

## **FSA Financial Research Center International Conference**

**NOMURA**

**Challenges for the Asian financial and  
capital markets and the “Growth Strategy”**

# **Fostering the Development of an Asian Financial Services Industry**

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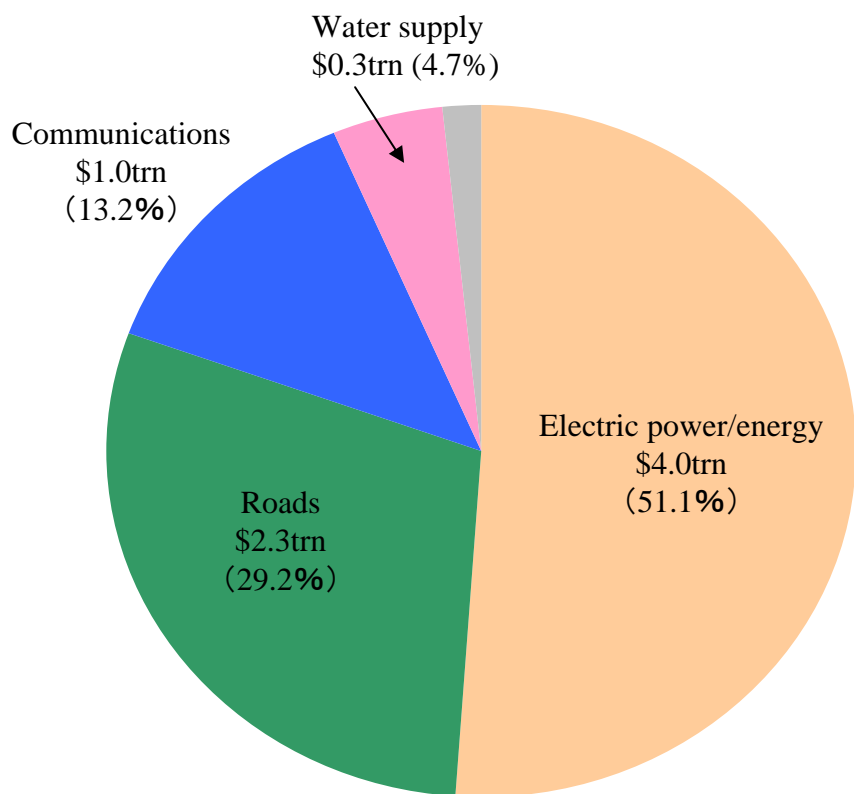
## Summary & Conclusions

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- Demand for corporate capital and infrastructure has increased as Asian economies have continued to grow rapidly. At the same time, financial assets have accumulated, partly as a result of high savings rates. The two need to be linked by creating financial markets in the region that circulate capital smoothly.
- Indirect financing is currently the main form of finance in Asia. However, as Asian economies emerge from their development stage, a market-based model of finance becomes increasingly important. Governments in the region are also taking a keen interest in fostering the development of capital markets.
- For making further progress, 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. US and European experience indicates that the region should form a financial supply chain by effectively allocating each local expertise to different parts of the region. This should benefit the region’s economic growth including more job creation.
- In developing Asian financial system and market, right balance between healthy competition and regulatory harmonization is a key. Based on such balanced approach, the region should work for challenges both in pan-Asian and each national level including harmonization of soft and hard infrastructures, involvement in global regulatory reform discussions, and consistent and predictable regulatory approach.

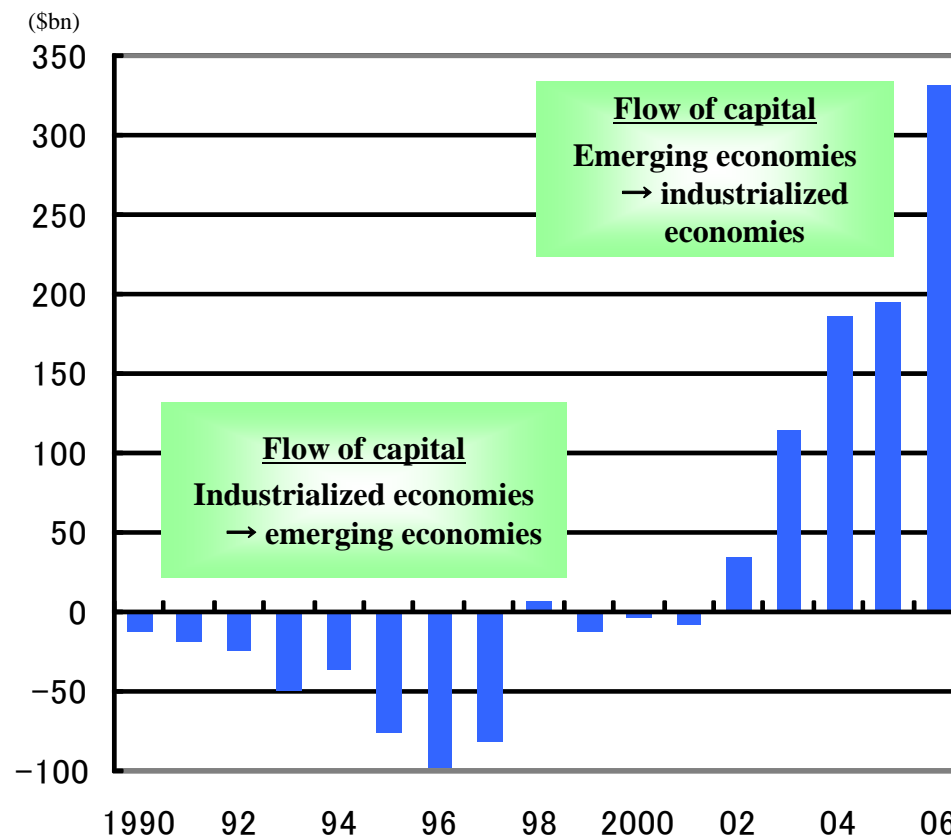
# Rise of Asian Economies

**Infrastructure Investment Needs in Asia for the next 10 years**



Source: Nomura Institute of Capital Markets Research, based on Asian Development Bank data

**Net Outflows from Emerging Economies**

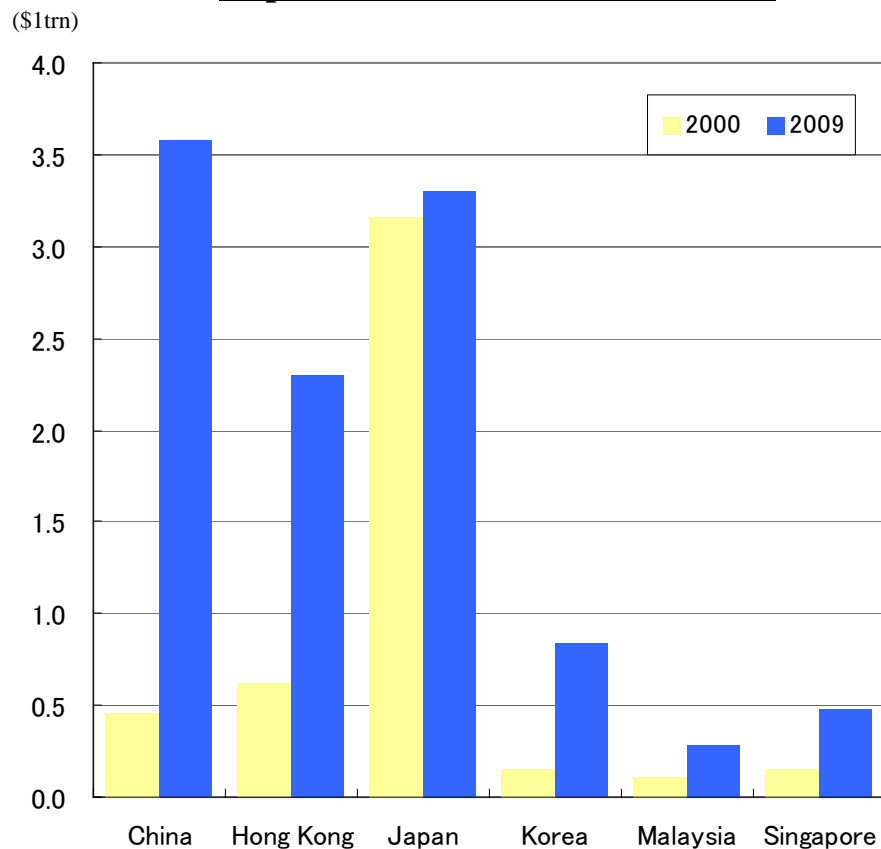


Note: 34 countries, including China, India, Korea, Indonesia, the Philippines, Thailand, Poland, Russia, Argentina, Brazil, Turkey, and the Czech Republic.

Source: Nomura Institute of Capital Markets Research, based on McKinsey Global Institute data

# Asia's Growing Capital Markets

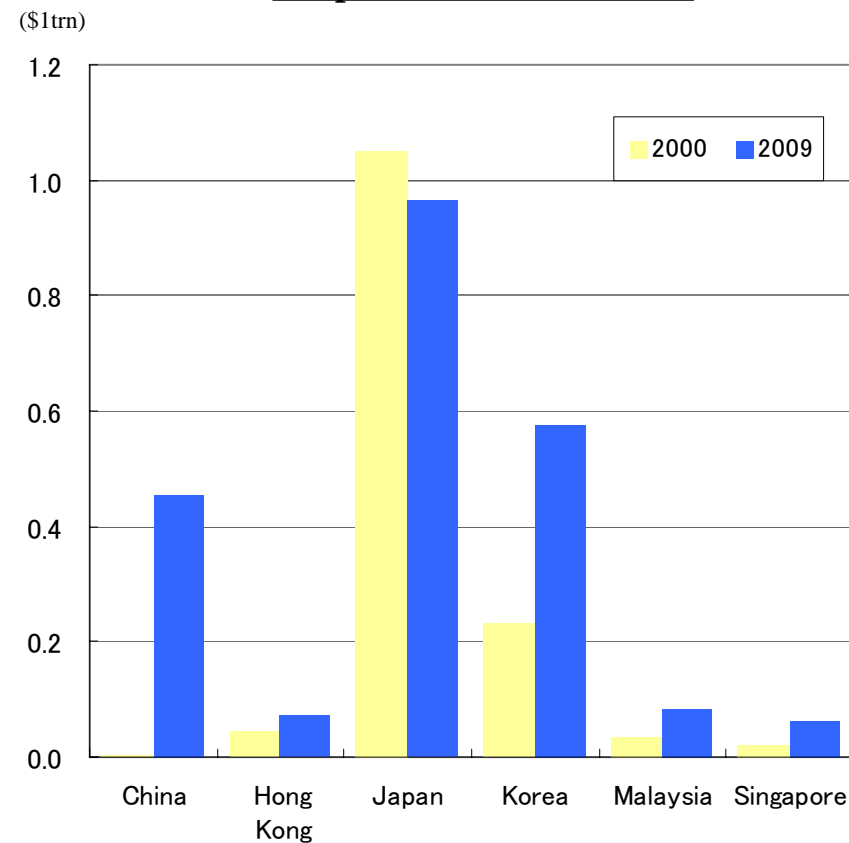
**Capitalization of National Markets**



Note: As no figure for China's market capitalization was available for 2000, the figure for 2002 has been used.

Source: Nomura Institute of Capital Markets Research, based on World Federation of Exchanges' data

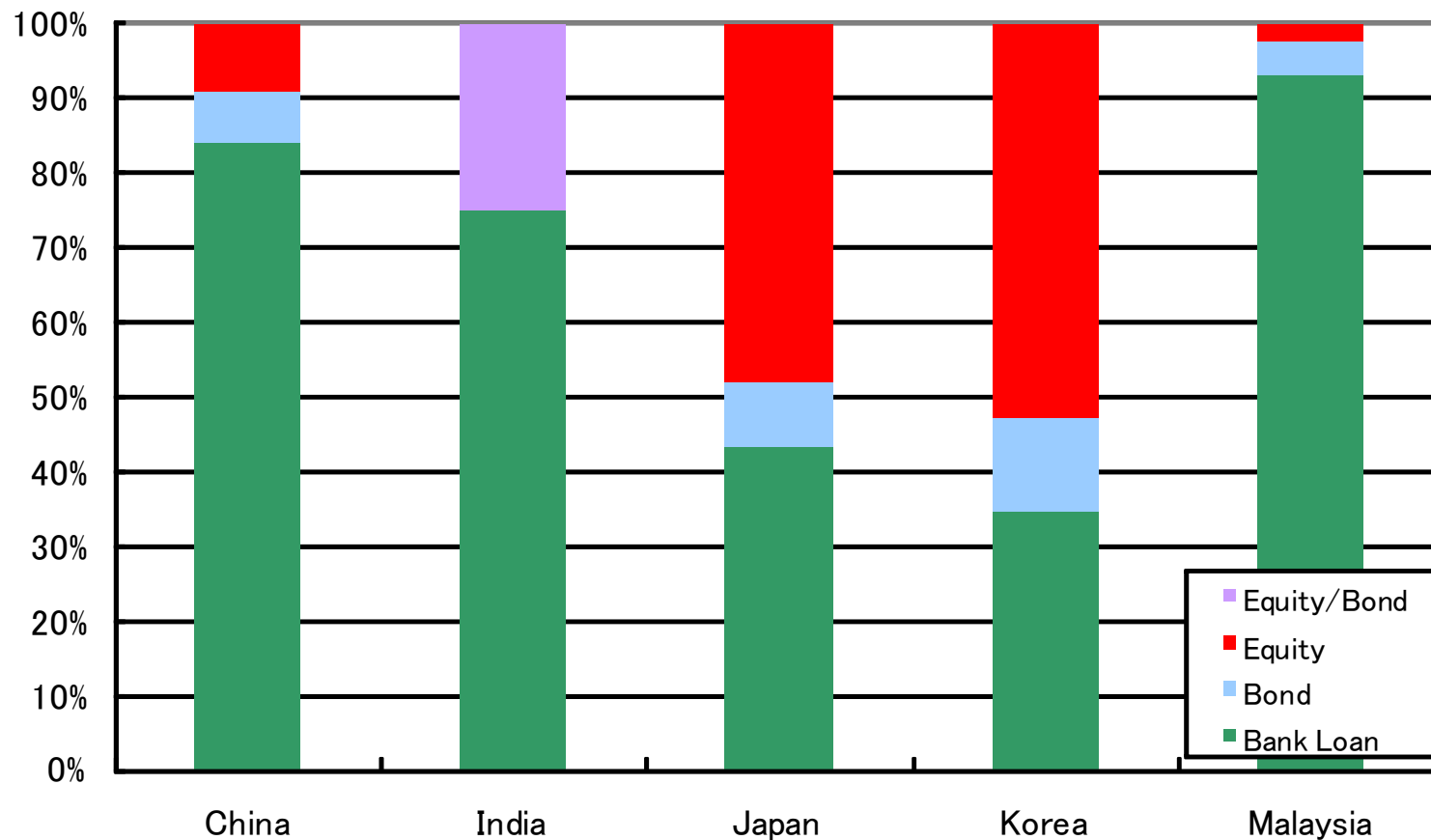
**Corporate Bonds Issuance**



Source: Nomura Institute of Capital Markets Research, based on variety of sources

# Bank Loan in Asia

Ratio of Direct to Indirect Financing in Asian Countries



Note: Breakdown of the main means of finance for private companies in each country. However, the data for Malaysia include financial institutions. As of end-2009.

Source: Nomura Institute of Capital Markets Research, based on central bank data of the countries concerned

# Plans for Developing Capital Markets in Asia

## Asian Bond Markets Initiative (ABMI)

- ✓ Considered by finance ministers of ASEAN, Japan, China and South Korea ("ASEAN + 3")
- ✓ Credit Guarantee and Investment Facility established in November 2010 with capital of \$700mn

## Efforts by Each Country to Establish an International Financial Center

### ● Shanghai

- ✓ In April 2009 the State Council announced a plan to build an international financial center in Shanghai by 2020. It drew up a long-term plan in December 2010.

### ● Guangdong

- ✓ In May 2009 the State Council approved the Shenzhen Overall Comprehensive Reform Program
- ✓ This will also open up the province to foreign financial companies

### ● Hong Kong

- ✓ The 12th Five-Year Plan (2011–15) included policies to strengthen Hong Kong's position (1) as an international financial center and (2) as the strategic partner with Guangdong.

### ● Singapore

- ✓ In February 2010 the Monetary Authority of Singapore's Economic Strategies Committee published recommendations for making Singapore more competitive internationally
- ✓ Recommendation that Singapore should improve its status as a global Asian financial hub

### ● India

- ✓ In 2007 the Ministry of Finance published a report entitled "Making Mumbai an International Financial Centre."
- ✓ In response, the infrastructure to enable direct market access and algorithmic trading is being put in place

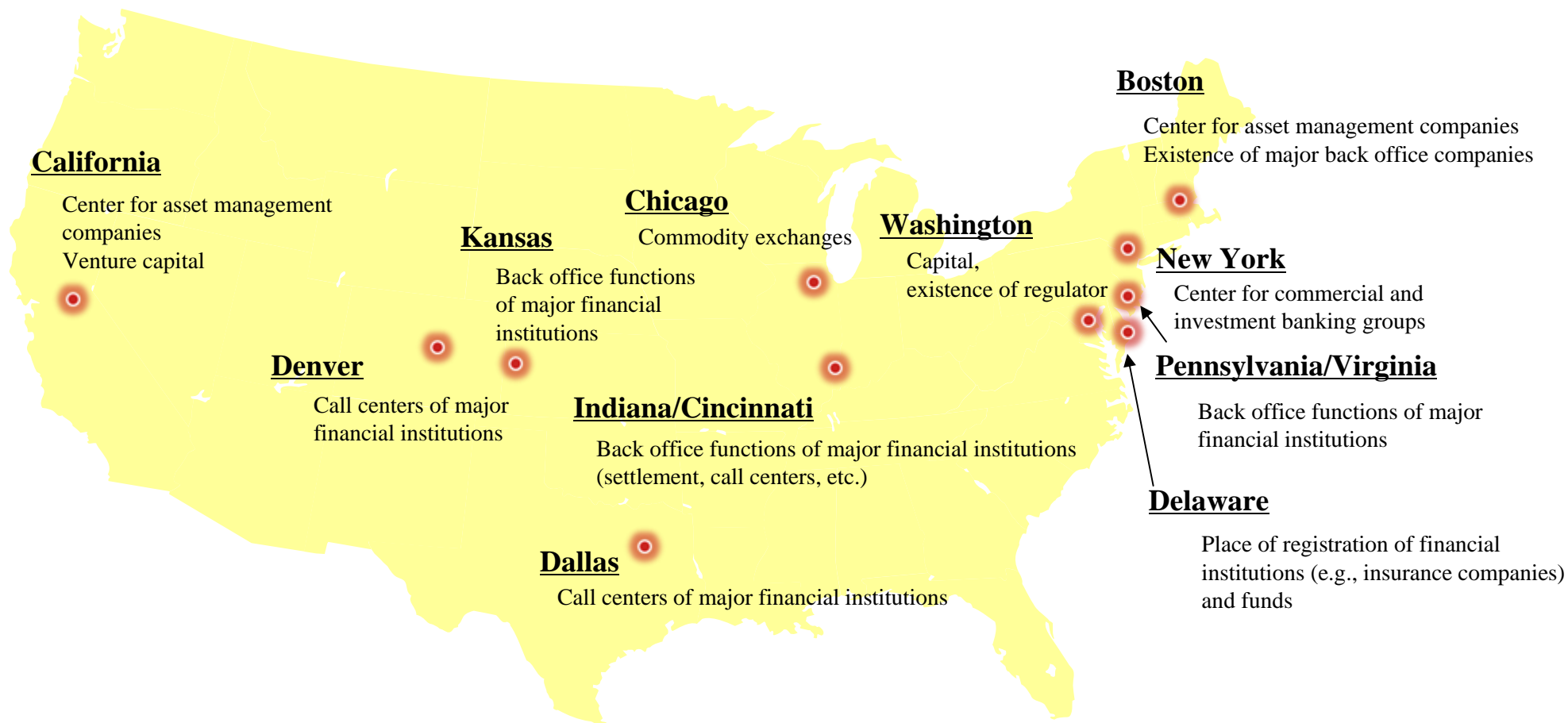
### ● Korea

- ✓ Act on the Creation and Development of Financial Hubs (2007)
  - Plan to transform Yeouido (Seoul) into a Korean Manhattan now under way
- ✓ Capital Market Integration Act (2007)

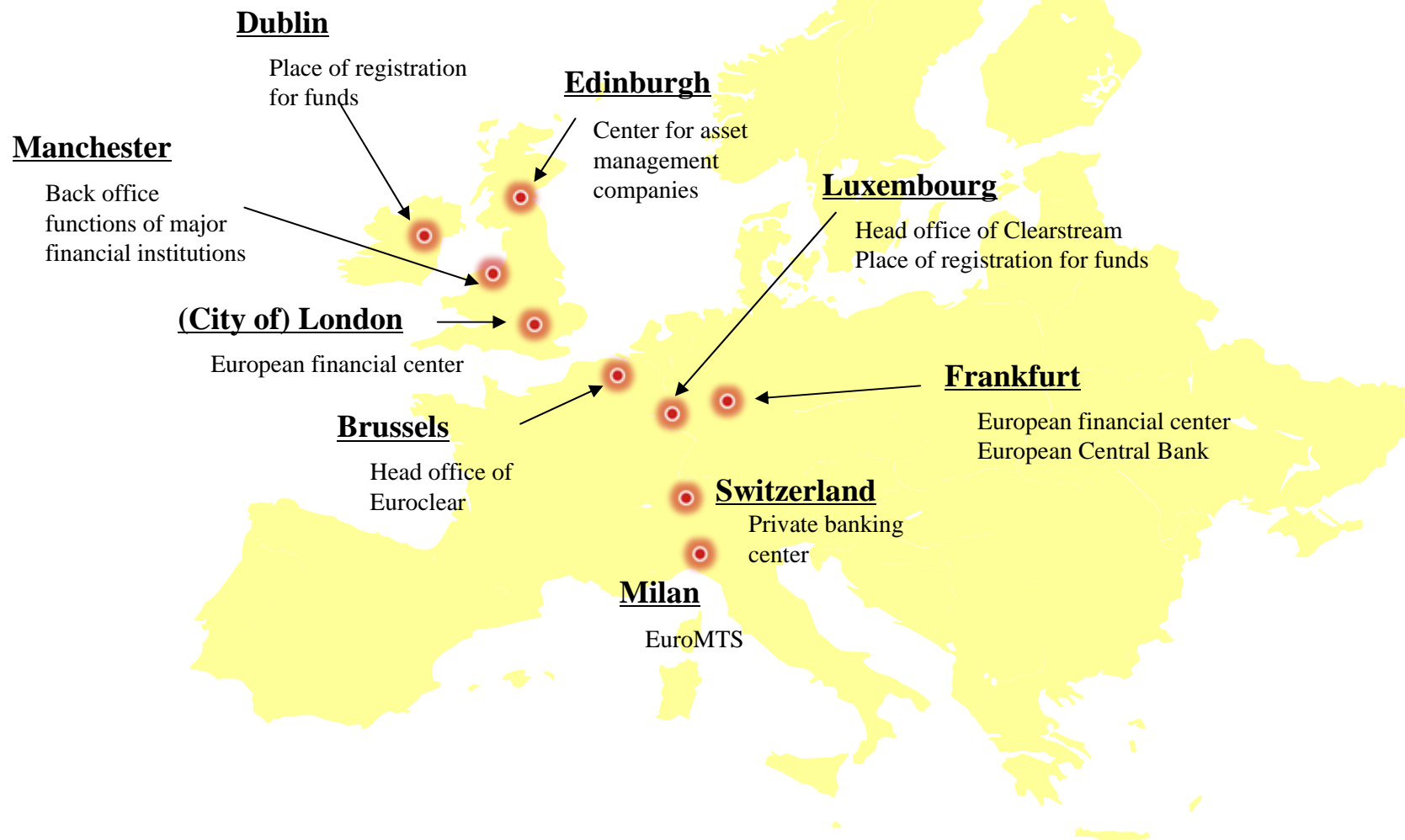
### ● Malaysia

- ✓ Capital Market Master Plan (approved in 2001)
  - Coverage and timetable for capital market reform over next 10 years
- ✓ Malaysia International Islamic Financial Centre (MIFC) (established in 2006)
  - Drawing up guidelines for each sector and financial product, granting licenses for Islamic financial services, granting tax concessions, etc.

# Financial Services Industry: US supply chain

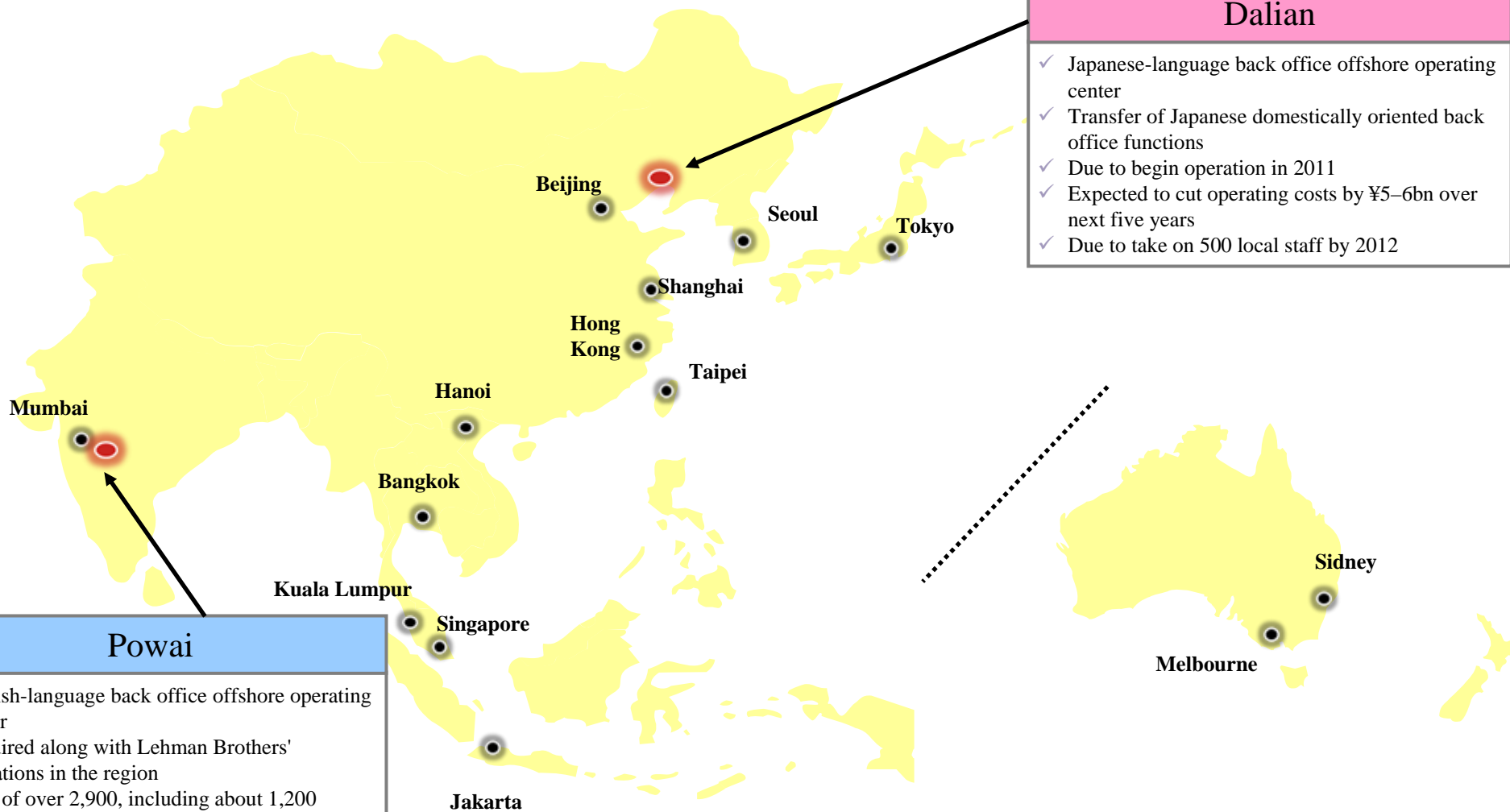


# Financial Services Industry: European supply chain





# Nomura's Asian Network



**Dalian**

- ✓ Japanese-language back office offshore operating center
- ✓ Transfer of Japanese domestically oriented back office functions
- ✓ Due to begin operation in 2011
- ✓ Expected to cut operating costs by ¥5–6bn over next five years
- ✓ Due to take on 500 local staff by 2012

**Powai**

- ✓ English-language back office offshore operating center
- ✓ Acquired along with Lehman Brothers' operations in the region
- ✓ Staff of over 2,900, including about 1,200 technical specialists
- ✓ Nomura is licensed as a primary dealer in India

# For Further Development of Asia Financial System and Market

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## Overview Summary

- Tremendous Opportunities in Asia and Plenty of Capital Available
- Room for Expanding Capital Markets Activities

## Overall Approach

- Balance between Healthy Competition and Regulatory Harmonization

## Solutions

- Six Solutions
- Need to work for in both pan-Asian and each national level

# For Further Development of Asia Financial System and Market

## Pan-Asian Level Solutions

- These Three Need Pan-Asian Level Cooperation

### (1) *Harmonization and Standardization of National Rules*

- Rules need to be transparent enough for the market participants
- Ex. Regulations/supervisions, laws, accounting, corporate governance, disclosure rules, etc.

### (2) *Standardization of Hard Infrastructure*

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

### (3) *Engagement with Global Regulatory Reform Discussions*

- Need to carefully watch macro-influence in the Asian financial sector
- Ex. Impact of new liquidity requirement on capital market activities

# For Further Development of Asia Financial System and Market

## National Level Solutions

- These Three Need National Level Initiatives

### (1) *Development of Settlement System*

- Reliable and efficient settlement system will increase market resiliency
- Ex. Important to Ensure Stable and High Liquidity for Government Bonds

### (2) *Core Competitive Skill Set in Each Country, City or Region*

- Ex. US/Europe: Various Centers Developed Each Specific Role in the Industry
- Local initiatives should be designed to attract more investments.

### (3) *Consistent and Predictable Regulatory/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