



**Asian Capital Market Law and Regulation Forum:  
Japan, China and Korea**

**Regulation and Self Regulation**  

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**for Asian Bond Markets Development**

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The views expressed herein are those of the presenter and do not necessarily reflect the official views of the Bank of Korea



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# I. Asian Bond Markets Development

## (1) Asian Bond Markets

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### Regional Financial Cooperation:

Asian Bond Markets Initiative (ABMI)

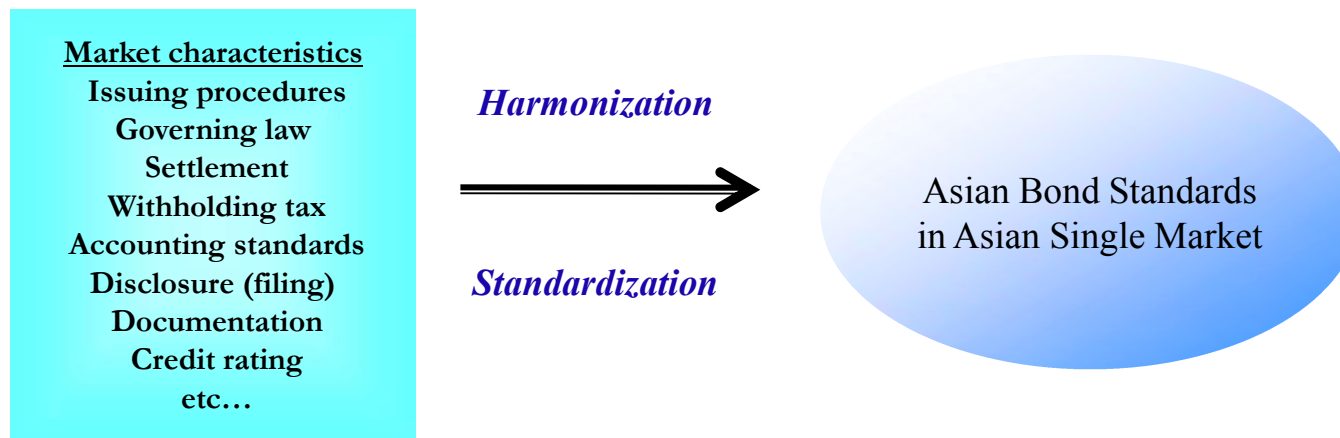
EMEAP's Asian Bond Fund (ABF) 1 & 2

### Benefits of Asian Bond Markets

- Mitigation of so-called double mismatch problems, which reduce the risk of recurrence of the crisis.
- Increase in efficiency of financial intermediation by:
  - Providing more funding opportunities
  - Providing more investment opportunities
  - Competition between existing financial channels and new bond markets
- Economies of scale in integrated market through regional standardization

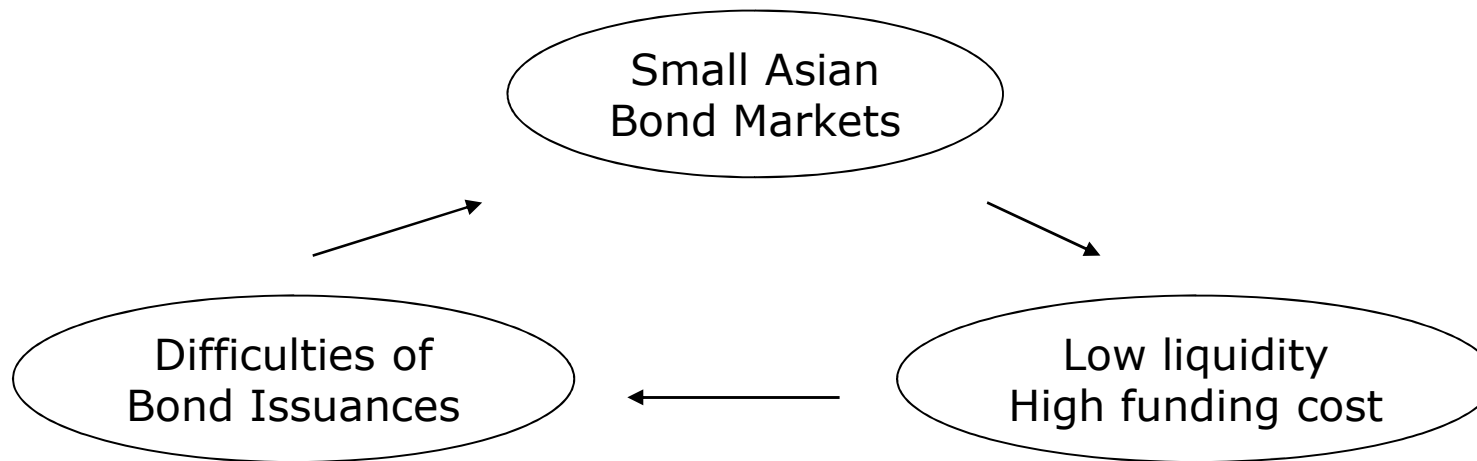
## (2) Tasks Ahead 1: Fragmented Markets

- Fragmented financial markets in Asia
  - different regulatory and legal systems
  - different stages of market development and economic size
  - taxation and capital control etc.
- Asian common set of rules and standards
  - in line with global best practices
  - facilitate the harmonization and integration within the region



### (3) Tasks Ahead 2: Small Size Trap

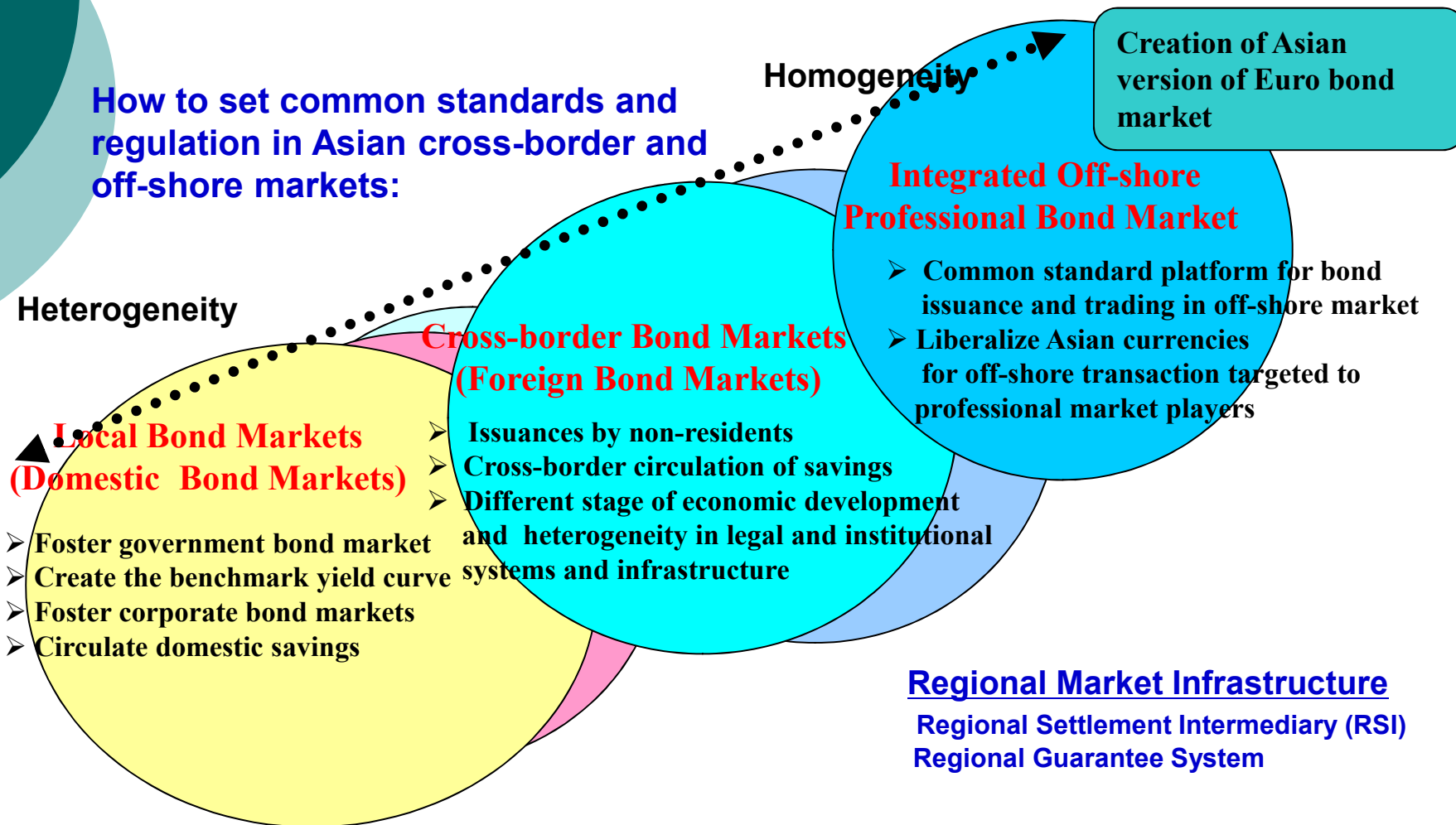
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- Difficulties of bond financing
  - inappropriate bond pricing and dominant bank loan markets
  - burdensome and time-consuming procedure to issue bonds
- No economies of scale in developing bond markets
  - liquid securities market have a certain minimum efficient scale (Eichengreen & Luengnaruemichia , 2004)
- Small open emerging markets can be more seriously hit by global financial ebbs and flows resulting from sudden shortage of liquidity and increase in risk aversion without regard to their economic fundamentals. (Calvo and Talvi, 2005)

## (4) Towards Bigger and Integrated Asian Bond Markets

How to set common standards and regulation in Asian cross-border and off-shore markets:





## II. Regional Framework for Securities Regulation

### 1) Why Do We Need Regional Framework for Securities Regulation, and How?

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- Asian bond markets showed relatively better performance under the current financial crisis. Besides, the crisis revealed that the existing global standard is not panacea. However, this should not be seen as our current regulatory regime is superior or perfect.
- Given the diversity of economic and financial developments and increasingly interconnected financial markets, we need to design regulatory approach more suitable and applicable to the heterogeneous markets in order to efficiently facilitate cross-border transaction and financial integration within the region.
- However, the extent and structure of securities regulation and supervision vary substantially within the region and it is very difficult to harmonize all regulations. Therefore it is more feasible to apply the core standard (minimum harmonization) that all member countries agree is applied in the same way to all members with some flexibility given, and to apply them in stepwise approach considering each economic environment.
- The country which cannot apply the standard immediately but will apply in the future must show timetable and plan. Likewise, the countries with various restrictions can move to liberalization by showing timetable and steps to the liberalization. In this way, we can harmonize and establish regional framework.

## 2) Securities Regulation in Selected Countries

	Main Securities Supervisor	Other Relevant Securities Authorities	SRO (Exchange, Industry Association)	Structure of Financial Supervision
China	CSRC	NDRC, CBRC, PBOC	NAFMII	Multiple
Indonesia	BAPEPAM	Bank Indonesia	BEI,	Multiple
Japan	FSA		TSE, JSDA	Single
Korea	FSC	FSS	KRX, KOFIA	Single
Malaysia	SC	BNM	BMB, MIBA, ACI-Malaysia	Semi
Singapore	MAS		SGX	Single
Thailand	SEC	BOT	TBMA	Multiple

CSRC: China Securities Regulatory Commission, NDRC: National Development and Reform Commission, CBRC: China Banking Regulatory Commission, PBOC: People's Bank of China. NAFMII: National Association of Financial Market Institutional Investors. BAPEPAM: Badan Pangawas Pasar Modal (Capital Market and Financial Institution Supervisory Agency), BEI: Bursa Efek Indonesia (Indonesia Stock Exchange). FSA: Financial Services Agency, TSE: Tokyo Stock Exchange, JSDA: Japan Securities Dealer's Association. FSC: Financial Services Commission, FSS: Financial Supervisory Service. KRX: Korea Exchange, KOFIA: Korea Financial Investment Association. SC: Securities Commission, BNM: Bank Negara Malaysia. BMB: Bursa Malaysia Berhad, MIBA: Malaysian Investment Banking Association (Primary Market Association for Bonds), ACI-Malaysia: (Securities Dealer's Association).





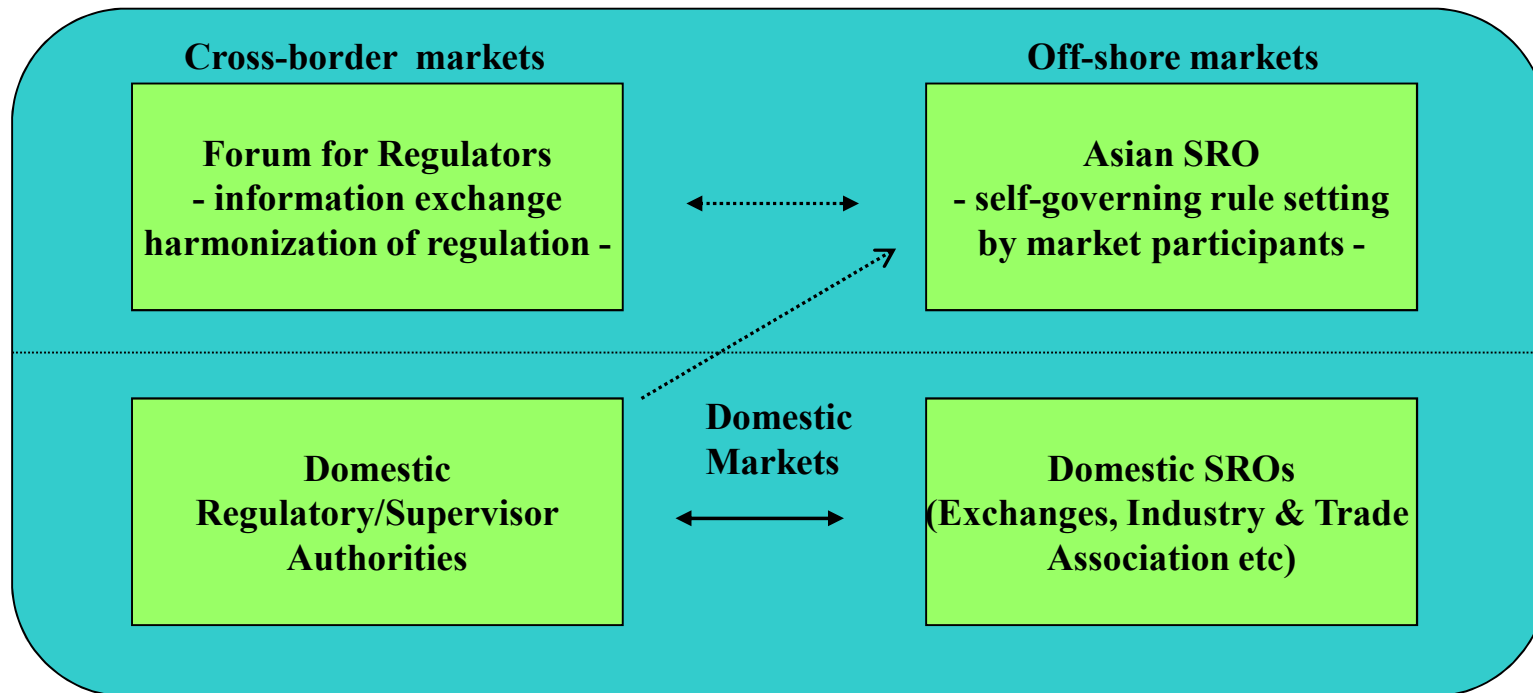
### **(3) Effective regulations on Cross-border Transaction**

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- Cross-border transactions in the region are very limited due to capital control and FX control. Some countries have quota; some countries have exchange controls in which foreign exchange (FX) transactions must be substantiated by actual transactions.
- However, as the regulations move to liberalization and regional investors expands, cross-border transactions will increase, and then we need to think effective regulation on cross-border transactions.
- We can think two approaches for rule setting in cross-border transaction. Firstly, we need to establish a forum for regulators in setting the effective regulation which is consistent across the jurisdictions. Secondly, and equally, we need to have a regional forum for market participants to set regional self-governing rules for offshore transaction which is not subject to national regulation by utilizing their expertises and deep knowledge. This forum may evolve to a Asian SRO if it is deemed to be suitable for the region.

## (4) Regional Framework for Securities Regulation

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## III. Conclusion

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- Asian governments learned a valuable lesson from the Asian financial crisis in 1997-98 and since then have made extensive efforts to develop bond markets in the region. However, Asian countries still face small and fragmented markets problem in facilitating regional financial integration and harmonization.
- And financial (securities) markets in most Asian countries are still strictly regulated compared to advanced countries, so there is ample room for liberalization and de-regulation in order to facilitate the development of Asian bond markets
- Therefore Asian regulators need to identify which areas to regulate and de-regulate rather than to strengthen regulation in response to the current global financial turmoil.
- Regional cooperation and exchanges of information among regulators and SROs in the region and furthermore strong political commitment help to design the effective regional regulatory framework to protect investors and to prevent systemic risk in cross-border transaction.