

Newsletter



Institute for International Monetary Affairs

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アジアにおける地域証券仲介機関について ～アジア地域における清算、決済および証券管理の動向と将来～

特別寄稿論考

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(和文要約)

アジア市場の一層の発展を促すため、どのようにして最適な債券の清算および決済のインフラを整えることができるかについて述べたいと思う。言うまでもなく、アジアは、世界において最も急成長している経済圏のひとつである。1997年のアジア通貨危機の教訓から地域の金融システムは強化された。今回のサブプライム危機の影響を現時点で判断するのは時期尚早かもしれないが、アジア市場はこれまでのところは最低限の影響しか受けていない。

アジア金融市場発展にとって裏方の原動力となるのは、清算や決済、そして証券管理業務など、市場インフラの整備である。アジアは多通貨経済圏であり、資本市場は欧米のように統一がされておらず、各国それぞれの方法で決済や証券管理システムの発展段階にあるのが現状である。

アジアにおける債券発行高や、域内取引がますます増加する中、より効率的な取引を行うため、アジア市場も地域的協力を行い、国境を越えたクロスボーダー決済を行うための機構が必要となっている。ASEAN+3のアジア債券市場イニシアチブの後援によりADBが行った市場調査レポートによると、75%以上の市場参加者が地域的証券決済仲介機関(Regional Securities Intermediary、以下RSI)の設立を望んでおり、国境をまたぐ債券決済における外為決済リスクや、ASEAN+3地域内の決済における時差を問題点として挙げている。

RSIの形態として、地域内の国境を越えた投資家が同地域通貨建ての債券を交換し決済するためのアジア中央証券保管機構(ACSD)、また外為決済リスクを削減することを目的としたアジア支払銀行(Asian Payment Bank)の設立が提案されている。このRSIにより、外為決済リスクが削減され、証券決済の記帳による決済が可能となり、各国の債権残高を統合することで担保設定を容易にし、ひいてはレポ市場およびデリバティブ市場の発展に貢献することとなる。

去る 4 月 16 日、ADB の主催により、初の債券清算・決済会議がシンガポールで開かれ、全ての外為取引をカバーする同時決済システムの必要性、RSI 設立の実行可能性や、より具体的な RSI の機能の定義についてなど、各種の合意がなされた。今後の具体的な展開が期待される。

(以下英文本文)

“Idea of Regional Settlement Intermediary in Asia”

**--Trends and future of Clearing, Settlement & Custody
in the Asian Region--**

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In this paper, I would like to explain about the development of the Asian markets, and, in particular, about how we can best enhance the clearing and settlement infrastructure in Asia to support and encourage further development.

Asian Development Outlook

Asia is one of the fastest growing economic regions in the world. Growth in developing Asia is predicted to reach 8.3% for 2007 – up from an earlier prediction of 7.6%. The revised figure stems from the exceptionally strong performance of the People's Republic of China (PRC) and India. In the first half of 2007, China grew at 11.5%, faster than at any time since 1994 while India registered growth at 9.3% in the first quarter of 2007. Together China and India account for 55.3% of total GDP in developing Asia and thus exert a powerful influence on regional trends.

In addition to the robust growth of these two countries, a more general pattern of fast, and in some areas, accelerating growth, is also evident. The Philippines enjoyed its fastest growth in almost twenty years in the first half of 2007 and Indonesia's growth trend is steadily going up. Malaysia, Korea, Mongolia, and Taipei, China are all expected to grow faster than earlier predicted. Thailand, even if recent political uncertainties had somehow dampened private investment confidence, is expected to grow at 4% for 2007. GDP growth in Vietnam is expected to outpace the other ASEAN

countries at 8.3% for 2007. Central Asia continues to expand at double-digit pace and South Asia continues to build on the progress of recent years.

Asian Financial Sector

Asia is far better prepared to withstand financial shocks now than in 1997. So far the turbulence in the subprime credit markets has had minimal effect on the financial markets of developing Asia. Although it is not yet quite clear if the storm has blown over, developing Asia's defenses against external shocks appears to be more solid this time.

The region has learned well from the previous 1997 Asian crisis and since then the region's financial systems have strengthened. A number of Asian economies now have large foreign reserves, stronger current account positions and more flexible exchange rate regimes. Strong growth and generally sound macroeconomic fundamentals are helping the region restore calm to financial markets with relative ease. Asian shares are already bouncing back after skidding for a while, limiting losses from the market sell-off.

However, it is still early days and events in the credit markets and the wider economy have become more difficult to predict. It would certainly be rash to assume that growth in developing Asia will remain unaffected by these unfolding processes. We therefore need to continue to closely monitor events in the global market in the next few months.

The environment for external funding remains positive and Asian markets attracted heavy capital inflows. Last year, net private inflows reached an all-time high of \$255 billion. However, the US subprime turmoil could narrow external funding opportunities for Asian borrowers. But with ample current account surpluses and large foreign reserves, they have less need for external funding.

Robust growth, along with continued capital flows, has lifted foreign reserves holdings of Asia's central banks. In the first half of 2007, reserve accumulation amounted to \$360 billion or almost 40% of world total. Led by the People's Republic of China, all major Asian central banks have reserve holdings that cover their country's short-term external obligations, even under the most stringent standards for reserve adequacy. Although the risk of repercussions from the subprime and credit turbulence seriously affecting growth cannot be ruled out, developing Asia's reduced external

funding requirements and improved economic fundamentals are expected to buffer impacts. Price adjustments in these markets have been in line with ongoing corrections globally and have broadly tracked those in both mature and emerging markets. This resilience reflects robust growth, low inflation and sound fiscal and external positions.

I therefore expect the financial markets of Asia to continue to grow as investors seek better yields for their investments.

Clearing, Settlement and Custody

The relatively invisible engine that supports the dynamics of the financial market system is the clearing, settlement and custody processes. As we all know, a well-functioning market infrastructure is a fundamental requisite upon which confidence in the securities market depends. Investors, both foreign and local, demand for efficient and, more importantly, safe and risk-free transactions. The lack of a well-functioning and secure clearing, settlement and custody system can significantly affect investors' confidence, and this in turn can hold back the development of domestic and regional financial markets.

Market globalization, the increasingly complex technical and regulatory environment of financial markets and the need to remain competitive have triggered efforts to transform clearing, settlement and custody systems all over the world. The US has a relatively homogenous clearing and settlement infrastructure mainly due to a single currency and harmonized tax and regulatory environment. Last year, the Depository Trust and Clearing Corp. (DTCC) became fully owned by DTCC participants who bought out the common shares of NYSE, NASDAQ and the American Stock Exchange. In 2006, DTCC settled more than \$1.5 quadrillion in securities transaction and due to such volume, its transactions fees are among the lowest worldwide.

In Europe, the lack of interoperability of the various processes in the clearing and settlement chain has prevented the creation of a European DTCC. The rapid integration of the euro area finally provided momentum to rationalize the Euro payment systems, securities clearing and settlement structures and collateral management systems. A number of significant studies have been launched by the governments and the industry groups including the Giovannini Group, the "Committee of Wise Men" and the European Securities Forum to determine the right path towards providing a market infrastructure most appropriate to the needs of European marketplaces.

The European Central Bank launched last March the enhanced Correspondent Central Banking Model 2 (CCBM2) which now provides a single set of procedures for all eligible collateral used for both domestic and cross-border basis. The ECB will be launching Target 2 (T2) on 19 November 2007 which in turn will provide a harmonized set of settlement services in central bank money for all kinds of ancillary system, money market systems, clearing houses and securities settlement systems. In conjunction, the Target 2 Securities (T2S) is now being planned which will be an integrated solution for the processing of securities and cash settlements on a single platform. These developments are welcome steps towards the realization of an integrated European market infrastructure.

The clearing, settlement and custody story in Asia is much more colorful. Asia does not have a single currency unlike the US and Europe. Capital markets in the region are not unified and are at various stages of development and their clearing, settlement and custody systems follow suit. Clearing and settlement systems are national, that is, each country has its own clearing and settlement arrangements for different types of instruments and participation in these systems is generally limited to locally regulated participants. Government bonds, which are the dominant debt instruments in the region, are usually traded over-the-counter through active inter-bank markets and settled through central bank operated settlement systems. The systems, very often do not provide guarantees i.e. they are not linked to a clearing company or a central counterparty but they do have a link for payment into real-time-gross-settlement system where they exist. Securities listed and traded on the national stock exchange are settled through the central clearing and depository associated with that exchange.

National central securities depositories (NCSDs) are often linked with international CSDs. This is more to enable international market participants to trade and settle local government bonds rather than to facilitate local market participants trading and settling international bonds.

Hong Kong is an exception. Hong Kong has adopted multi-currency, multi-dimensional approach to infrastructure development. Way back in 2000, the HK Monetary Authority developed the US dollar clearing system that provided PVP settlement for HK dollar and US dollar foreign exchange transactions as well as delivery versus payment for US dollar denominated debt securities. There are currently about 67 direct participants in this clearing system which includes foreign banks with operations in Hong Kong and 162 indirect participants of which 116 are banks outside of Hong Kong. More recently, HKMA established a PVP link between its US dollar

clearing system and Bank Negara Malaysia's ringgit system which eliminates the time lag between settlement of US dollar leg of a foreign exchange transaction and the Malaysian ringgit leg. HKMA hopes to establish similar links with other central banks in the region.

The pressure is on for other Asian markets to adopt the latest standards and technologies that would upgrade their clearing and settlement systems to allow for more efficient transactions processing.

- The Monetary Authority of Singapore has upgraded its electronic payment system to MEPS Plus (MEPS+) that has automated liquidity and flexible queue management features allowing banks to better manage their liquidity.
- Likewise the Philippines upgraded its MIPS payment system to an RTGS in 2006 enabling more securities transactions to be settled on a gross DvP basis. The Philippine system also allows PVP settlement for Philippine peso and US dollar foreign exchange transactions.
- The Central Bank of Sri Lanka has also implemented an RTGS payment system, a scripless securities settlement system and a securities depository system.
- The China Securities Depository, Trust and Clearing Corporation linked its Bulk Electronic Payment Systems (BEPS) into the Central Bond Integrated System for more efficient collateral management and also introduced securities lending last year.
- Indonesia introduced a scripless securities settlement systems in 2004 to allow for straight through processing.
- Last year the Thailand Securities Depository expanded its services to act as the clearinghouse for the derivatives market in Thailand through its subsidiary, Thailand Clearing House Co. Ltd. (TCH). The system allows the TCH as direct central counterparty, to guarantee payment on any derivatives contracts traded, immediately after matching. The TCH, total turnover in 2006 was 198,737 contracts, having a total value of THB 97.9 billion. The TCH is developing services to support new products in 2007, such as SET50 Index Options, in addition to currently supporting SET50 Index Futures.

A Regional Securities Intermediary (RSI)

Over the past 10 years, most countries in the region have improved their clearing and settlement infrastructure. In general, national settlement systems now comply with accepted international standards. However, these are essentially domestic systems,

servicing domestic issuers and investors. Relatively little infrastructure has been put in place in the region to serve cross-border activity.

I believe that this is the opportune time to discuss regional cooperative efforts to address cross-border settlement issues. Past efforts to establish an Asia-wide clearing and settlement system had not flourished mainly due to the fact that there was no business case to do so at that time. The volume of cross-border transactions then was so low. But with the growing volume of debt securities issuances and the increased intra-Asian cross-border transactions, the idea of establishing a regional securities intermediary is again being seriously considered.

The market consultation results of an ADB coordinated study done under the auspices of the ASEAN+3 Asian Bond Market Initiative revealed that over 75% of market participants were agreeable to setting up a regional securities intermediary. The study was undertaken to identify various options available for a regional settlement infrastructure to reduce foreign exchange settlement risks in cross-border bond transactions. The report also highlights a particular problem for investors in the ASEAN+3 region, called the 'third time zone problem'. This problem arises from the settlement of securities and cash in different time zones. It increases the cost and risk of cross-border investment for investors in the region.

To address these problems, the report proposes an RSI in the ASEAN+3 region. It is suggested that this might take the form of an Asian central securities depository (ACSD), which would clear and settle bonds denominated in ASEAN+3 currencies for cross-border investors in the region. This Asian CSD would also be a gateway, via links to the existing ICSDs Clearstream Luxembourg and Euroclear Bank., for investors in the ASEAN+3 region who invest in Eurobonds and other major currency bonds. It would link to local settlement facilities in each participating ASEAN+3 market, either directly or via local custodian banks.

A further option is an Asian Payments Bank, which would focus on reducing FX settlement risk. This would provide similar functionality to the existing CLS Bank, but for trades involving local currencies in the ASEAN+3 region. It would need a special link to CLS Bank to enable counterparties in both systems to settle with each other. It would provide final assured settlement of USD and Euro payments in the ASEAN+3 time zones. Such a local settlement facility could thereby remove the 'third time zone' problem that currently increases cost and risk for investors in the ASEAN+3 region.

An RSI is not a pre-requisite for developing bond markets in the region. However, we believe there may be a number of benefits:

- By allowing security settlement to be carried out in the same time zone as the cash settlement, and on an assured payment versus payment basis, FX settlement risks for investors in the region could be reduced.
- An RSI could reduce the costs and risks of securities settlement by internalizing transactions. This is the main benefit of an ICSD, whereby transactions between participants are settled by book entry.
- An RSI could contribute to the development of regional repo and derivatives markets by consolidating securities holdings, thus making cross-border collateralization easier.

Finally, I believe that an Asian RSI could be a catalyst for change. As such, it could play a role in helping to harmonize standards in the different national markets.

An RSI could be a conduit to international markets for issuers and investors in the less-developed parts of the region.

The current low cross-border transaction volumes of bonds denominated in ASEAN+3 currencies does not necessarily imply that an RSI would not be financially viable. The ASEAN+3 bond markets have high growth potential. The settlement of securities denominated in major currencies could also be a part of the business of an RSI when they are traded among investors in the region. The RSI could also build bridge settlement systems with existing ICSDs and thereby settle the transactions of investors in ASEAN+3 time zones, irrespective of currency denomination.

ASEAN+3 governments might use this opportunity to promote and foster private sector participation in expediting the establishment of an RSI given the interests of market participants in the idea of establishing one. With ASEAN+3 government incentives and political support, especially in the area of eliminating regulatory hurdles in setting up an RSI and allowing links with member countries, an RSI could be established by private participants without direct financial investment from the governments.

I would like to emphasize that infrastructure for Asia is infrastructure for the whole world. When we talk about infrastructure, we mean systems and links that not only connect the Asian markets with one another, but also connect them to the rest of the world. It is like a highway to make our world a truly global village.

Conclusion and Next Steps

At the first Bond Clearing and Settlement Conference held here in Singapore last 16 April, organized by ADB, wherein 20 speakers and 140 participants from 83 institutions attended, there was general agreement on a number of pressing issues relevant to the future of clearing and settlement systems in Asia:

- There is need for developing region-wide payment versus payment services, that can service all foreign exchange (FX) settlements, not just FX settlement arising from bond transactions.
- Further study is needed to assess the business feasibility of establishing a regional settlement intermediary (RSI) and to define the major functions of such RSI.
- The convening of a Group of Experts who would provide guidance and direction for the next steps to take in exploring further the possibility of establishing the RSI will be highly beneficial.
- Even though the establishment of an RSI should be market-driven, it is important that the public sector take the lead in the discussions, neutralizing the conflicts of interests among private sector participants. Any resulting regional infrastructure should be a utility and not a profit oriented entity.

The challenges and issues that confront regulators and market participants in building an efficient and well-functioning market infrastructure for the Asian region are many and complex. The fragmented nature of the clearing, settlement and custody systems in the region presents very challenging tasks ahead of all of us. A comforting sign is the apparent speed of reforms being introduced and adopted by the countries and their enthusiasm in setting-up the frameworks to hasten the convergence of the Asian financial sector.

I hope that this article provides a conducive venue to continue with the discussions on the trends and future of clearing settlement and custody systems in Asia and I hope that market participants will all enthusiastically participate in trying to shape an efficient market infrastructure most suited for the needs of the region.

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