



Financial Intermediaries Supporting Asia Growth

Conference: The Role of the Financial Sector in Promoting Economic Growth in Asia
Session III: Challenges for the Asian Financial and Capital Markets and the Growth Strategy

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Key Themes of Session III

Session III: Challenges for the Asian Financial and Capital Markets and the Growth Strategy

Development of Asian Financial Services

- To circulate capital smoothly must link:
 - Increased demand for corporate capital
 - Accumulated regional financial assets
- Development of markets-based financing increasingly important
- Asia must develop a region-wide financial services industry across various locations
 - Each country should represent a distinctive part of the financial supply chain
 - Need to standardize regulations and infrastructure across the region

Roles of Finance in Economic Growth

- Promoting economic growth
 - Providing investment opportunities
 - Facilitating means of raising funds
 - Growing the financial industry itself
- Ensuring financial stability
 - Asia financial sector less directly impacted from the financial crisis than US/EU
 - However, damage to the real economy
 - Policy responses implemented
- Challenges to continued Asia economic growth remain – e.g. risk from capital inflows

How financial intermediaries can support regional economic growth

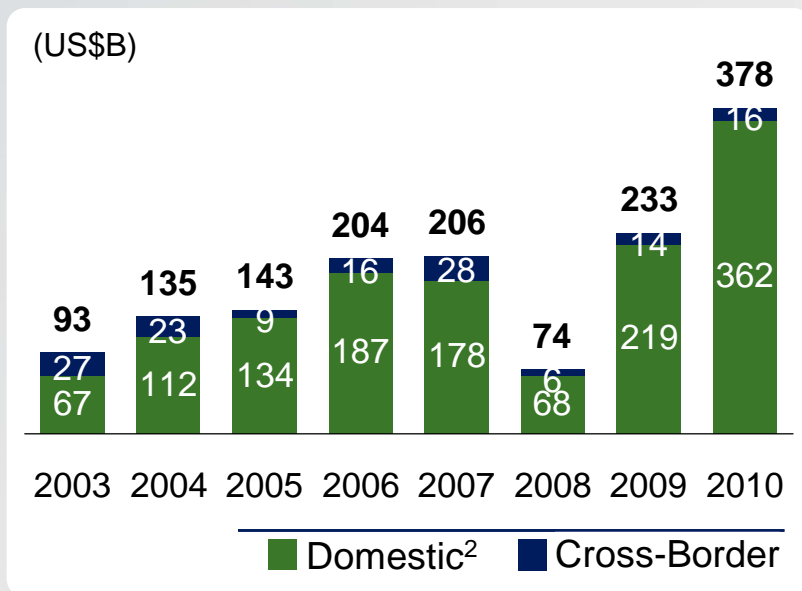
- Our role in driving growth
- What we require to fulfill our role
- How regulators can help us

Role of Financial Intermediaries in Facilitating Regional Economic Growth

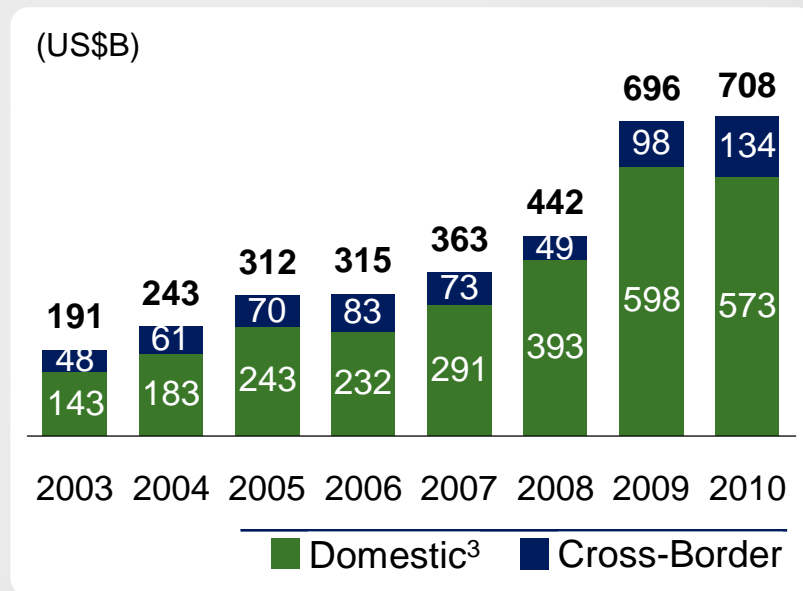
Critical role: Efficiently circulating excess funds into growth sectors

- Asian economies have demonstrated high growth rates – already substantial capital in the region
- For growth to continue, in addition to domestic sources, must attract capital from outside of Asia
- Financial intermediaries will help by:
 - Generating funds domestically: e.g. domestic capital raising, loans, wealth management
 - Importing funds from abroad: e.g. cross-border capital raising, M&A, trade finance

Asia ECM Volumes¹



Asia DCM Volumes¹



1 Source: Dealogic

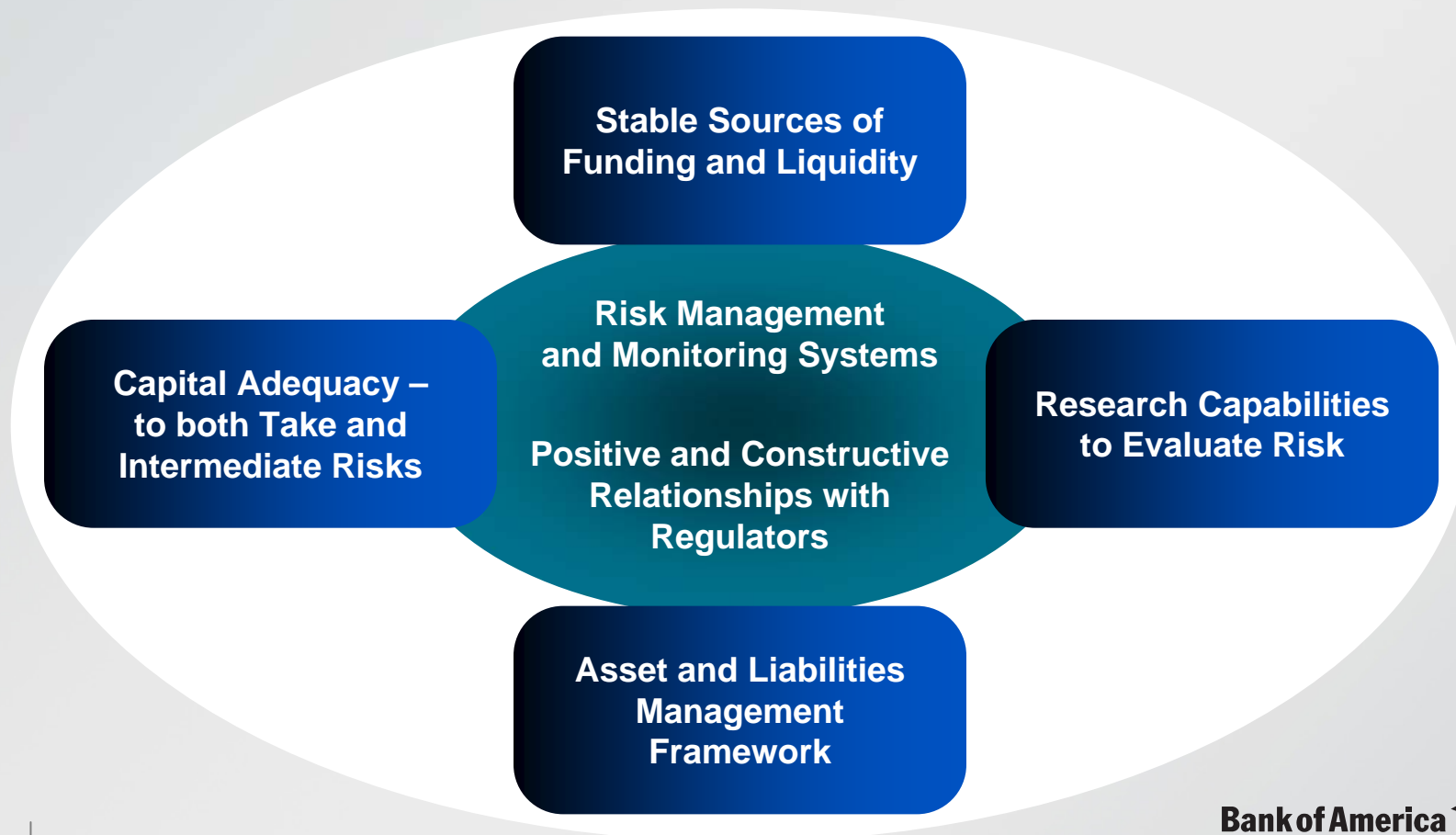
2 Domestic ECM issuance includes inter-APAC ex Australia cross-border listings (e.g. Chinese Co. in Hong Kong)

3 Domestic DCM issuance includes only issuances in home nationality

Key Capabilities Needed for Financial Intermediaries

To fulfill this role effectively, Asian financial intermediaries need several key capabilities

- In particular, essential to implement stringent risk management and related processes in order to effectively utilize capital
- Robust and consistent standards required across Asia Pacific



Evolution of Risk Management

Three critical steps for financial intermediaries to develop a strong risk framework

Improving Risk Management



Robust, consistent risk management throughout the region critical to sustainable growth

Focus Areas for Regulators

Several areas for regulators to help financial intermediaries and hence support regional growth

- Asia regulators well placed to implement effective policies

Focus Areas for Regulators

- Support financial intermediaries in implementing effective governance structures
- Develop appropriate guidelines for capital adequacy, asset allocation, liquidity
 - Effectively implement BASEL III and other regulations from the financial crisis
 - Harmonize on a regional basis
- Introduce the concept of recovery and resolution plans
- Implement policies supportive of international financial intermediaries operating throughout the region (e.g., offshore IT platforms)
- Facilitate introduction of new products beneficial to market stability
- Improve transparency and disclosure to develop efficient capital markets

Advantages in Asia

- Benefit of improvements implemented following 1990's Asia crisis
- Ability to learn from mistakes/challenges in more developed markets
- Continued economic growth – better able to tolerate potential impact to growth in short term to “get it right” for the long term
- Positive financial industry fundamentals
 - Sufficient funding and capital
 - Low penetration
 - Relatively early stage of development

Conclusion

- Many positive developments in Asia – growth taking place with substantial capital already in the region
- Financial intermediaries to play a key role in generating funds both domestically and from abroad
- Critical for governments, regulators and financial intermediaries to be jointly accountable for supporting sustainable growth in the region
- Must together leverage lessons learned to better anticipate and avoid global mistakes of the past



Supporting implementation of sound risk management practices and related guidelines on a harmonized basis throughout the region will be critical to enabling financial intermediaries to utilize capital most effectively

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Thank You