

Session 3 "Asian Market Integration: Competition and/or Cooperation"

Challenges for Developing Asian Capital Markets

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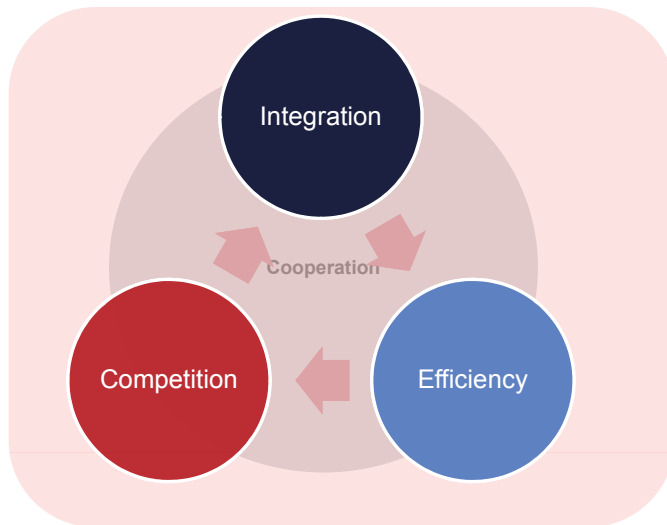
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February 10, 2012

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■ **Integration:** Harmonization and Standardization of National Rule (e.g. inter-operability), Engagement with Global Regulatory Reform Discussions

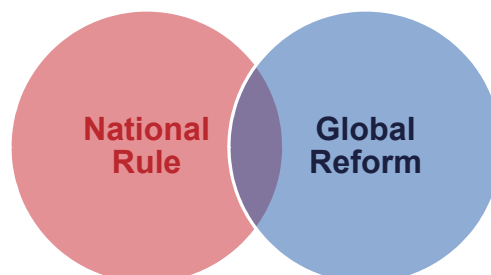
■ **Efficiency (Transaction Costs):** Division of Labor in Financial Industry, Standardization of Hard Infrastructure and Consistent and Predictable Regulation and Supervisory Approach

■ **Competition:** Trading Venues, Banking Business, Financial Products, Technology, etc.

- *For the Areas of Integration and Efficiency, Cooperation is Necessary*
- *For the Area of Competition, a Transparent Level Playing-Field is a Key*

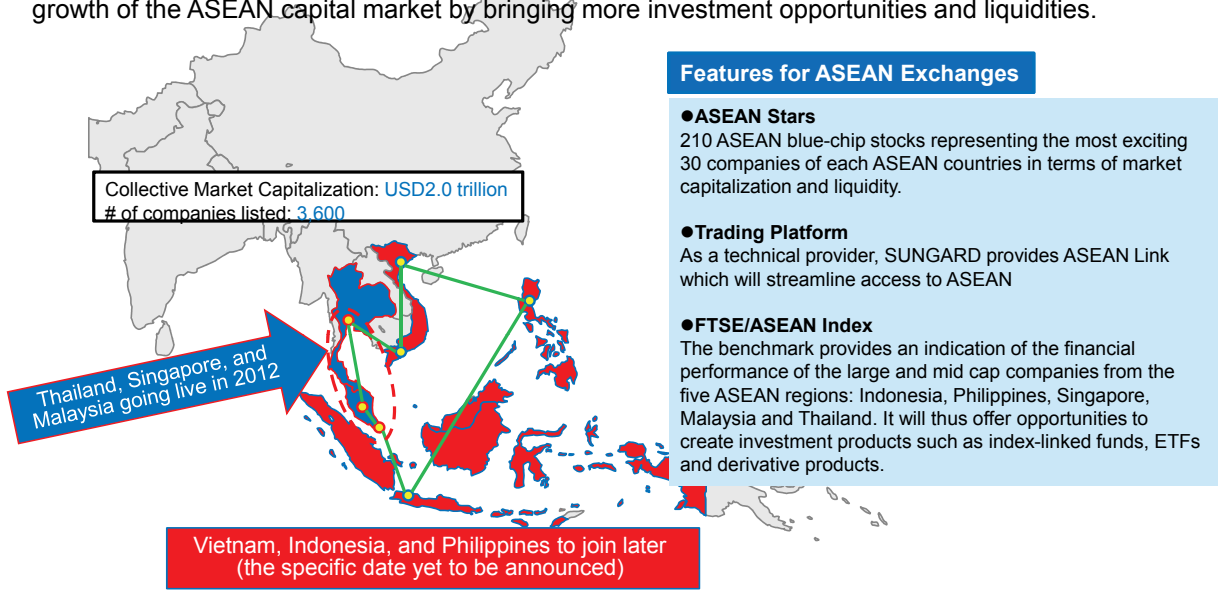
■ **Integration:**

- **Harmonization and Standardization of National Rule**
 - ✓ Rules need to be transparent and in line with global regulatory reforms
 - ✓ Ex. Regulations/supervisions, laws, accounting, corporate governance, disclosure rules, etc.
- **Engagement with Global Regulatory Reform Discussions**
 - ✓ Need to carefully watch macro-influence in the Asian financial sector
 - ✓ Ex. Impact of new Basel III liquidity requirement on capital market activities



■ **A strategic initiative for integration of ASEAN capital markets**

As part of enhancing the regional economic ties, ASEAN Exchanges is a collaboration of the seven exchanges from Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam to promote the growth of the ASEAN capital market by bringing more investment opportunities and liquidities.



■ **Efficiency (Transaction Costs):**

➢ **Division of Labor in Financial Industry**

- ✓ It is important to develop a financial services “industry.”
- ✓ A financial services industry means not only front-end business but also so-called middle and back office functions.
- ✓ The region should form a financial supply chain by effectively allocating each local expertise to different parts of the region.

➢ **Standardization of Hard Infrastructure**

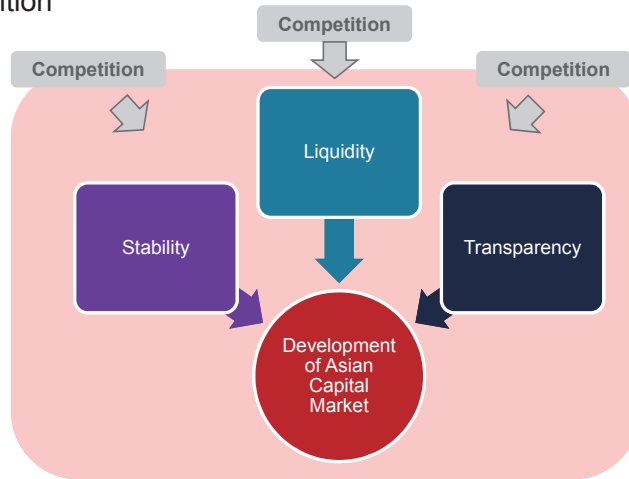
- ✓ For realizing lower cost and higher efficiencies
- ✓ Ex. Standardized messaging and securities codes

➢ **Consistent and Predictable Regulation and Supervisory Approach**

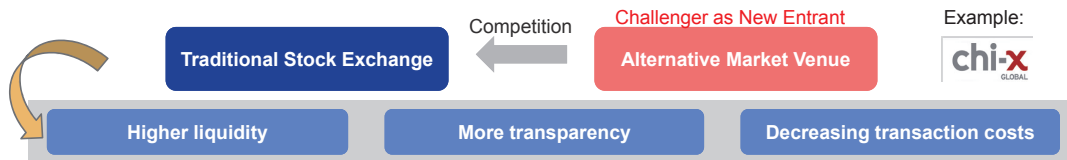
- ✓ Crucial element before judgment for commitment by private sector (i.e. investing capital and other resources)
- ✓ Consistency and predictability are clear sign of commitment by each host Asian country

■ Type of Healthy Competitions Expected in Capital Markets are:

- Competition between Trading Venues
- Competition between Financial Institutions (Broker/Dealers)
- Competition between Vendors (Service Providers)
- Caveat: Systemically important non-profit utility (e.g. settlement system) is not an area exposing to competition



Case Study: Competition in Trading Venues



■ Benefits of competition for market participants:

Investors	Listed Companies	Stockbrokers and traders
<ul style="list-style-type: none"> • Transaction cost reductions • Improved liquidity 	<ul style="list-style-type: none"> • Thriving secondary market • Improving the attractiveness of potential listings • Driving down the cost of capital 	<ul style="list-style-type: none"> • Reduced trading fees • Greater choice of venue • Increased market resilience and turnover

© Source: Media Release by Australian Government on 31 October 2011: "GOVERNMENT WELCOMES LAUNCH OF CHI-X AUSTRALIA" (jointly by The Hon Wayne Swan MP, Deputy Prime Minister and Treasurer and Mr. Bill Shorten, Assistant Treasurer and Minister for Financial Services & Superannuation)

■ 'Responsible competition' should be pursued for financial stability purpose



For example:

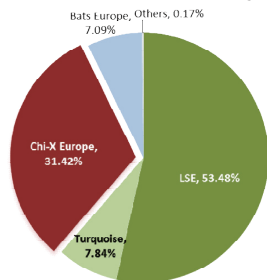
- Total system capacity in the whole market improves thanks to alternative market venues
- Alternative market venue provides 'back-up' function upon contingency event in other exchanges (e.g. system failure)

[Reference]:

Market Share by Turnover : Primary Markets vs. Alternative Venues

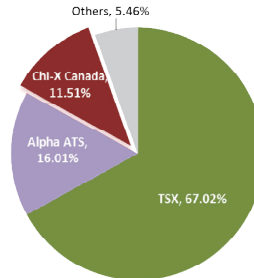
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UK: FTSE100 Market Share by Turnover



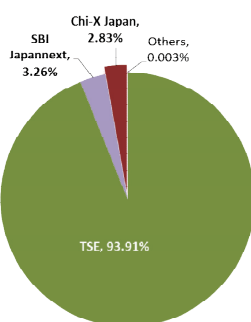
Note: Market Share for FTSE100 constituents
Source: Fidessa Fragmentation Index Weekly Summary (week ending 27 Jan 2012)

Canada: S&P/TSX60 Market Share by Turnover



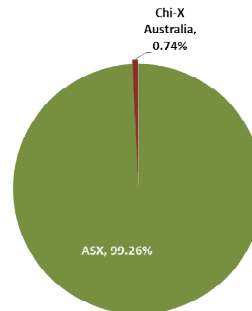
Note: Market share for S&P/TSX 60 constituents
Source: Fidessa Fragmentation Index Weekly Summary (week ending 27 Jan 2012)

Japan: Nikkei 225 Market Share by Turnover



Note: Market Share for Nikkei 225 constituents
Source: Fidessa Fragmentation Index Weekly Summary (week ending 27 Jan 2012)

Australia: S&P/ASX 200 Market Share by Turnover



Note: Market Share for S&P/ASX 200 constituents
Source: Fidessa Fragmentation Index Weekly Summary (week ending 27 Jan 2012)

For Further Development of Asian Financial Market

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■ Prospect in Asian Financial Market

- Tremendous opportunities in Asia and plenty of capital available
- Room for capital markets growing (including for infrastructure projects)
- Ex. Asian companies issued \$312bn in bonds last year, a 31 per cent increase from the year 2010 (according to Dealogic)

■ Overall Approach

- Balance between healthy competition and regulatory harmonization
- Integration of Asian financial market should be promoted in conjunction with integration of the region's economy as a whole

■ For Longer Term Solution in the Region

- Need to foster more long-term institutional investors such as pension funds, insurance sector and investment trust
- Development of capital markets ensures stable provisions of medium and long-term funding, thereby strengthening resiliency of the region's financial system (including solving problem of global imbalance)

Integration

Efficiency

Competition

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