

Progress Report

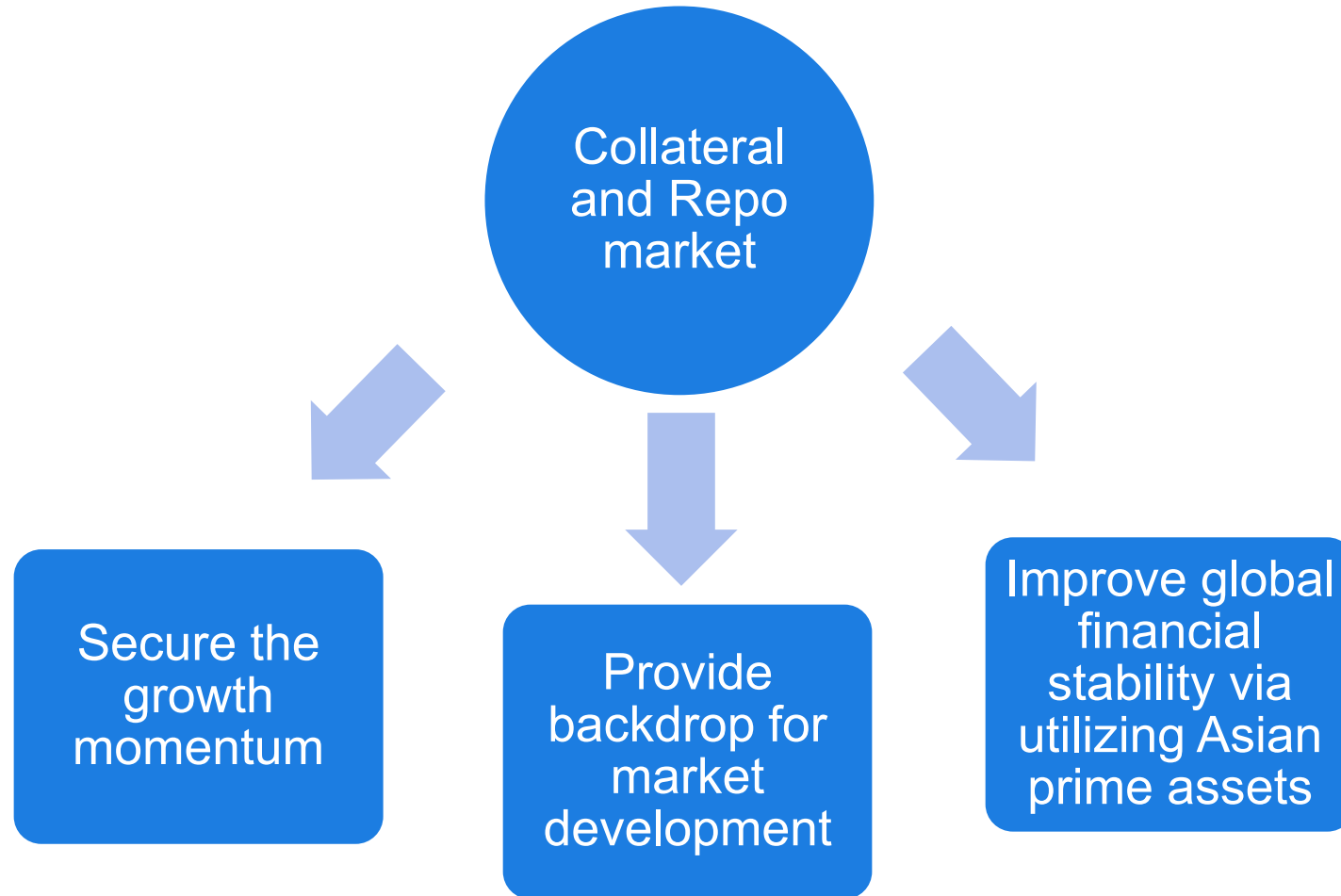
Task Force 4: Inclusive Collateral Strategy for Inclusive Bond Market Development

Asian Prime Collateral Forum

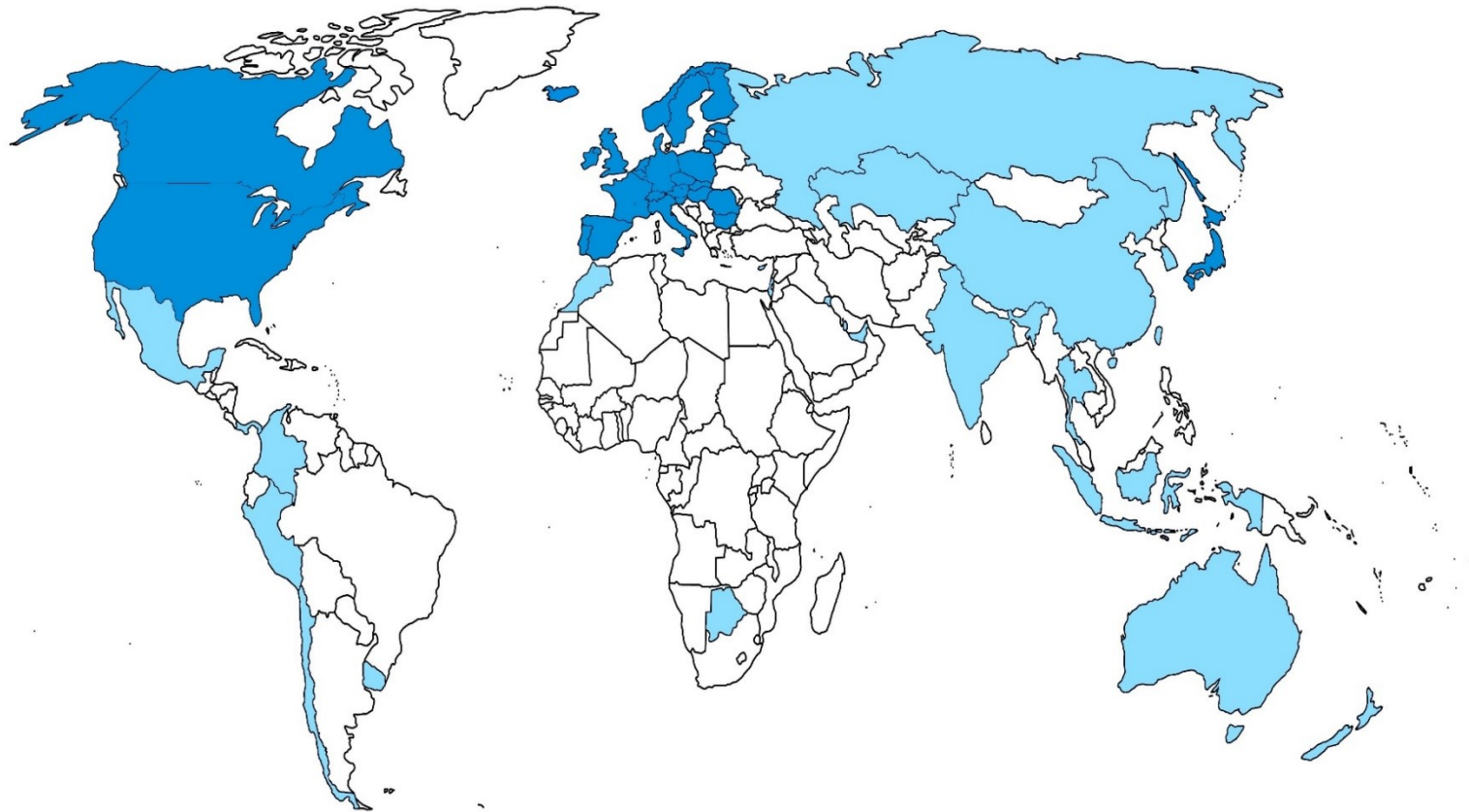
Contents

- I Importance of Asian Collateral Pool and Repo Market
- II Asian Prime Collateral Forum (APCF)
- III Research Summary (2015 ~ Present)
- IV 2019 APCF

Importance of collateral pool and repo market



Difference between pledgeability and credit-ratings



■ Pledgeability ■ credit rating over BBB- (ECB standards)

Europe	Credit Rating
Andorra	BBB
Austria	AA+
Belgium	AA+
Bulgaria	BBB-
Cyprus	BBB-
Czech Republic	AA-
Denmark	AAA
Estonia	AA-
Finland	AA+
France	AA
Germany	AAA
Hungary	BBB-
Iceland	A
Ireland	A+
Italy	BBB
Latvia	A
Liechtenstein	AAA
Lithuania	A
Luxembourg	AAA
Malta	A-
Netherlands	AAA
Norway	AAA
Poland	A-
Portugal	BBB-
Romania	BBB-
Russia	BBB-
Slovakia	A+
Slovenia	A+
Spain	A-
Sweden	AAA
Switzerland	AAA
United Kingdom	AA

Australia	Credit Rating
Australia	AAA
New Zealand	AAA

America	Credit Rating
Aruba	BBB+
Bermuda	A+
Canada	AAA
Chile	A+
Colombia	BBB-
Mexico	BBB+
Monterrat	BBB-
Panama	BBB
Peru	BBB+
Trinidad and Tobago	BBB+
United States	AA+

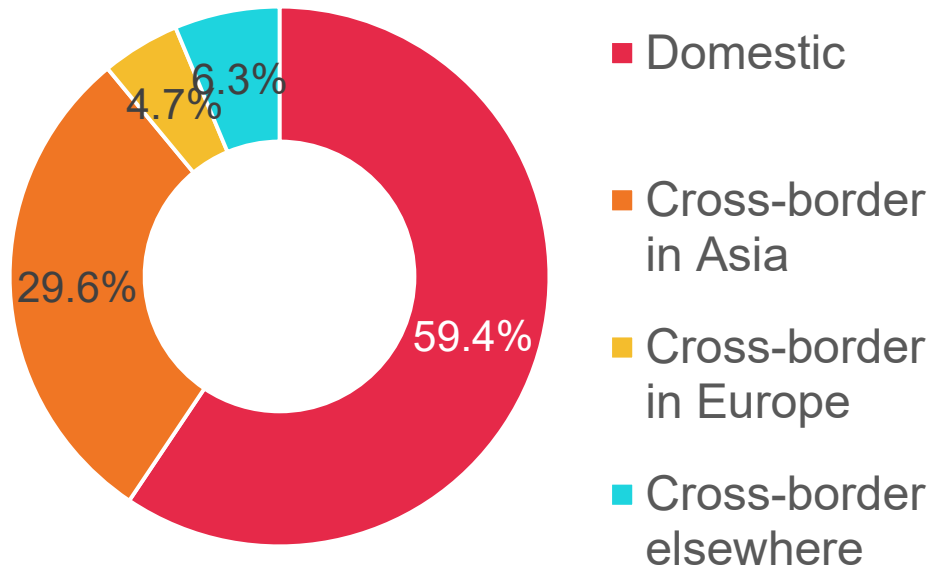
Asia	Credit Rating
China	A+
Hong Kong	AA+
India	BBB-
Indonesia	BBB-
Israel	AA-
Japan	A+
Kazakhstan	BBB-
Kuwait	AA
Malaysia	A-
Philippines	BBB-
Qatar	AA-
Saudi Arabia	A-
Singapore	AAA
South Korea	AA
Taiwan	AA-
Thailand	BBB+
United Arab Emirates	AA

Africa	Credit Rating
Botswana	A-
Morocco	BBB-

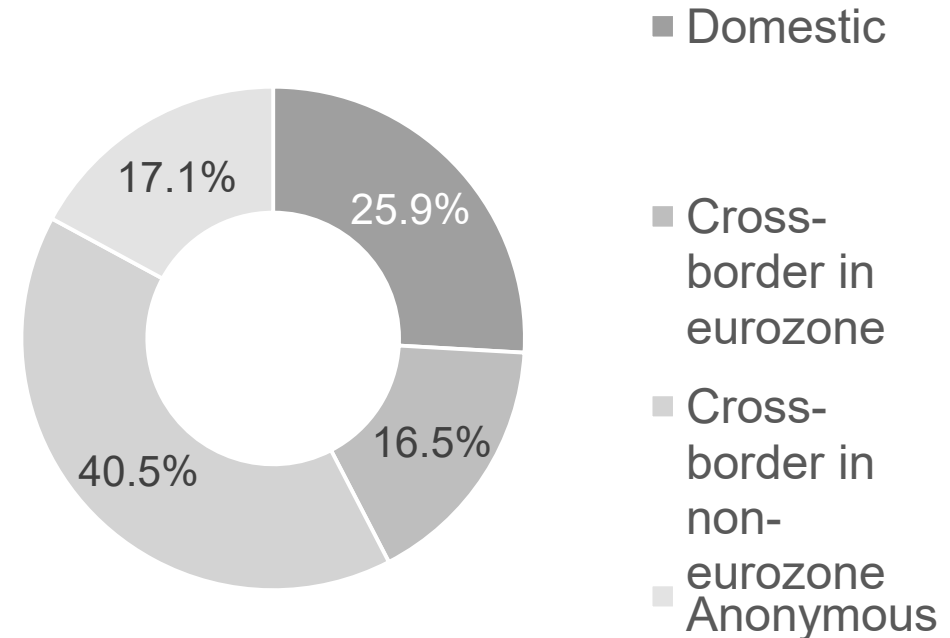
Source: Trading Economics

Geographical analysis of collateral exchanges in Asia and Europe

Within Asia



Within Europe



Source: ASIFMA and ICMA (2017)

Italian bonds as collateral?

The share of government bonds within the pool of EU-originated fixed-income collateral

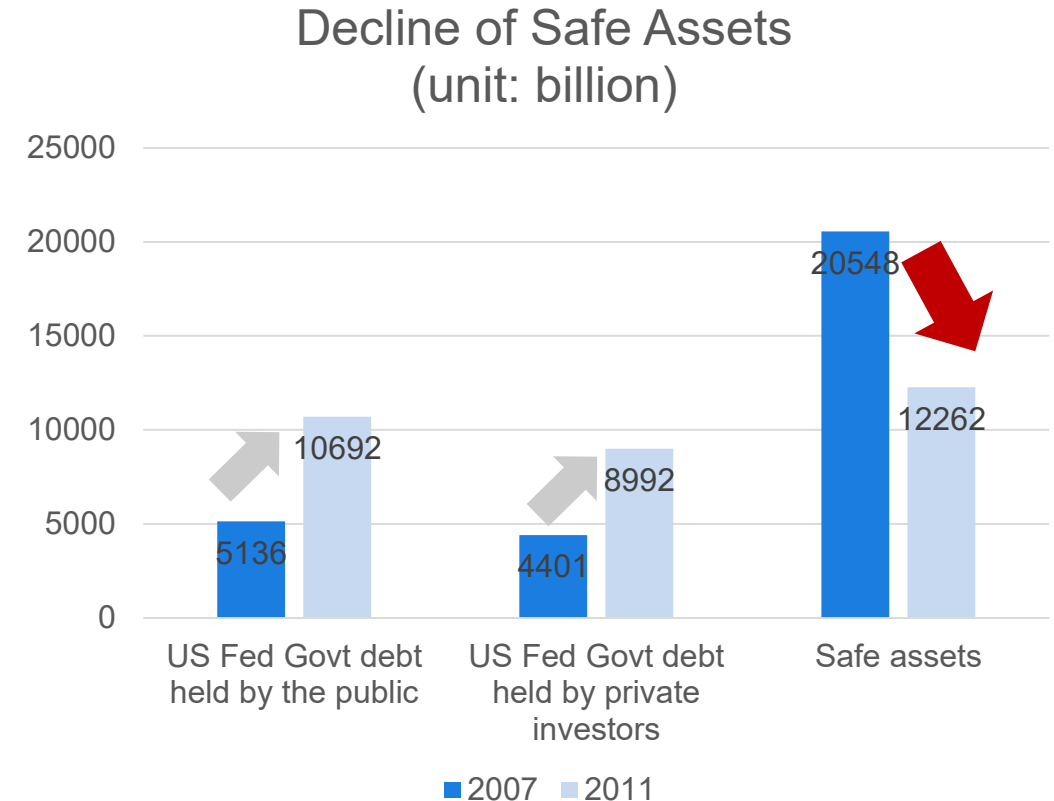
Country	Credit Rating	Share
Germany	AAA	19.6%
United Kingdom	AA	13.7%
France	AA	13.2%
Italy	BBB	11.7%
Spain	A-	5.5%
Belgium	AA+	3.0%
United States (Treasuries)	AA+	4.6%
Japan	A+	3.3%

Country	Credit Rating	Share
China	A+	0% (Ineligible)
Hong Kong	AA+	
Malaysia	A-	
Singapore	AAA	
South Korea	AA	
Taiwan	AA-	

Source: Trading Economics & ICMA (2017)

Safe asset shortage due to very limited supplier (US, Euro)

- **ZLB interest** cannot work in negative interest territory
 - Recession results because quantity equilibrium was reached
 - Artificial demand for safe assets
- **Equity premium:** widened even with interest rates going down
 - Shortage of "safe" assets explains the gap
 - Inflationary expectation forward guidance
 - The global financial system runs on a narrowly defined collateral based assets (Trust) and remains unstable
- **Safety Trap**
 - Securitization externality that leads to under-provision of safe assets
 - Decentralized crypto assets can ease the shortage of safe assets over time if there is no contribution from Asia



Source: Barclays Equity Gilt Study, 2012

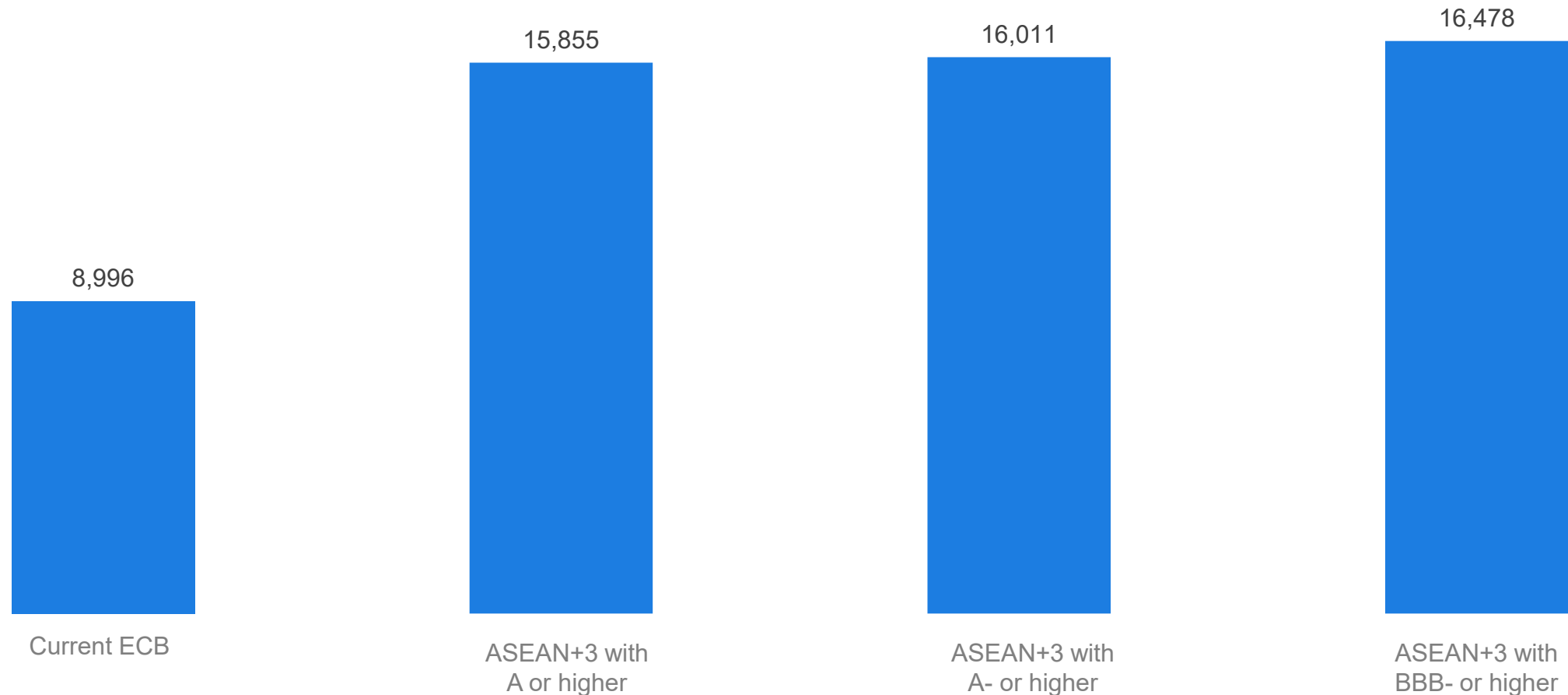
Any chance Asia can be safe asset supplier?

-
- If we consider safe assets to be central government debt securities rated no lower than AA category, sovereign downgrades reduced the supply during the crisis euro denominated safe assets 5.2 trillion euro in 2010 to 3.5 trillion in 2012
-
- US Treasury is the primary supplier of safe assets, accounting for 45% of government securities AAA-AA among vehicle currency countries. Ratings unchanged, US Treasuries net issuance USD 1.6 trillion in 2010 to USD 687 million in 2015
-
- Before the global financial crisis in 2008, private AAA filled the gap with devastating results

Asian prime assets are much safer and have better quality than private labels

Possible size of collateral with the inclusion of ASEAN+3 bonds

(Unit: billion USD)



Source: ECB, Eurosystem Collateral data; Asian Bonds Online (2017)

Economic impact of developing ASEAN+3 regional collateral pool

Market fluidity

- Enhanced fluidity by market participants' efforts without depending on public instruments

Financial stability

- Increase of global safe assets when regional collateral pool is allowed as an alternative resource in the market

Market development

- Regional capital market development, led by global financial stability

Asian collateral pool and repo market

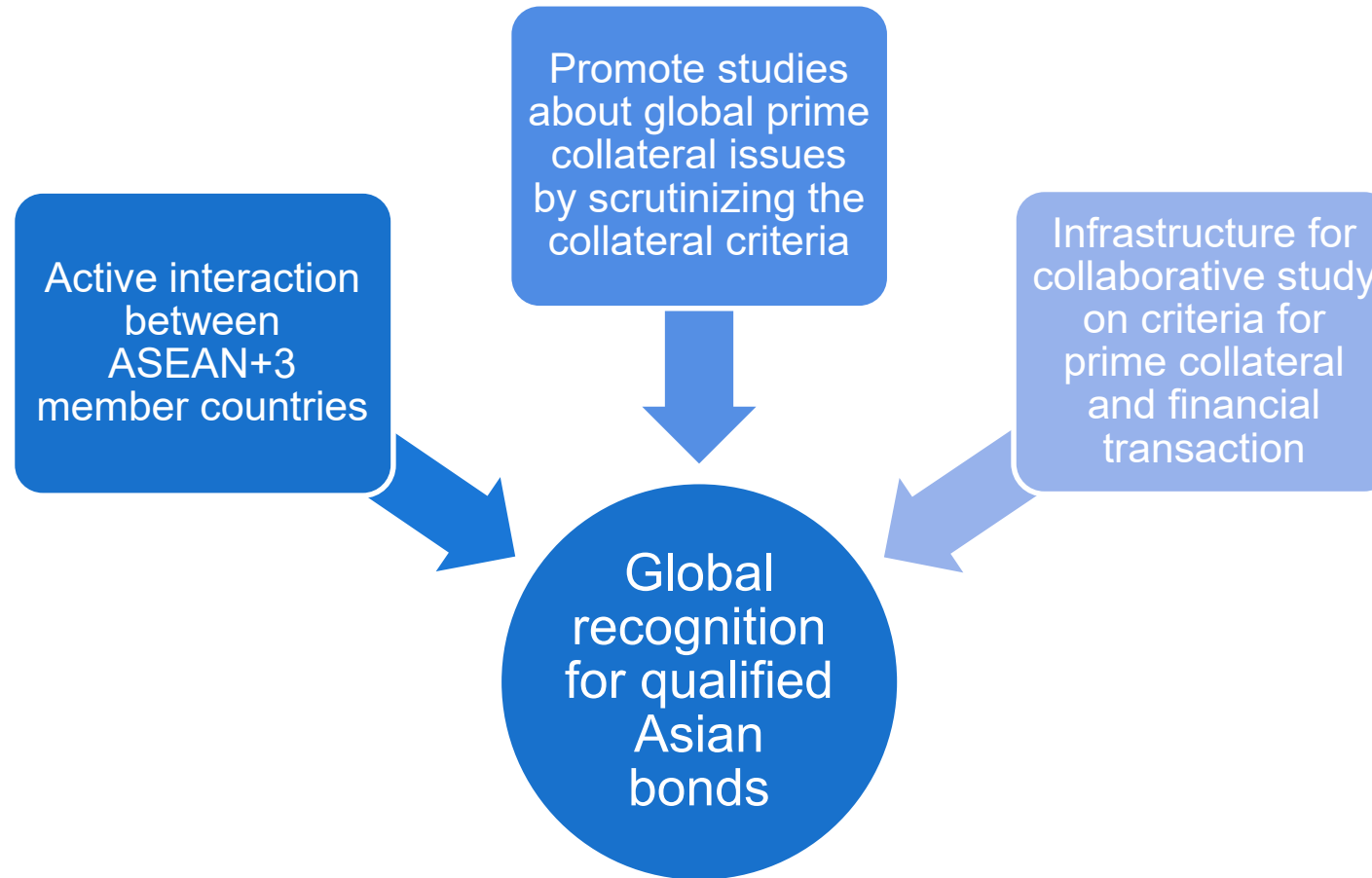
- Implementation Progress of the Asian Bond Markets Initiative (ABMI) New Roadmap+ and Proposed Areas of Focus
 - New task of Task Force 4 (TF4) in the Medium Term ABMI Road Map (2016~18).
 - ASEAN Finance Ministers' and Central Bank Governors' Meeting Plus-Three (AFMGM+3) in May 2016

Why?

- 1) Financial Stability that goes beyond FX reserve and Swap arrangement
- 2) Catalyst for Capital market development by invigorating market needs of private participants
- 3) Meeting regulatory requirements on liquidity

Asian Prime Collateral Forum (APCF)

- **Goal:** To gain global recognition for qualified Asian bonds



APCF: Research Summary in 2015

- Assessment of Asian collateral and repo market
 - Poorly defined, vaguely recognized, and passively managed Asian collateral resources

Anemic
cross-border activities

Low market liquidity

High proportion of
government collateral
in repo market

Disparate/non-existent
criteria on prime collateral
in the region

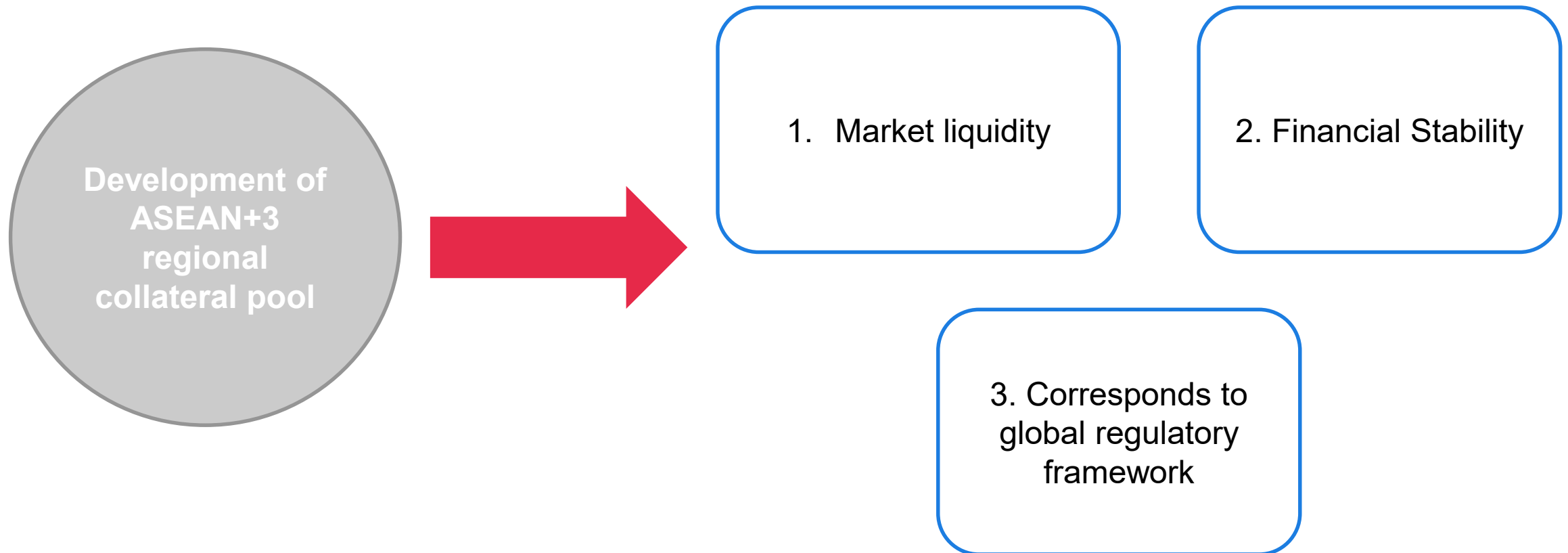
APCF: Research Summary in 2016

- Examination of the current criteria on eligible Asian collateral.

Credit rating				Eligibility	
ASEAN+3	S&P	Moody's	Fitch	Eurozone	U.S. (Fed)
Malaysia	A-	A3	A-	Ineligible	Ineligible
Singapore	AAA	Aaa	AAA	Ineligible	Ineligible
Rep. of Korea	AA	Aa2	AA-	Ineligible	Ineligible
China	A+	A1	A+	Ineligible	Ineligible
Japan	A+	A1	A	Eligible	Eligible
Developed	S&P	Moody's	Fitch	Eurozone	U.S. (Fed)
Italy	BBB	Baa3	BBB	Eligible	Eligible
Spain	A-	Baa1	A-	Eligible	Eligible

APCF: Research Summary in 2017

- Identifying market incentive problems and strategies to strengthen incentives for Asian prime collateral
- Economic impact of developing ASEAN+3 regional collateral pool



APCF: First International Seminar in 2017

The global safe asset shortage and emerging market issuers

- Robert N. McCauley, BIS.
- Global trend of decreasing safe assets
- Role of emerging market participants to deal with arising problems



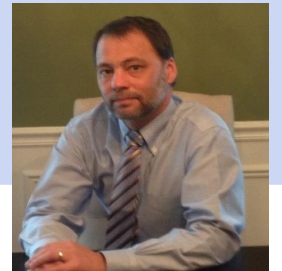
The economics of collateral reuse and policy implications

- Manmohan Singh, IMF.
- Way of economics into politically-charged regulatory agenda.



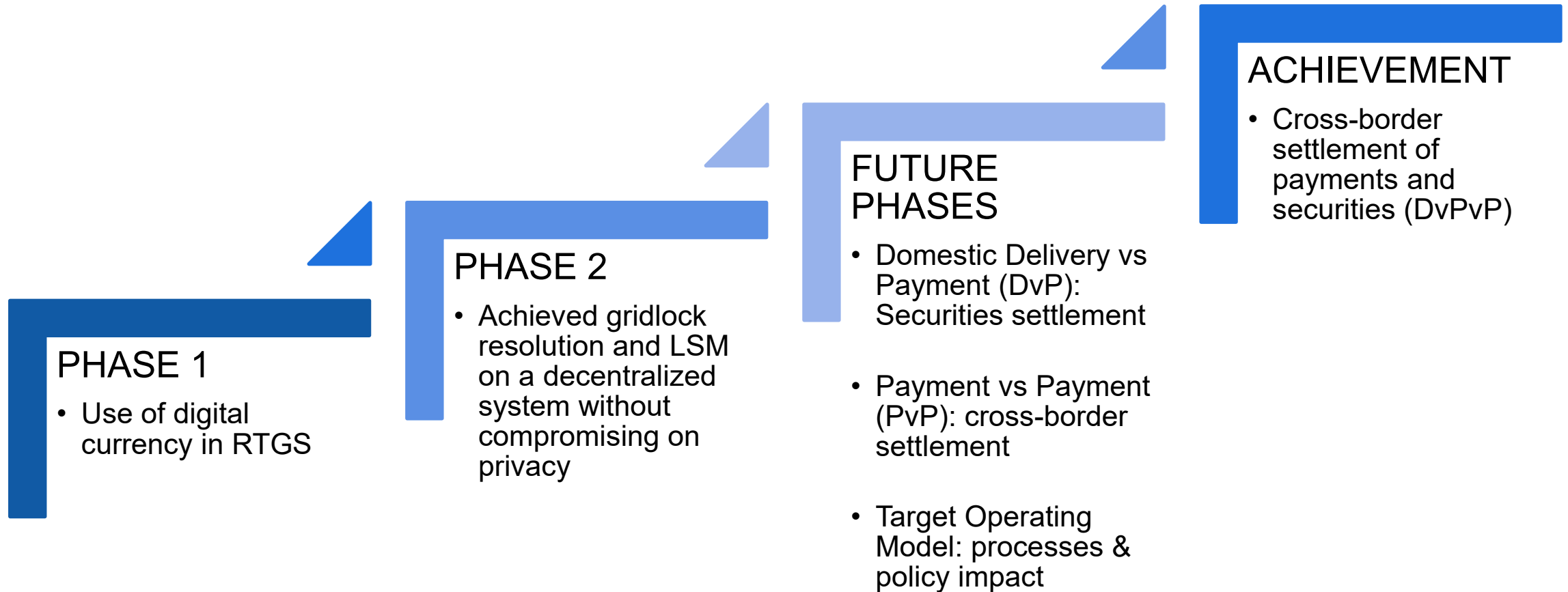
Data, transparency, and building repo capacity in Asia

- Rick Stinchfield, Finadium.
- Asian repo data collection and transparency



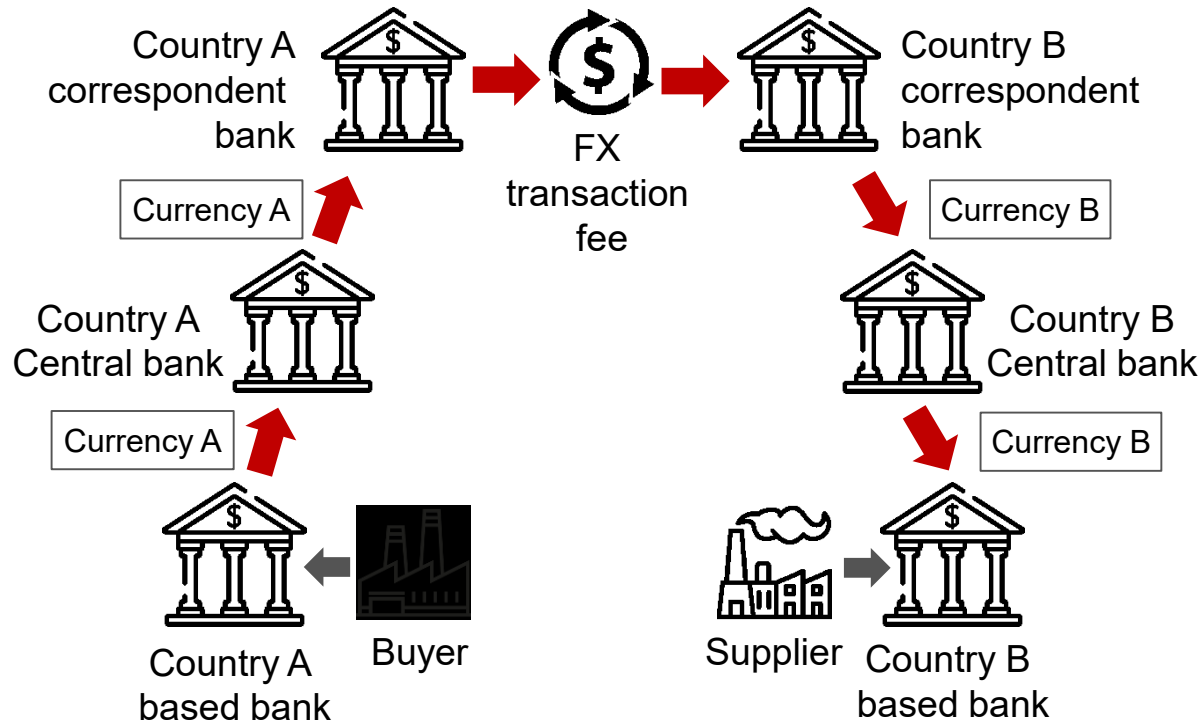
APCF: Research Summary in 2018

- Development of the Asian prime collateral pool in the context of Decentralization and Digitalization

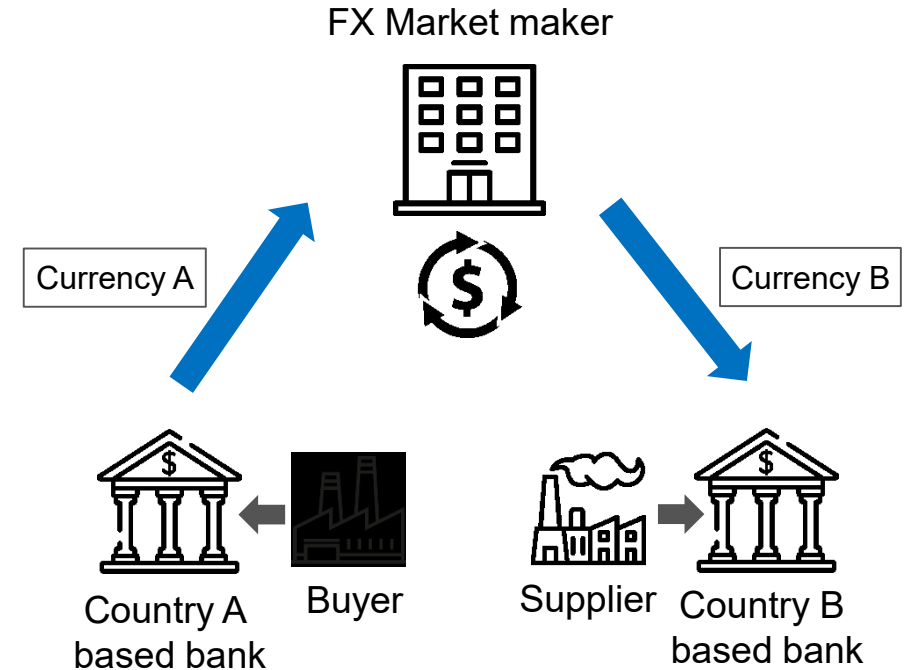


APCF: Research Summary in 2018

- Distributed Ledger Technology (DLT) & Blockchain



➡ Process friction



➡ Process optimization

APCF: Second International Seminar in 2018

- **Focus on the global trend of decentralization and digitalization**
 - How financial innovation drives capital flows and increases financial instability
- **Key speakers**
 - Manmohan Singh, International Monetary Fund
 - “Global market for collateral: Implications for Asia”
 - Professor David Lee Kuo Chuen, SUSS
 - “The future of collateral and repo market:
Centralized governance and decentralized technology”
 - Gongpil Choi, KIF
 - “Expanded use of collateral for trust-building in Asia”



2019 APCF Research Plan

- **Pilot version of the prime collateral pool based on a newly formulated eligibility criteria**
 - Market participants can engage in cross-border market operations without serious barriers.
 - The pilot results would go through the peer-review process and will be finally approved and announced by relevant authorities, if not APCF.
 - Some essential market-based transformation services would be made available for those with marginal status, including haircuts, margin requirements, and other risk mitigant activities.
 - Why?
 - To concretize the market development plan with strong underpinnings on prime collateral
 - The results need to be reviewed and discussed in future meetings of ABMI and with the blessings of central banks, it would serve a useful benchmark for inclusive market development.

2019 APCF Third International Seminar Plan

- **To foster communication of experts from the key fields, including ASEAN+3 governments, central banks, academia, and market operators**
 - ASEAN+3 member countries to exchange their views on eligibility criteria for the Asian prime collateral pool, thereby allowing them to reach to a more feasible, effective agreement
- **Also, meeting among the advisory group, domestic and international financial institutions will be held regularly for the development of Asian prime collateral pool.**
 - Monthly advisory group meeting will promote opportunities to exchange their views and opinion on the development of Asian prime collateral pool.
 - A working group formed with domestic and international advisory groups will create a case study and progress report for each specialized field and share the results through seminars on various related topics.
 - APCF will call for papers and publish research which will be stored in the library on the APCF website.
- **The APCF will participate in 2019 Western Economic Association International (WEAI) annual conference and organize a special session for collateral studies in order to disseminate the significance of utilization of collateral and boost global research interest in Asian collateral.**

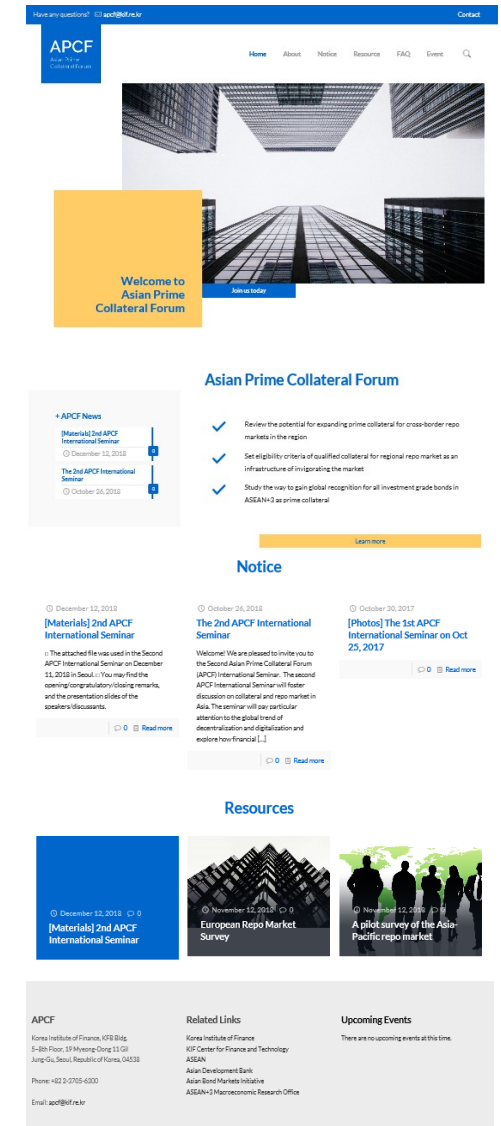
Asian Prime Collateral Forum (APCF) Website

- Resource**

- External resource: organization of a number of relevant publications about Asian collateral and repo market.
- Internal resource: APCF materials, including annual international seminar and ASEAN+3 TF Meeting
- 2019 Plan: Posting articles and journals about international collateral market as well as Asian collateral market

- Global Advisory Group on Collateral and Capital Market Development**

- Exchange views and foster discussion through “Board of Discussion” on the website.
- 2019 Plan: Working Paper with the advisory group members and other experts from the key field



Tasks for APCF

I. Assess existing criteria for prime collateral and identify the requirements to expand the pool.

- Both at global and regional level
- Prepare eligibility criteria for qualified collateral in cross-border repo transactions

II. Develop some of the necessary infrastructure

- Consider open participation.
- e.g. partnership with SUSS, DLT, PSD2, and API
- Would boost growth with an increasing number of participants from the private sector.

III. Address the needs for a governing body

- Importance of upending the existing institution

IV. Conduct in-depth study about ASEAN+3 themselves

- Especially in the area of the capital market and banking system
- Address core issues of Asia's role in the financial arena
- Needs for establishing *network of centers* to invigorate in-depth studies.

V. Invite researchers to collaborate

- Needs for relevant body to oversee and make suggestions
- Put top researchers together as academic journals on a regular basis.
- Seminar on a regular basis
- Active interaction with international organizations.

Roadmap for APCF

ACPF

- Brainstorming platform for exchanging views and achieving the goal of gaining global recognition for Asian bonds as prime collateral

Joint Research

New eligible collateral

- Revision of the criteria
- Utilization of newly discovered collateral
- ABMI TF Meeting

Global financial stability

- Mitigating the challenges of “capital flows uphill”
- Enhancing the provision of liquidity
- Restoring investor confidence

Development of Infrastructure

- Integration and confidence
- Sustainable growth

Action Plans for APCF

[illegible]

Thank You