

# Regional Co-operation in Developing Bond Markets

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# Growing Regional Consensus on Development of Liquid Bond Markets

Asian Financial Crisis(1997-98)

Recognition of underdeveloped bond markets

Growing consensus in the region to strengthen the bond market

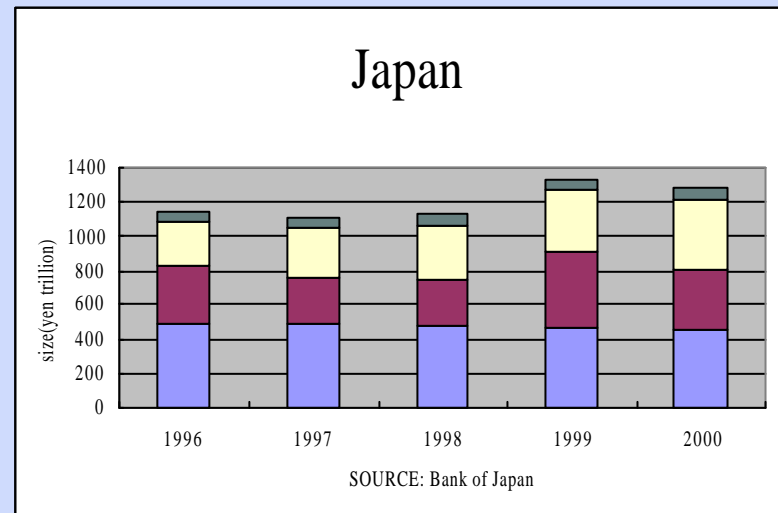
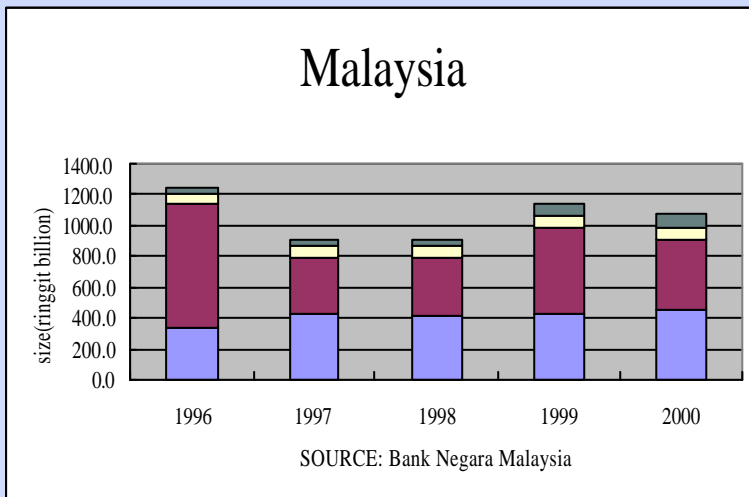
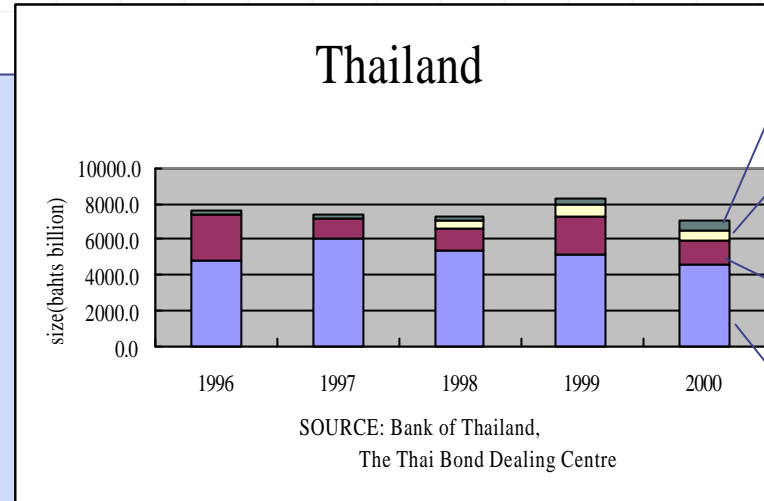
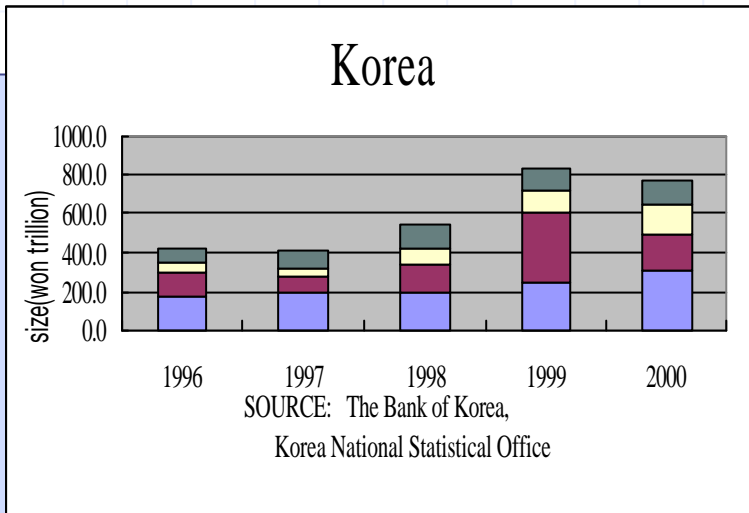
Each country started its own efforts to reform.

Harmonization and Standardization are now viable.

Need to find a Regional Forum to Co-operate.

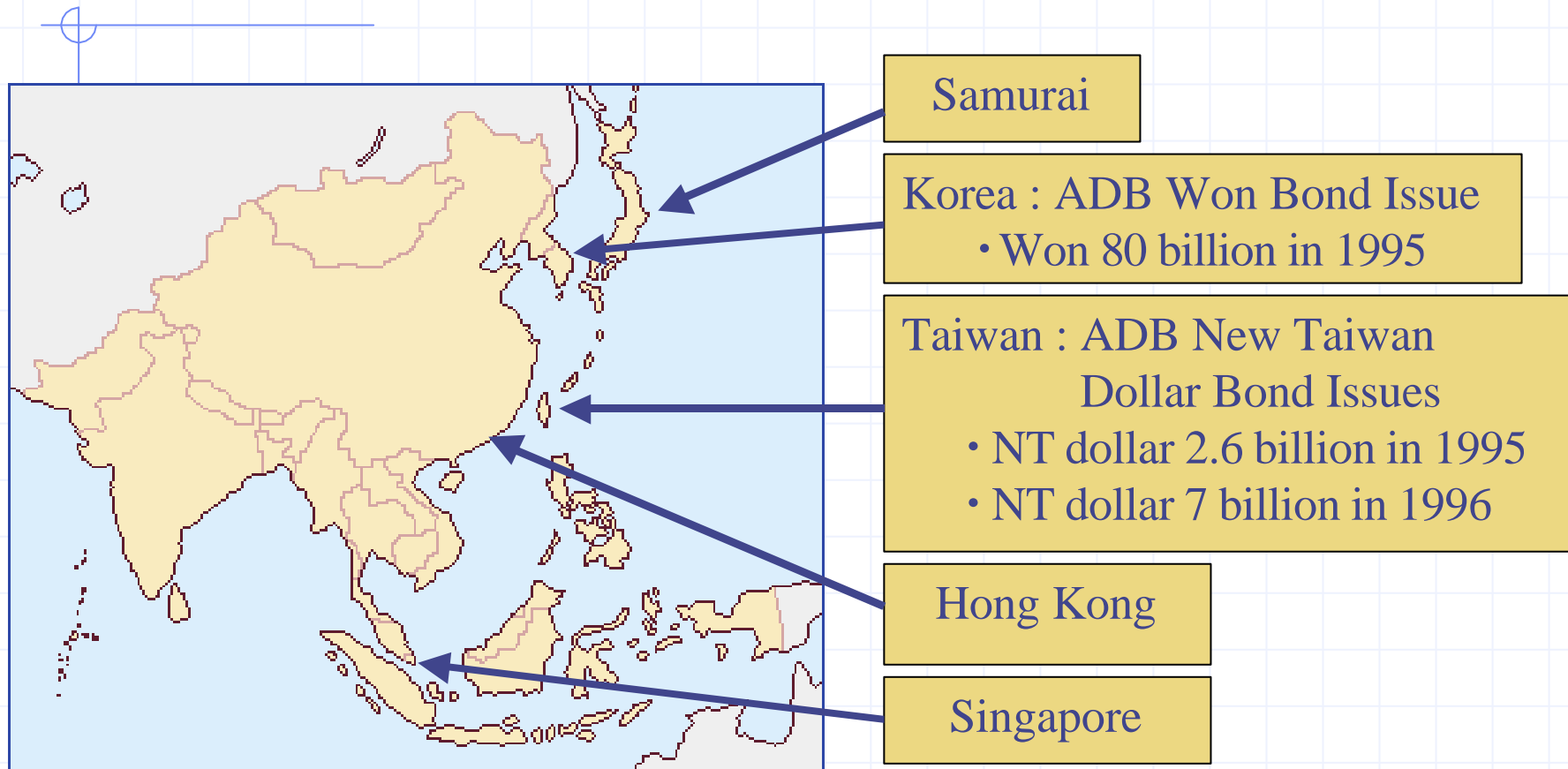
# Four Asian Capital Markets

(Outstanding balance at year-end)



- Corporate Bond
- Government Bond
- Equities
- Bank Loans

# International Bond Markets in East Asia



# Government Bond Market Reforms in Japan

## ◆ Primary Market Reforms

- Enhancing short-term government bills
- Diversified maturities
- Reopening rules
- Better communication with the market

## ◆ Secondary Market Reforms

- Taxation
- Securities lending and repo market



These reforms were made rather recently .  
(1999-2001)

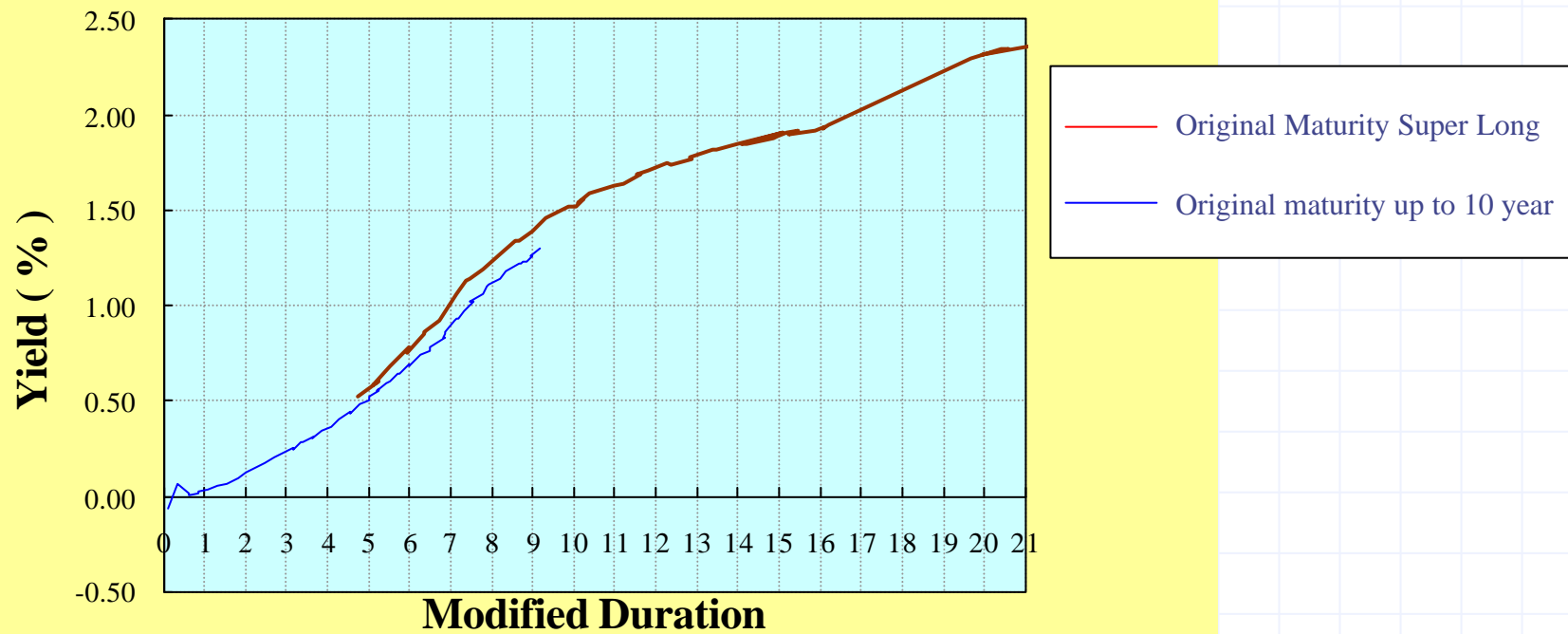
# Changes in JGB Tax and Settlement Systems

- ◆ 1999.3 Securities transaction tax abolished
- ◆ 1999.4 Exemption from withholding tax on TB and FB at the time of issue introduced
- ◆ 1999.9 Introduction of tax exemption on interest income of non-residents
- ◆ 2001.4 Broader application of tax exemption on interest income of non-residents

- ◆ 1996.9 Rolling settlement of T+7 for government bonds started.
- ◆ 1997.4 Rolling settlement of T+3 for government bonds started.
- ◆ 2001. 1 RTGS for government bonds started.

# Current JGBs Yield Curve

## Yield Curve on November 6th, 2001



Source : Tokyo-Mitsubishi Securities Co. Ltd

# Further Reforms Necessary in Japan

Proposed by Tokyo-Mitsubishi Securities to the 6th Meeting on Japanese Government Bond Market on Feb. 27, 2001

## ◆ Taxation System

- Withholding tax exemption to be extended to non-corporate non-resident investors
- Withholding tax exemption on repo transactions for non-residents
- Introduction of STRIPS
- Exemption of domestic private corporations from withholding tax

## ◆ Settlement and Clearing System

- Three different forms of JGBs (physical, registration and book entry) to be unified in a book entry form
- Establishing a netting institution
- T+1 and STP
- Promoting cross border transactions



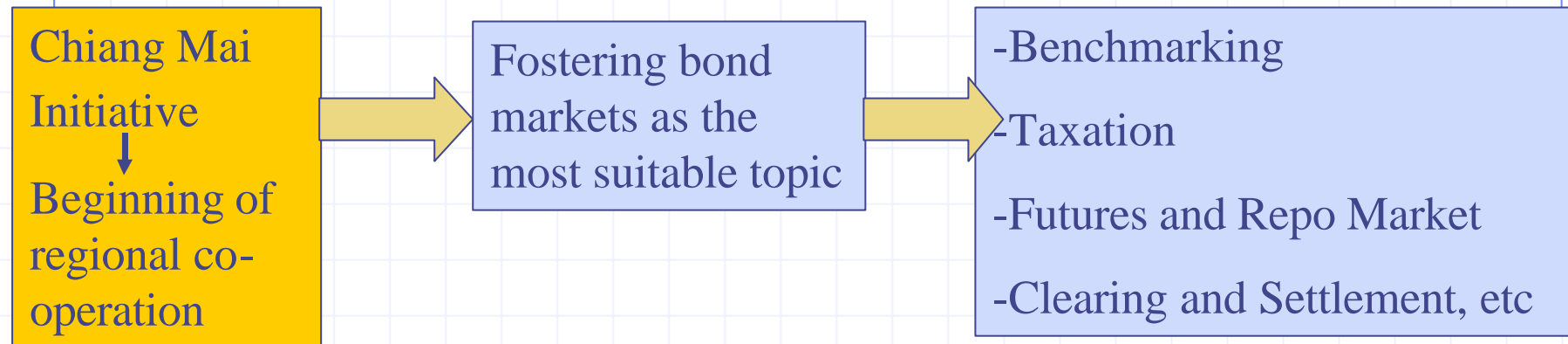
## Comparisons with Other Markets

	Japan	USA	UK	Germany	France
Form	<ul style="list-style-type: none"> <li>◆Book-entry</li> <li>◆Registration</li> <li>◆Physical Bond</li> </ul>	◆Book-entry	◆Book-entry	◆Book-entry	◆Book-entry
Settlement Term	T+3	T+1	T+1	T+2	T+3
Physical Bond	Still in use	Until 1983	Until 1987	Until 1972	Until 1984
Netting	No Netting	GSCC 1995	LCH 1999	No Netting	Clearnet 1998

# Lessons to be learned from Japan

- ◆ Liberalization of interest rates should be made in a timely manner.
- ◆ Government should have started bond market reforms earlier with clear vision.
- ◆ The legal system, including various regulations, administrative guidance and tax system were impediments to the reform process.
- ◆ Strict division of business between banks and securities companies created a less competitive environment.

# Regional Co-operation for Developing Bond Markets



Few opportunities to interact between public and private sectors  
ASEAN+3 as a suitable forum  
Public and private sector dialogue  
< example > Giovannini Market Expert Group