APCF

ABMI TF Meeting
Tokyo, 8 November, 2019
I. APCF: Tasks and Activities
Asian Prime Collateral Forum (APCF)

• **Goal**: To gain global recognition of qualified Asian bonds as cross-border pledgeable collateral

• Highlight the importance of cross-border collateral use for ABMI and **boost market demand and use case for Asian bonds**

• Bring academic insights and market practitioners’ experience to secure basic building blocks for ABMI:
  - Eligibility of cross-border collateral
  - Cross-border collateral pool
  - Governance and institution-building

• Build a **forward-looking, sustainable market engine for ABMI via open collaboration**
Tasks for APCF

I. Review the potential for the cross-border repo market (via tackling regulation, tax, legal issues).

II. Prepare roadmap for relevant authorities in the region to start collaborating on the eligibility criteria for qualified Asian collateral.

III. Work on a future strategy to build the eligible cross-border collateral pool that is compatible with the platform prepared by CSIF.

IV. Expand the prime collateral pool that consists of eligible ASEAN+3 bonds via collateral transformation service.
Open Exchange, Clearing and Settlement Services for Comprehensive Asset Categories

Collateral datasets, haircuts, etc

Comprehensive Credit Guarantee

Cross-Border Settlement Infrastructure (CSIF)

APCF
Expand Core ABMI Capacities

ABMI
Three Pillars of APCF Activities

1. In-depth Research and Joint Projects on Collateral Resources
2. Open Platform for Consensus-Building and Regulatory Harmonization
3. Leadership for Collaborative and Inclusive Market Development
APCF Research Plan (2019)

WEAI 94th Annual Conference
- Worked on evaluating empirical significance of cross-border asset pledgeability using ADB panel data.

2019 Research Paper
- Recognizing the internal constraints (fragmented regulations) among member countries on cross-border use of collateral.

APCF Seminar
- Jointly arranged a session with the 32nd ABMF to engage discussion among the ASEAN+3 countries; APCF discussed the importance and influence of the central bank collateral framework in cross-border transactions.

Collaborative Efforts with IFIs
- The APCF will hold meetings with relevant regulatory boards (ECB, BIS) to stimulate discussion among academicians and policymakers.
  - Discussions include CBDC and collateral backed stable-coins, e.g., tokenization of pan-Asian collateral pool.

APCF Seminar
- On December 19, the APCF will hold a joint-seminar with the Bank of Korea and the Korea International Finance Association (KIFA).
  - Topic will be on Central Bank’s Collateral Framework and Monetary Policies.
Consensus-building Seminars and Events

First APCF International Seminar
• October 25, 2017

Second APCF International Seminar
• December 11, 2018

First Joint-Seminar with the CSIF under ABMI
• October 18, 2019

A Joint Forum with the BOK and the KIFA
• December 19, 2019
Toolkits for Improving Collateral Fluidity

• Improve Resources available for Collateral Recognition and Utilization (Indexation by keywords, compilation by research types, and data collection and dissemination in alliance with the ABO).

• Strengthen global linkage with relevant authorities: Finadium, ASIFMA, ICMA, Office for Financial Research, etc.

• Research Support on relevant Joint Projects via TA from IFIs

• Identify who’s who on collateral issues globally and help them engage in in-depth joint projects or collaborative studies with scholars and market practitioners in Asia.

www.asianprimecollateralforum.org
Ⅱ. Proposals to Promote an ASEAN+3 Repo Market
Collateral and Repo: Drivers of Today’s Market Liquidity

- Asia needs **its own financial engine** to achieve financial stability and inclusive growth
- **Negative interest rate environment** and deflationary pressure set for chronic stagnation
- Excess demand for “**legacy safe assets**” brings bad equilibrium (capital flow uphill)
- Troubles in safe asset countries foretell externally-dependent funding system can be **disruptive** going forward
- Regulatory oversight requires Asia to be prepared for “**securitized funding**” and improved market liquidity
### Impediments to Cross-border Bond Investment and Issuance in Asian Countries

<table>
<thead>
<tr>
<th>Direct / Indirect Factors</th>
<th>Impediments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct Factors</strong></td>
<td>• Capital controls / Data Transparency</td>
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<tr>
<td></td>
<td>• Availability of hedging instruments (e.g. foreign exchange derivatives, interest rate derivatives, etc.)</td>
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<td></td>
<td>• Central bank collateral eligibility</td>
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<tr>
<td><strong>Indirect Factors</strong></td>
<td>• Fragmented Tax Treatment</td>
</tr>
<tr>
<td></td>
<td>• Market infrastructure issues (e.g. regulatory transparency, price transparency, creditor protection, and clearing and settlement systems, etc.)</td>
</tr>
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<td></td>
<td>• Difference in legal framework</td>
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</table>

Prerequisites for ASEAN+3 Repo Market

(i) Deep LCY bond market liquidity
   • Encourage a broad, diverse investor base
   • Improve market access, repatriation and convertibility rights for foreign investors
   • Increase the pool of eligible assets

(ii) Sound legal framework that protects creditors’ rights in bankruptcy and insolvency proceedings
   • Harmonizing legal constructions of repo across Asian markets is imperative to:
     - Reduce legal uncertainties and risks of conducting repo transactions across borders
     - Improve investor and business confidence
     - Reduce compliance costs
     - Improve efficiency and lower the cost of cross-border trading.

(iii) Neutrality in tax treatment

(iv) Efficient and interoperable market infrastructures to overcome the time zone difference
   • Links between ICSDs and CSDs
   • Interoperability between regional payment and settlement systems for reducing settlement costs

Source: “ASIFMA-ICMA Guide on Repo in Asia” (August 2015)
Previous Efforts to Foster Private Repo Market

• Korea implemented regulatory changes to promote non-bank participation
  • In 2010, the Korean government imposed a regulation restricting non-banks from participating in the uncollateralized call market, which in turn, stimulated repo market transactions.
  • In 2017, a broader range of asset managers (including pension funds and public institutions) were permitted to participate in the OTC repo market.

• Philippines’ made repos more appealing by enhancing industry standards and policy support
  • In 2017, the Philippines’ Money Market Association (MART) launched a Government Securities Repurchase Program which set out standards for master agreements, collateral assets and terms, and established trading platform to encourage OTC repos.

• Singapore’s steps to promote the use of corporate bonds as repo collateral
  • In 2015, MAS launched the Securities Repo Facility (SRF) that enables eligible banks to borrow certain high quality corporate bonds from the MAS via repo transactions.

Source: “EMEAP Money Markets Survey Report” (August 2018)
“Nudge” by the authorities

• ASEAN+3 Finance Ministers’ and Central Bank Governors’ can consider common pools of collateral, which can be recognized by the central banks in the region.
  • Too much dependence on USD-linked collateral may create a market disruption.
  • At all costs, we should avoid the recurrence of the Asian Currency Crisis.

• Preferential treatment by the relevant authorities will promote the cross-border collateral and repo market in ASEAN+3.
  • For example, faster growth of Chinese green bond market has been supported by PBOC’s acceptance of green bonds as eligible collateral.
[Annex]
Eligible collateral in the Eurosystem and US
Central Bank Collateral Framework: Cornerstone for Repo Market Development

“If without their support, nothing would happen!”

<table>
<thead>
<tr>
<th>A – Public Sector</th>
<th>B – Private Sector Financial</th>
<th>C – Private Sector Non-financial</th>
<th>D – Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eurosystem</td>
<td>Government, CB, supranational, agency</td>
<td>Credit institution (unsecured, covered, guaranteed), Other financial corporate (ABS)</td>
<td>Corporate securities, and other</td>
</tr>
<tr>
<td>United States</td>
<td>Government, agency, Agency backed MBS/CMO, supranational, Municipal bonds</td>
<td>MM instruments (CP, CDs, BAs), corporate securities, covered bonds, securitized products (non-agency MBS/CMO, CMBS, ABS, ABCP, etc)</td>
<td>Corporate securities, equity, CP</td>
</tr>
</tbody>
</table>

Data coverage: end-June 2007, end-June 2008, end-March 2009 and end-July 2012
Source: Central bank collateral frameworks and practices, BIS (Mar 2013)
Ⅰ. Relaxation in minimum credit quality requirements

Ⅱ. Relaxation of requirements and risk control measures for the simpler ABSs

Ⅲ. Acceptance of additional types of credit claims in some euro area countries, subject to eligibility and use requirements and risk control measures

Source: ECB
Development of Eligible Assets and Use of Collateral in the Eurosystem

Source: ECB

Eligible Marketable Assets

- Central government securities
- Regional government securities
- Unsecured bank bonds
- Covered bank bonds
- Corporate bonds
- Asset-backed securities
- Other marketable assets

Use of Collateral and Outstanding Credit

- Central government securities
- Regional government securities
- Unsecured bank bonds
- Covered bank bonds
- Corporate bonds
- Asset-backed securities
- Other marketable assets
- Non-marketable assets
- Credit Claims
- Fixed term and cash deposits
- Average outstanding credit
- Peak outstanding credit

Source: ECB
Tiered Approach to GC Pooling Benchmark

- GC Pooling market has become a new liquidity pool.
  - Cost-efficient
  - Low risk solutions
## Eurex Repo Market – Euro GC Pooling Segment

<table>
<thead>
<tr>
<th>GC Pooling ECB Basket</th>
<th>GC Pooling Extended Basket</th>
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</thead>
<tbody>
<tr>
<td>• Includes approximately 7,500 securities eligible for use in Eurosystem operations.</td>
<td>• Includes more than 23,000 securities eligible for use in Eurosystem operations.</td>
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<tr>
<td>• Around 2,500 instruments of:</td>
<td>• Around 3,000 instruments of:</td>
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<tr>
<td>✷ Central banks</td>
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<tr>
<td>✷ Regional/local governments</td>
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<tr>
<td>• Around 14,000 instruments of:</td>
<td>✷ Corporations and other issuers</td>
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<td>✷ Agency – non-credit institutions</td>
<td></td>
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Source: ECB, Central bank collateral frameworks and practices, BIS (Mar 2013)