Progress Report
Task Force 4: Improved Repo Market Infrastructure for More Inclusive and Open Participation

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Asian Prime Collateral Forum
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Importance of Asian Collateral Pool and Repo Market

- Collateral and Repo market
- Market liquidity
- Financial stability
- Corresponds to global regulatory framework
Asian Prime Collateral Forum (APCF)

Catalyst for Studies on Collateral

- Encourage interaction among ASEAN+3 member countries
- Develop infrastructure for collaborative study on an eligibility criteria
- Foster research on global prime collateral issues
- Global recognition for qualified Asian bonds
## Asian Prime Collateral Forum (APCF)

- Annual International Seminar
- Global advisory group meeting on collateral and repo market
- Private market participants discussion group
- Network of Research Centers
Asian Prime Collateral Forum (APCF)

APCF Road Map for 2018-2019

1. Second APCF International Seminar to be held on December, 2018
   • Focus on the role of collateral-based market operation
   • Adaptation of the global trend of decentralization and digitalization

2. Global Advisory Group Meeting to be held in early 2019
   • Reviewing on-going research on Asian collateral market
   • Exchanging opinions and views among diverse participants
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.
- Needs for roles of economics into broad-brushed and politically charged regulatory agenda

Data, transparency, and building repo capacity in Asia
- Rick Stinchfield, Finadium.
- Asian repo data collection and transparency to understand market trends
Research Summary (2015)

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
Research Summary (2015)

Collateral exchanges occurring within Asia: Mostly domestic

Geographical Analysis of Collateral Exchanges occurring within Asia

- Domestic: 59.4%
- Cross-border in Asia: 29.6%
- Cross-border in Europe: 4.7%
- Cross-border elsewhere: 6.3%

Source: ASIFMA and ICMA (2017)
Research Summary (2016)
Assessing the current criteria on an eligible collateral

1. Outdated criteria on eligible collateral in the global financial market
   • Not based on a reliable evaluation with economic reasoning but based on just traditional practices mainly formulated in the European Repo Market
   • Jurisdictional, poor considerations for risk factors
   • Inadequate recognition of market integration and technological features

2. Economic impact of utilization of all investment grade bonds in ASEAN+3
   • Expected to expand the pool of eligible collateral by about 3 trillion U.S. dollars
   • Greasing the wheels of international capital market (“Capital flow uphill” can be moderated!)
## Research Summary (2017. 08)
### Identifying market incentive problems

Stagnant market sentiments due to lack of interests

<table>
<thead>
<tr>
<th>1. Macroeconomic factors: FX stabilization is the key focus in export-oriented economy</th>
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<tbody>
<tr>
<td>• Monetary policies plagued with the “IMPOSSIBLE TRINITY”</td>
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<tr>
<td>• Emphasis on FX reserve and swap arrangement</td>
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<table>
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<tr>
<th>2. Liquidity facilities are mainly prepared by central authorities</th>
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<tbody>
<tr>
<td>• Superficial understanding of the roles of collateral and repo market in Asia</td>
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<tr>
<td>• A lack of needs to do other transactions</td>
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<tr>
<th>3. Central government policy: Stable Exchange Rate</th>
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<tbody>
<tr>
<td>• Centralized financial system</td>
</tr>
<tr>
<td>• High dependency on foreign reserves, swap arrangements, etc</td>
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## Research Summary (2017. 08)

**How to strengthen market incentives for “Asian prime collateral”**

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<tbody>
<tr>
<td>1.</td>
<td>Formulate a new, inclusive eligibility criteria on “Asian collateral“</td>
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<td>2.</td>
<td>Reach a consensus among ASEAN+3 members on a new criteria that would help start cross-border activities</td>
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<td>3.</td>
<td>Build capital market infrastructure for cross-border activities</td>
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<td>4.</td>
<td>Promote an ecosystem that emphasizes market incentives for private participants</td>
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<td>5.</td>
<td>Develop organizations (or network of centers) for research on collateral and repo market in Asia</td>
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Economic impact of developing ASEAN+3 regional collateral pool

1. Enhanced Financial Stability
2. Accelerated Capital Market Development
3. Improved Market Liquidity

- Stabilization costs can be reduced
- Reduced dependency on FX reserves and swap arrangement
- Financial stability can be enhanced without outsourcing regional financial resources
Possible Size of Collateral with the inclusion of ASEAN+3 bonds (Unit: billion U.S. dollars)

- Current ECB: 8,996
- ASEAN+3 with A or higher: 15,855
- ASEAN+3 with A- or higher: 16,011
- ASEAN+3 with BBB- or higher: 16,478

Source: ECB, Eurosystem Collateral data; Asian Bonds Online (2017)
Research Summary (2017.12)

Roadmap for utilization of collateral

• Needs for collaborative organizational effort

Formulate an eligibility criteria

• Asia-Pacific Financial Forum: It attempts to improve the repo market using the existing system

Invigorate collateral pool and repo market via existing system

• Distributed Ledger Technology (DLT)

• Tokenization: It reduces barriers to cross-border financial activity

Develop repo market through employing future-oriented technology
Research Summary (2018)
“Prime Collateral” in the context of Decentralization and Digitalization

Research Focus

1. Eligibility Criteria
   - Eligibility criteria on Asian collateral in light of decentralized trust mechanism and tokenization of assets
   - Inclusive eligibility criteria based on expanded asset category

2. Global trend of decentralization and digitalization
   - Changes followed by decentralization and digitalization
   - Ecosystem building with Blockchain technology
     - E.g. Ubin Project

3. Adaptation of future technology
   - How to adopt future technology
   - Limitation and risk of adopting future technology
Research Summary (2018)

Overall Journey of the Project Ubin: Accommodation of Digital Assets

PHASE 1
• Use of digital currency in RTGS

PHASE 2
• Achieved gridlock resolution and LSM on a decentralized system without compromising on privacy

FUTURE PHASES
• Domestic Delivery vs Payment (DvP): Securities settlement
• Payment vs Payment (PvP): cross-border settlement
• Target Operating Model: processes & policy impact

ACHIEVEMENT
• Cross-border settlement of payments and securities (DvPvP)

Source: MAS (2017)
# Research Summary (2018)

## Future Infrastructure: Implementation of RTGS on DLT

1. Due to the advent of Distributed Ledger Technology (DLT), it is inevitable to re-organize the existing Real-Time Gross Settlement (RTGS) system

2. Improvement in the system is vital to make better use of Asian prime collateral

3. The existing eligibility criteria must be re-examined to take the technological development into account

4. It is urgent to establish an comprehensive criteria on Private Trust Machine

5. Implementing a RTGS on DLT requires us to re-examine the existing eligibility criteria. This would give Asia a better chance to prepare for the future
## APCF Agenda and Schedule

<table>
<thead>
<tr>
<th>Tasks</th>
<th>Action Plans</th>
<th>Proposed Timeline</th>
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<tbody>
<tr>
<td>Review the potential for expanding prime collateral for the repo market</td>
<td>Review the existing criteria for prime collateral</td>
<td>2016</td>
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<td></td>
<td>Create and operate the Asian Prime Collateral Forum (APCF)</td>
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<td>Arrange the eligibility criteria for qualified collateral in cross-border repo transactions as an infrastructure of invigorating the market</td>
<td>Establish criteria for Asian prime collateral</td>
<td>2016</td>
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<tr>
<td>Set up the strategy to gain global recognition for all investment-grade bonds in ASEAN+3 bonds as prime collateral</td>
<td>Devise multiple methodologies for ASEAN+3 bonds to penetrate the global financial system as prime collateral</td>
<td>2016</td>
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<td>Find out the most desirable measure</td>
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<tr>
<td>Expand prime collateral pool at both global and regional level, including ASEAN+3 bonds</td>
<td>Apply new criteria for prime collateral in the market</td>
<td>2016</td>
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<td>Engage Global Discussion on Prime Collateral Issues</td>
<td>Hold international advisory group meetings on a regular basis</td>
<td>2016</td>
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<td>Establish the Network of Research Centers</td>
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Thank You