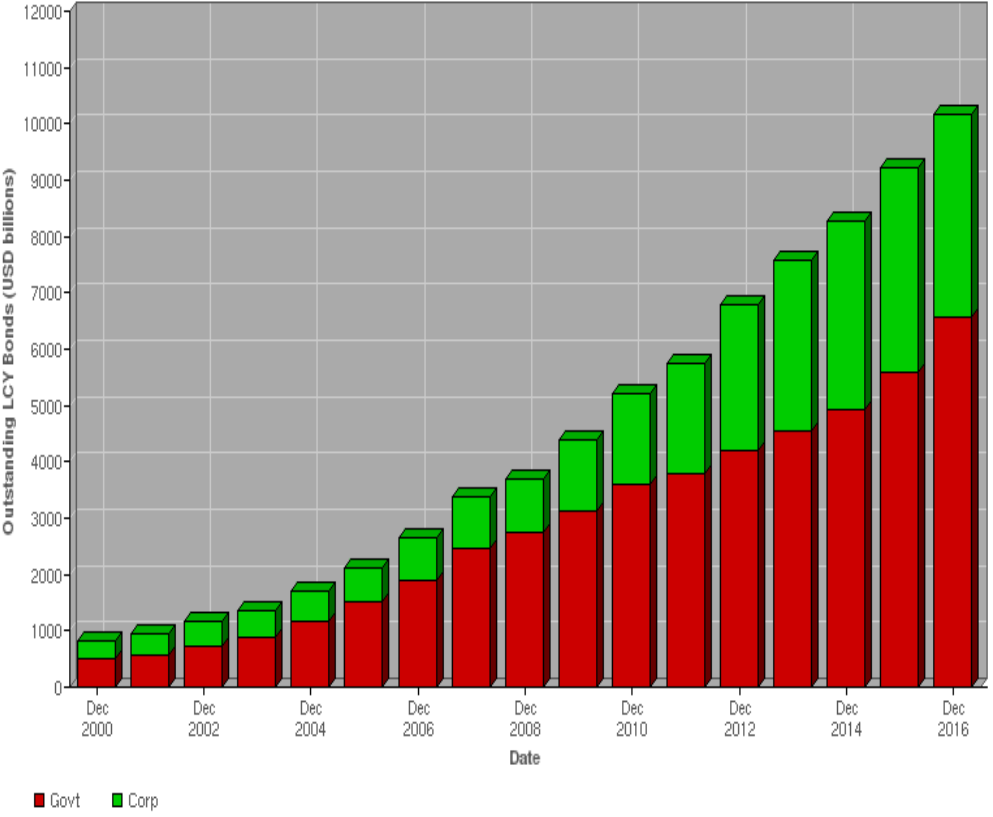
# ASEAN+3 Financial Cooperation

- Started in response to 1997 Asian financial crisis
- Two pillars
  - CMIM / AMRO: to respond to or preempt a new crisis.
  - Asian Bond Market Initiative (ABMI): to address the root cause of 1997 crisis.
- ABMI is evolving to focus on stability to financing developments
  - TF 1 (Supply): Credit Guarantee & Investment Facility (CGIF), Green bonds
  - TF 2 (Demand): AsianBondsOnline, Asian Bond Market Summit
  - TF 3 (Regulation): ASEAN+3 Bond Market Forum (ABMF)
  - TF 4 (Market infrastructure): Cross-border Settlement Infrastructure Forum (CSIF)
- Disseminate TA outcomes beyond ASEAN+3
  - Can CGIF / ABO / ABMF / CSIF accommodate non-ASEAN+3 DMCs?

# ASEAN+3 Financial Cooperation

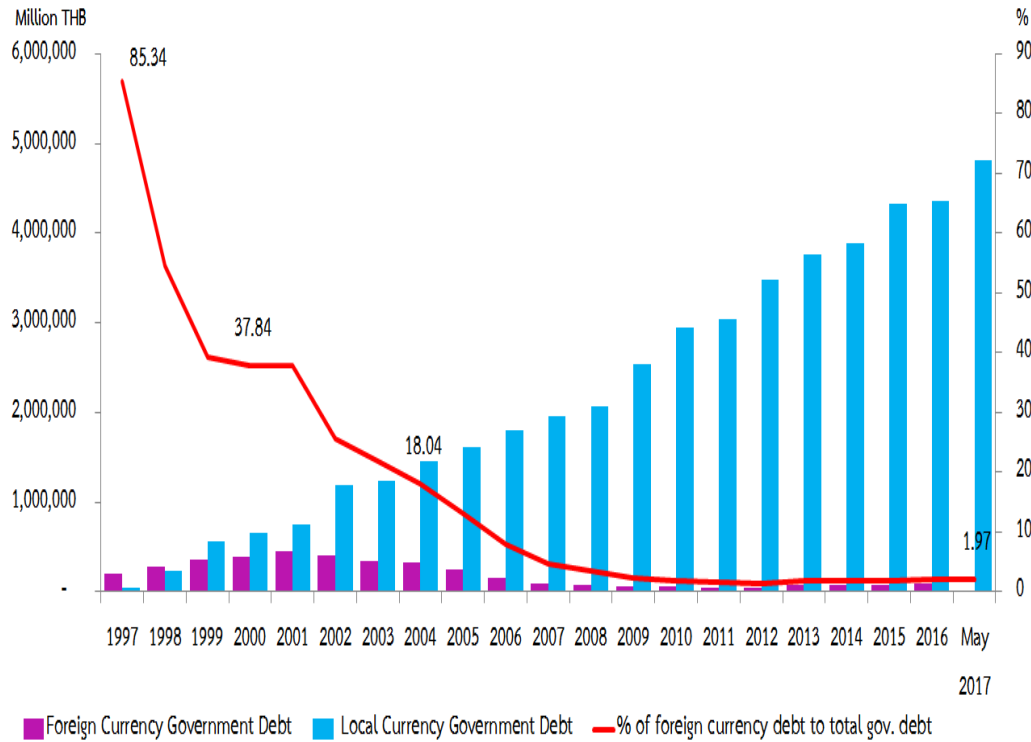


# Growth and size of ASEAN+3 LCY bond markets



# Case of Thailand

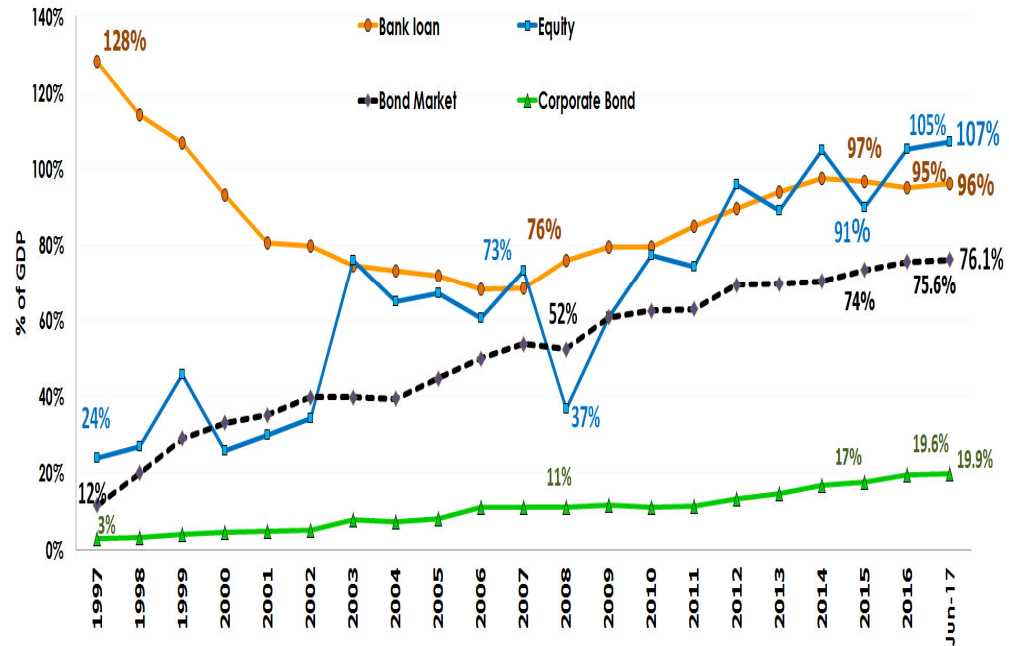
## Thai government debt financing



LCY bond market has helped the government (1) to reduce reliance on offshore funding and (2) to reduce foreign exchange risk.

Source : ThaiBMA

## Outstanding of Thailand's Financial Market (% of GDP)



- Bond Market has grown from 12% of GDP to 76% since 1997 crisis.
- Created more balanced three financial pillars (bank loan, equity and bond market).
- Corporate bond market has been growing, unaffected by 2008 GFC.

# Two pillars: Market development and integration

## Market development

- (B)CLM: CGIF to help issuance by marginal issuers; “Good Practices in Developing Bond Market” to focus on government bond market while in parallel supporting corporate bond issuance with CGIF (TF1)
- Thematic bonds (TF2): Green bonds for financing environmentally friendly infrastructure, covered bonds for housing finance, municipal bonds for financing urban infrastructure, securitization of SME credits => Common principles for Green certification; CGIF to enable cross-border issuance / investment

## Market integration

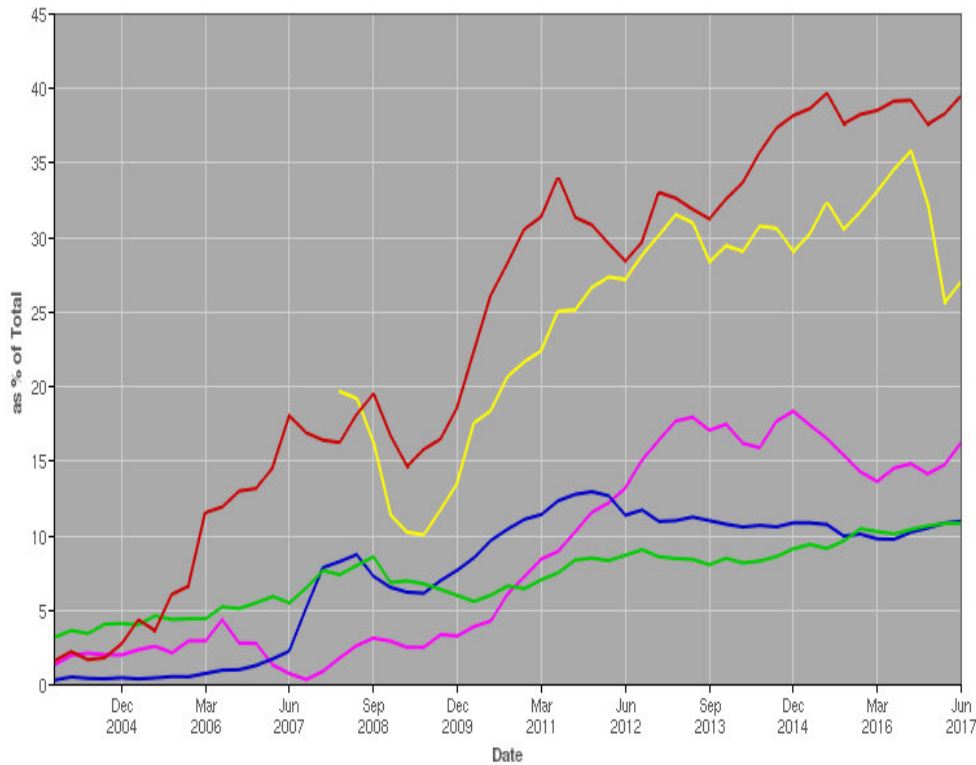
- ABMF (TF3): Harmonize regulations / market conventions for accredited professional investors across countries so that an issuer can tap multiple markets with a single disclosure document => Help countries develop a professional market segment
- CSIF (TF4): Implement CSD-RTGS links for cross-border settlement of bond trades and investment => Coordinate with ADB operations to develop payments & settlement systems in DMCs

# CGIF

- Nov. 2010: Est. with \$700 mil cap., leverage ratio 1
- Apr. 2013: First guarantee
- Nov. 2013: Leverage ratio up 2.5 (i.e., guarantee capacity up \$1.75 bil)
- 14 guarantees issued so far for \$1.063 bil with \$435 mil in the pipeline.
  - Issuers from 8 economies (INO, LAO, VN, THA, PHL, SIN, MAL, HK,China) in 5 LCYs (THB, IDR, SGD, VND, PHP) with CAM and MYA forthcoming, i.e., supporting kick-starting of corporate bond markets in the frontier economies
  - Trading, finance, manufacturing, food, chemicals, real estate, healthcare, renewable energy (i.e., Green bond). Numerous international awards for the last as 1<sup>st</sup> project bond and 1<sup>st</sup> climate bond.
- Launched a Construction Period Guarantee service to enable project bonds
- Aug. 2017: Capital increase agreed by BOD and is currently under consideration by the Contributors for final approval.

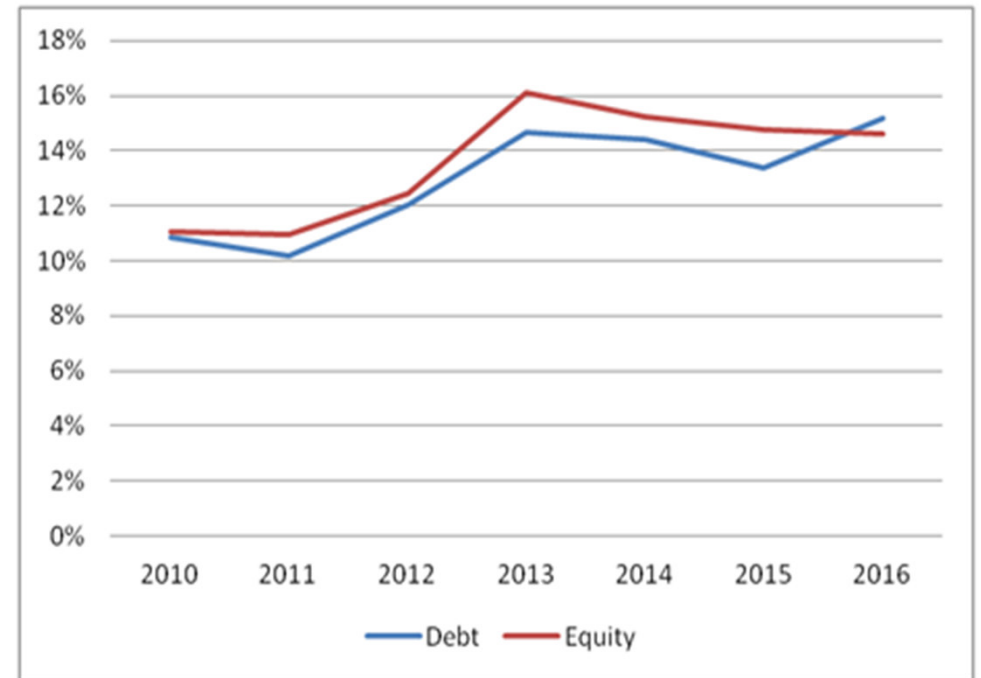
# Foreign holding of ASEAN+3 securities

## Govt securities



■ ID ■ JP ■ KR ■ MY ■ TH

## Debt and Equities



— Debt — Equity

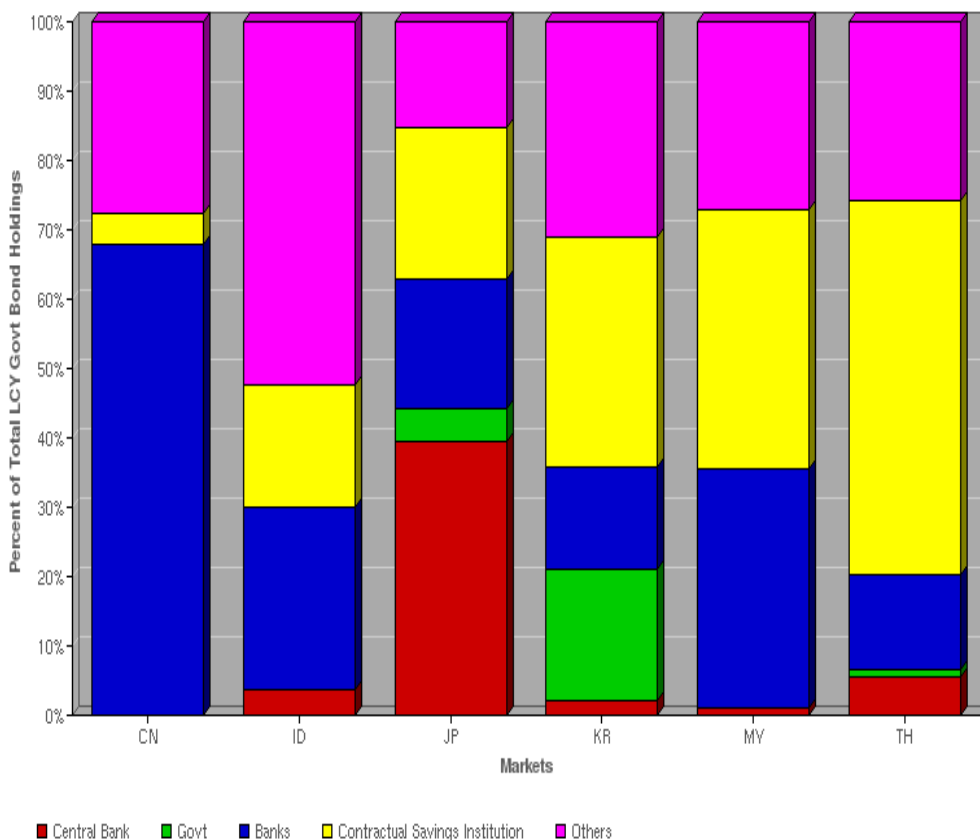


# Credit rating needs improvement by both global and local CRAs

		RATING																												
		CRA	% Holding by CRAs		PRC		Japan		Korea		Brunei		Cambodia		Indonesia		Lao PDR		Malaysia		Myanmar		Philippines		Singapore		Thailand		Vietnam	
			LCY	FX	LCY	FX	LCY	FX	LCY	FX	LCY	FX	LCY	FX	LCY	FX	LCY	FX	LCY	FX	LCY	FX	LCY	FX	LCY	FX	LCY	FX	LCY	FX
CHINA	China Lianhe	Fitch (49%)			AA-	AA-	AA	AA					A+	A+											AAA	AAA	A+	A+		
	Dagong SFCR		AA+	AAA	A	A	AA-	AA-			B	B					A+	A+			BB-	BB-	AAA	AAA			B+	B+		
	Shanghai Brilliance	S&P (strategic partner)	NO SOVEREIGN RATING																											
	Golden Credit Rating		NO SOVEREIGN RATING																											
JAPAN	JCR			AAA	AAA	AA-	A+					BBB	BBB-			A+	A			BBB+	BBB+	AAA	AAA	A	A-					
KOREA	KIS	Moody's (sole owner)	NO SOVEREIGN RATING																											
	Korea Ratings	Fitch (73.55%)	NO SOVEREIGN RATING																											
	NICE					AA+	AA					BBB	BBB-			A+	A			BBB+	BBB			A-	BBB+	BB+	BB			
INDONESIA	PEFINDO		NO SOVEREIGN RATING																											
MALAYSIA	MARC (National scale only)	CARE (10%)					AAA						AA-			AAA								AAA						
	RAM	S&P (13%)																												
	Global scale		AA3		A1		A1			A1		B1		BBB2		B2		A2		B2		BBB3		AAA		BBB1		BB3		
ASEAN & National scale		AAA		AAA		AAA		AAA		BB3		AA3		B1		AAA		B1		A1		AAA		AA1		BB1				
PHILIPPINES	Phil Ratings		NO SOVEREIGN RATING																											
THAILAND	TRIS	S&P (49%)														BBB+														

Legend (Outlook) : Positive Stable Negative

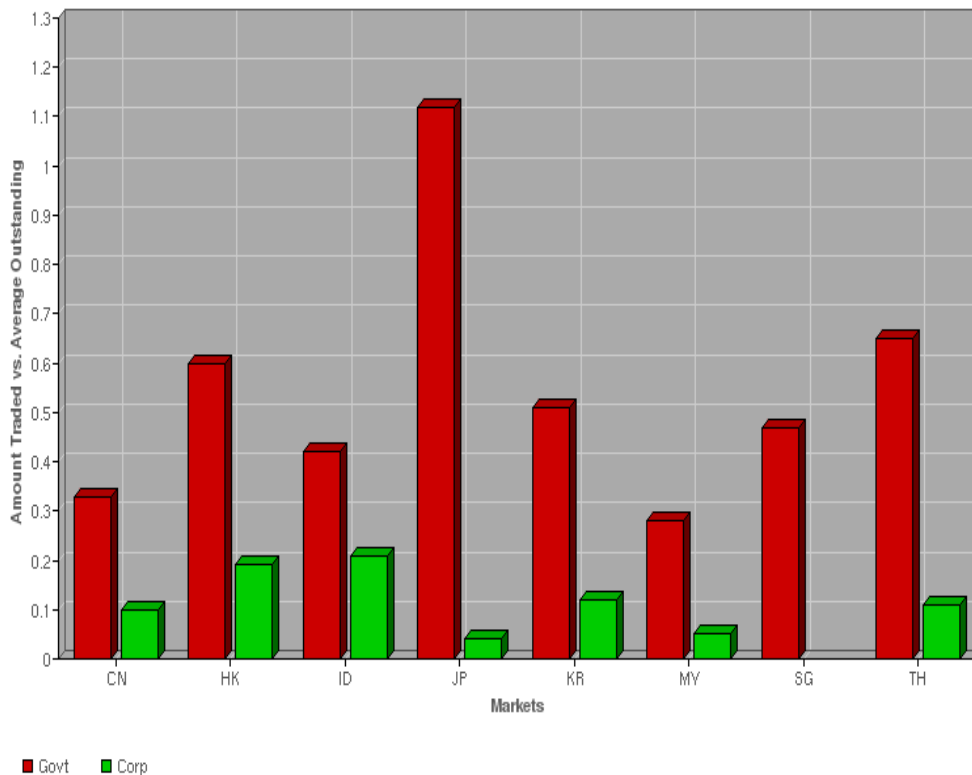
# Investor profile with signs of risk



- PRC shows strong interconnectedness between the government and banks
  - Nearly 70% of govt bonds held by banks, i.e., expansionary
  - PRC banks also have high exposures to SOEs at both national and provincial levels.
  - Systemic risks? Need a joint stress test of the sovereign and the banks?
- Japan has huge public debt and shows impacts of QQEs
  - Over 200% of GDP in public debt
  - BOJ holds 40% of govt bonds

# Secondary market liquidity is modest

Quarterly turnover of govt bonds



- Market organization and transparency need to be improved.
- Repo markets need to be developed.
  - Repo market in PRC takes a form of pledged repos without ownership transfer
  - Prime collateral / Cross-border collateral / repo (i.e., cross-currency) is promoted with CSD-RTGS link

# ABMI New Medium-Term Roadmap

- Focus on what to finance for development beyond stability / resilience
  - Green bonds (for environmentally friendly infrastructure)
  - Municipal bonds (for urban infrastructure)
  - Covered bonds (for housing and infrastructure)
  - SME securitization
- Support for BCLM bond market
  - Good Practices for Bond Market Development
- Continuing and enhancing information dissemination and market integration
  - AsianBondsOnline, Asian Bond Market Summit
  - ABMF to promote AMBIF and cross-border STP with ISO 20022.
  - CSIF for CSD-RTGS link model with prime collateral / cross-border collateral / repos
  - Credit rating comparability
- CGIF capital increase
  - Construction Period Guarantee for project bonds (for greenfield infrastructure)

# Challenges of ASEAN+3 financial cooperation

- Supporting BCLM for market development
  - Starting with government bond market but without waiting for it (e.g., Cambodia)
- Connecting market infrastructures and developing FX derivatives for market integration
  - Facilitate the management of currency risk in cross-border bond investment while enhancing capital flow monitoring and management
- Going beyond ASEAN+3:
  - Dissemination of ASEAN+3 experiences beyond ASEAN+3
  - Accommodate non-ASEAN+3 participants in ABMF? Global/non-ASEAN+3 financial institutions are already in. How about officials of non-ASEAN+3 DMCs?
  - Disseminate Good Practices for Bond Market Development and help DMCs with road-mapping.
- Going beyond capital markets with technology for breakthrough
  - Blockchain to enhance CSD-RTGS link model with a virtual hub of bond custody
  - Crypto-currency to reduce the cost of cross-border bond trades, remittances and other financial transactions
  - Role of ADB: Issuer of ADB Coin? LCY govt bonds as underlying assets or capital?



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Thank you.

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