

# Challenges for Capital Market Development in Asia

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***\* Any views expressed in this presentation are those of the speaker, and are not necessarily identical to the official views of FSA Japan.***

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# **1. Global financial regulatory reform**

# Framework for Global Standard Setting after the Financial Crisis

## G20 Leaders' Summit

**FSB**  
(Financial Stability Board)

- International body for discussion of issues concerning financial stability.
- Member institutions are Ministries of Finance, Central Banks, Supervisory Authorities of G20 and other jurisdictions.
- Secretariat in Basel, Switzerland



**BCBS**

(Basel Committee on Banking Supervision)

- International body of bank supervisors, central banks, etc. from G20 and other jurisdictions.
- Develops international principles and guidelines for bank supervision. (Basel III etc.)
- Secretariat in Basel, Switzerland.

**IOSCO**

(International Organization of Securities Commissions)

- International body of capital market authorities from more than 100 jurisdictions around the world.
- Develops international principles and guidelines for regulation and supervision of capital markets and intermediaries.
- Secretariat in Madrid, Spain.

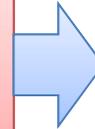
**IAIS**

(International Association of Insurance Supervisors)

- International body of insurance supervisors from more than 100 jurisdictions around the world.
- Agrees on international principles and guidelines for insurance supervision.
- Secretariat in Basel, Switzerland.

# The G20 Commitments

**Failure of Lehman Brothers  
(Sept. 2008)  
Global financial crisis deepens**



**G20 Leaders' Summit  
(First meeting in Washington  
DC, Nov. 2008)  
Commitment to global financial  
regulatory reform**

**Communiqué of the G20 Finance Ministers and Central Bank Governors  
(February 2014)**

***“In 2014 we are focusing our efforts on substantially completing by the Brisbane Summit key aspects of the core reforms we set out in response to the global financial crisis”***

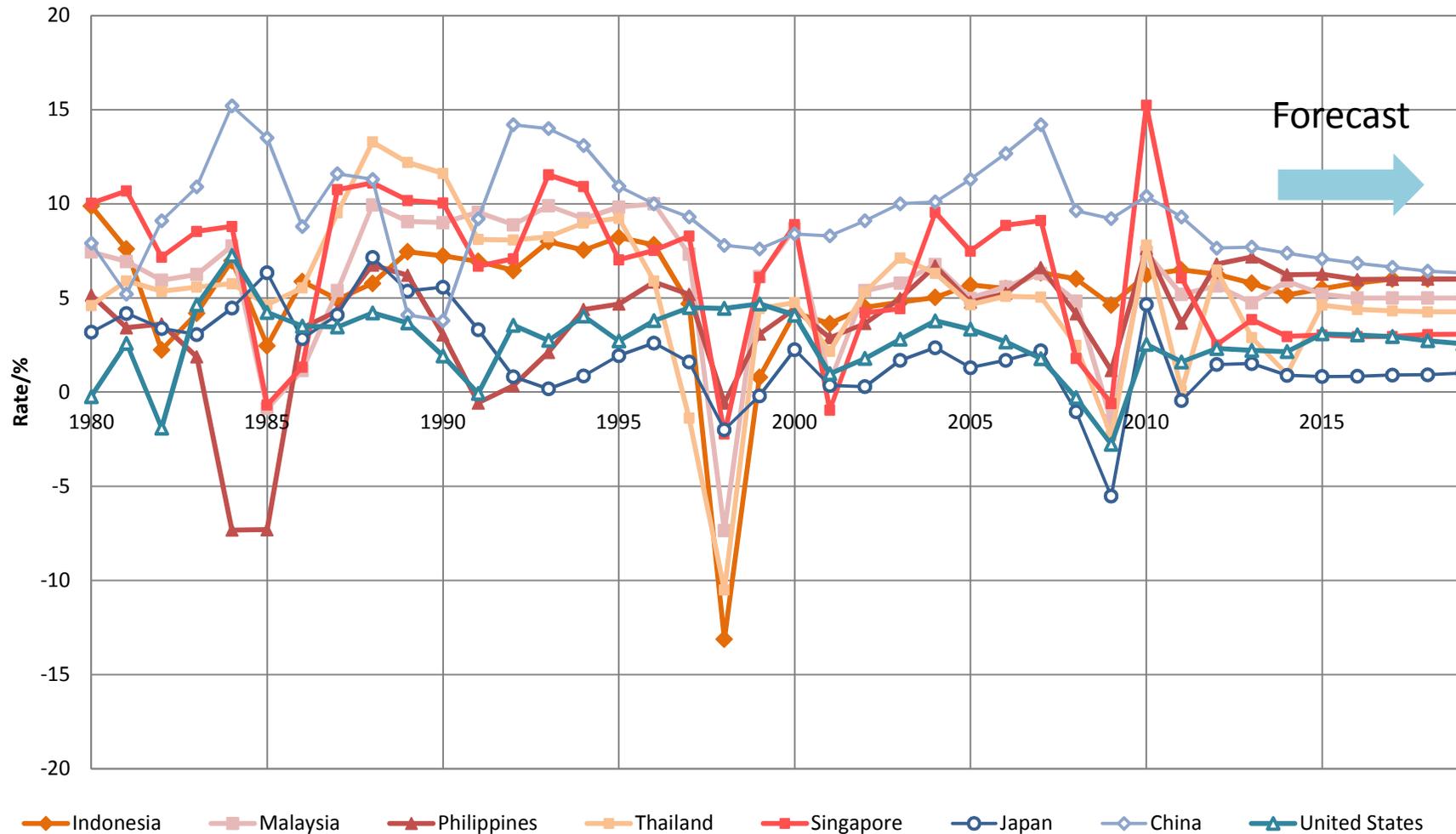
## **The Key Aspects**

- 1. Building resilient financial institutions (Basel III)**
- 2. Ending “Too-Big-To-Fail” (Dealing with Systemically Important Financial Institutions (SIFIs))**
- 3. Addressing shadow banking risks**
- 4. Making derivatives markets safer**

## **2. Challenges for the development of capital markets in Asia**

# Asia will still be the growth region in the coming years, but how to finance this growth is a challenge

## Changes in Real GDP Growth Rates



(Source) Prepared from IMF *World Economic Outlook*, October 2014

# Asia has high savings rates

## - But how are those savings invested?

### Savings and investment ratios in Asia

Country	Savings/GDP ratio (%)				Investment/GDP ratio (%)			
	2004	2007	2010	2013	2004	2007	2010	2013
Indonesia	26.1	26.5	33.1	30.3	24.1	24.9	32.3	33.6
Malaysia	35.1	38.8	34.2	30.0	23.1	23.4	23.3	26.1
Philippines	23.4	22.7	24.1	23.1	21.6	17.3	20.5	19.7
Singapore	41.1	49.1	51.5	47.4	23.1	23.1	27.9	29.1
Thailand	28.5	32.8	29.1	28.6	26.8	26.4	25.9	29.2
Japan	26.4	27.8	23.8	21.8	22.5	22.9	19.8	21.0
China	46.5	51.7	52.1	49.7	43.0	41.6	48.1	47.8
United States	17.5	17.3	15.1	17.0	22.5	22.4	18.4	19.3

(Source) IMF *World Economic Outlook Database, October 2014.*



## Capital flows into and out of Asia

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- **A large part of Asia's cross-border portfolio investment flows has been directed to the US and Europe. On the other hand, a majority of foreign portfolio investment flows into Asia comes from the US and Europe.**
- **Recently, there are signs of gradual change in this pattern.**
- **However, Asia still faces a challenge in mobilizing its excess savings efficiently, and could benefit from recycling of capital within Asia.**
- **This could also reduce the dual risks from maturity and currency mismatches, and benefit both savers and investors in the region.**

# A large part of capital outflows from Asia has been directed to the US and Europe (1)

## Capital outflows from Asia (2007)

	Thailand			Malaysia			Indonesia			Philippines		
	(Amount : 15,239)			(Amount : 12,935)			(Amount : 2,608)			(Amount : 6,520)		
	Investment into	Value	Ratio (%)	Investment into	Value	Ratio (%)	Investment into	Value	Ratio (%)	Investment into	Value	Ratio (%)
1	<b>Australia</b>	4,174	27.4	<b>Singapore</b>	2,251	17.4	<b>India</b>	504	19.3	<b>US</b>	2,369	36.3
2	<b>UK</b>	2,077	13.6	<b>Hong Kong</b>	1,902	14.7	<b>Hong Kong</b>	423	16.2	<b>UK</b>	870	13.3
3	<b>US</b>	1,591	10.4	<b>Luxembourg</b>	1,410	10.9	<b>Netherlands</b>	333	12.8	<b>Singapore</b>	501	7.7
4	<b>Netherlands</b>	1,482	9.7	<b>US</b>	1,408	10.9	<b>US</b>	290	11.1	<b>Australia</b>	360	5.5
5	<b>Germany</b>	1,007	6.6	<b>Korea</b>	961	7.4	<b>UK</b>	224	8.6	<b>Cayman Is.</b>	297	4.6

	Japan			Korea			Hong Kong		
	(Amount : 2,523,566)			(Amount : 158,606)			(Amount : 778,580)		
	Investment into	Value	Ratio (%)	Investment into	Value	Ratio (%)	Investment into	Value	Ratio (%)
1	<b>US</b>	813,311	32.2	<b>US</b>	46,964	29.6	<b>China</b>	165,721	21.3
2	<b>Cayman Is.</b>	357,292	14.2	<b>China</b>	23,268	14.7	<b>Cayman Is.</b>	130,093	16.7
3	<b>Germany</b>	180,613	7.2	<b>Hong Kong</b>	17,070	10.8	<b>Bermuda</b>	103,286	13.3
4	<b>UK</b>	162,825	6.5	<b>Luxembourg</b>	12,402	7.8	<b>UK</b>	73,857	9.5
5	<b>France</b>	145,953	5.8	<b>UK</b>	8,437	5.3	<b>US</b>	70,391	9.0

(Source) IMF, Coordinated Portfolio Investment Survey. Accessed in October, 2014.

# A large part of capital outflows from Asia has been directed to the US and Europe (2)

## Capital outflows from Asia (2013)

	Thailand			Malaysia			Indonesia			Philippines		
	(Amount : 29,966)			(Amount : 59,976)			(Amount : 14,759)			(Amount : 5,775)		
	Investment into	Value	Ratio (%)	Investment into	Value	Ratio (%)	Investment into	Value	Ratio (%)	Investment into	Value	Ratio (%)
1	<b>US</b>	4,416	14.7	<b>Singapore</b>	20,089	33.5	<b>Netherlands</b>	1,655	11.2	<b>US</b>	1,869	32.4
2	<b>Hong Kong</b>	3,720	12.4	<b>US</b>	17,911	29.9	<b>US</b>	1,591	10.8	<b>Indonesia</b>	932	16.1
3	<b>Brazil</b>	3,340	11.1	<b>Hong Kong</b>	3,250	5.4	<b>Luxembourg</b>	1,129	7.6	<b>Cayman Is.</b>	292	5.1
4	<b>Korea</b>	3,184	10.6	<b>UK</b>	2,669	4.5	<b>China</b>	1,073	7.3	<b>Korea</b>	287	5.0
5	<b>Luxembourg</b>	1,272	4.2	<b>Australia</b>	1,973	3.3	<b>Singapore</b>	606	4.1	<b>UK</b>	254	4.4

	Japan			Korea			Hong Kong		
	(Amount : 3,411,352)			(Amount : 169,233)			(Amount : 1,119,707)		
	Investment into	Value	Ratio (%)	Investment into	Value	Ratio (%)	Investment into	Value	Ratio (%)
1	<b>US</b>	1,182,322	34.7	<b>US</b>	62,726	37.1	<b>China</b>	356,359	31.8
2	<b>Cayman Is.</b>	530,230	15.5	<b>UK</b>	12,136	7.2	<b>Cayman Is.</b>	260,629	23.3
3	<b>France</b>	239,568	7.0	<b>France</b>	8,608	5.1	<b>Bermuda</b>	108,965	9.7
4	<b>UK</b>	200,072	5.9	<b>Luxembourg</b>	8,202	4.8	<b>US</b>	83,551	7.5
5	<b>Germany</b>	188,026	5.5	<b>Hong Kong</b>	8,030	4.7	<b>UK</b>	65,877	5.9

(Source) IMF, Coordinated Portfolio Investment Survey. Accessed in October, 2014.

# A large part of capital inflows to Asia comes from the US and Europe (1)

## Capital inflows to Asia (2007)

	Thailand			Malaysia			Indonesia			Philippines		
	(Amount : 50,310)			(Amount : 95,295)			(Amount : 60,077)			(Amount : 40,547)		
	Investment from	Value	Ratio (%)	Investment from	Value	Ratio (%)	Investment from	Value	Ratio (%)	Investment from	Value	Ratio (%)
1	<b>US</b>	16,842	33.5	<b>US</b>	25,209	26.5	<b>US</b>	18,349	30.5	<b>US</b>	14,461	35.7
2	<b>Luxembourg</b>	8,193	16.3	<b>Singapore</b>	20,295	21.3	<b>Luxembourg</b>	11,482	19.1	<b>Luxembourg</b>	5,991	14.8
3	<b>UK</b>	6,594	13.1	<b>UK</b>	10,581	11.1	<b>UK</b>	7,460	12.4	<b>UK</b>	3,229	8.0
4	<b>Singapore</b>	5,579	11.1	<b>Luxembourg</b>	9,607	10.1	<b>Singapore</b>	6,840	11.4	<b>Singapore</b>	2,429	6.0
5	<b>Netherlands</b>	2,017	4.0	<b>China</b>	5,875	6.2	<b>Netherlands</b>	3,429	5.7	<b>Japan</b>	1,952	4.8

	Japan			Korea			Hong Kong		
	(Amount : 1,493,291)			(Amount : 372,887)			(Amount : 337,600)		
	Investment from	Value	Ratio (%)	Investment from	Value	Ratio (%)	Investment from	Value	Ratio (%)
1	<b>US</b>	582,342	39.0	<b>US</b>	139,555	37.4	<b>US</b>	121,276	35.9
2	<b>UK</b>	204,595	13.7	<b>UK</b>	39,678	10.6	<b>UK</b>	43,755	13.0
3	<b>France</b>	111,368	7.5	<b>Luxembourg</b>	33,871	9.1	<b>Luxembourg</b>	35,108	10.4
4	<b>Luxembourg</b>	87,645	5.9	<b>Singapore</b>	27,773	7.4	<b>Singapore</b>	22,125	6.6
5	<b>Ireland</b>	60,150	4.0	<b>France</b>	24,263	6.5	<b>Japan</b>	18,351	5.4

(Source) IMF Coordinated Portfolio Investment Survey. Accessed in October, 2014.

# A large part of capital inflows to Asia comes from the US and Europe (2)

## Capital inflows to Asia (2013)

	Thailand			Malaysia			Indonesia			Philippines		
	(Amount : 97,966)			(Amount : 164,358)			(Amount : 113,327)			(Amount : 61,153)		
	Investment from	Value	Ratio (%)	Investment from	Value	Ratio (%)	Investment from	Value	Ratio (%)	Investment from	Value	Ratio (%)
1	<b>US</b>	32,513	33.2	<b>US</b>	42,456	25.8	<b>US</b>	37,375	33.0	<b>US</b>	22,219	36.3
2	<b>Luxembourg</b>	15,710	16.0	<b>Singapore</b>	35,104	21.4	<b>Luxembourg</b>	16,165	14.3	<b>Luxembourg</b>	8,125	13.3
3	<b>Singapore</b>	14,747	15.1	<b>Luxembourg</b>	21,265	12.9	<b>Singapore</b>	13,826	12.2	<b>Singapore</b>	6,432	10.5
4	<b>UK</b>	10,190	10.4	<b>UK</b>	18,305	11.1	<b>UK</b>	12,414	11.0	<b>Australia</b>	5,412	8.8
5	<b>Japan</b>	4,451	4.5	<b>Hong Kong</b>	11,249	6.8	<b>Japan</b>	5,612	5.0	<b>UK</b>	4,668	7.6

	Japan			Korea			Hong Kong		
	(Amount : 1,613,537)			(Amount : 481,135)			(Amount : 387,006)		
	Investment from	Value	Ratio (%)	Investment from	Value	Ratio (%)	Investment from	Value	Ratio (%)
1	<b>US</b>	676,674	41.9	<b>US</b>	183,034	38.0	<b>US</b>	141,461	36.6
2	<b>UK</b>	214,603	13.3	<b>Singapore</b>	48,499	10.1	<b>UK</b>	53,972	13.9
3	<b>France</b>	127,964	7.9	<b>Luxembourg</b>	46,708	9.7	<b>Luxembourg</b>	36,984	9.6
4	<b>Luxembourg</b>	84,592	5.2	<b>UK</b>	39,469	8.2	<b>Singapore</b>	25,600	6.6
5	<b>Ireland</b>	65,946	4.1	<b>Japan</b>	25,947	5.4	<b>Japan</b>	16,366	4.2

(Source) IMF Coordinated Portfolio Investment Survey. Accessed in October, 2014.

# Currency and Maturity Mismatches

- Asian countries tend to borrow short-term in foreign currencies – To the extent local projects are funded long-term in local currencies, they incur maturity and currency mismatches

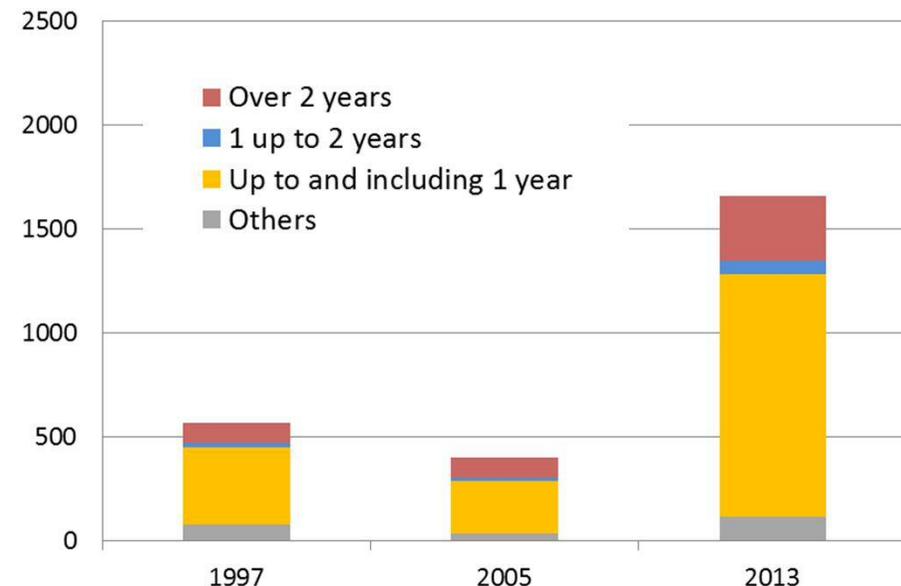
## 1. Currency Mismatch

### International Claims and Local Currency Claims on Local Residents



## 2. Maturity Mismatch

### International Claims by Maturity

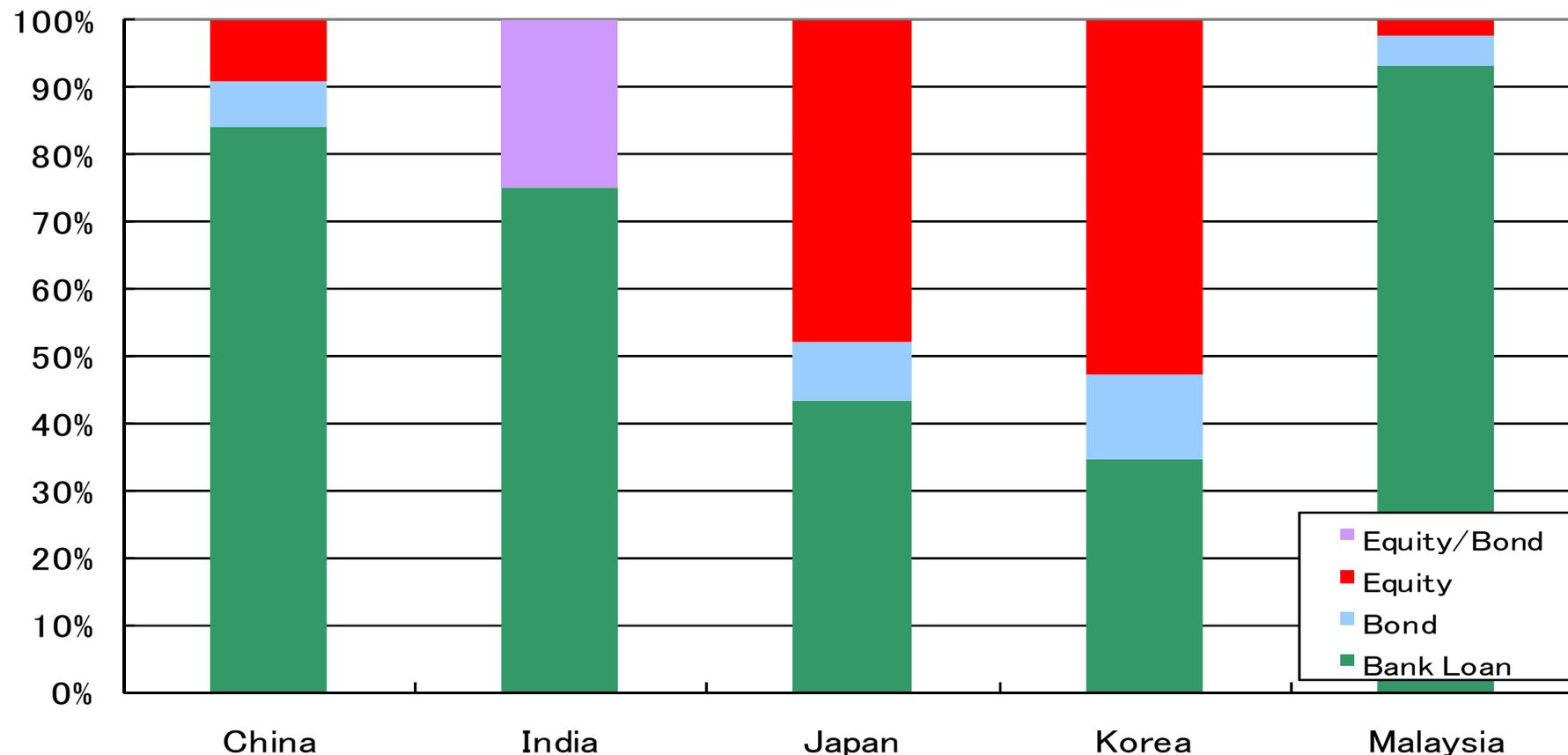


(Note) Local currency claims are local-currency-denominated claims held by local branches/subsidiaries of foreign banks. International claims are claims held by foreign banks and foreign-currency-denominated claims held by local branches/subsidiaries of foreign banks. All figures are aggregates for ASEAN countries, China, and Korea.

(Source) BIS, Consolidated Banking Statistics, immediate borrower basis.

# Asia's financial system is still very much bank-centered, with relatively underdeveloped capital markets

## Ratio of Direct vs. Indirect Finance in Asia



(Note) Breakdown of the main means of finance for private companies in each country, as of end-2009. Data for Malaysia include financial institutions.

(Source) Presentation by Mr. Shigesuke Kashiwagi at the International Conference on the Role of the Financial Sector in Promoting Economic Growth in Asia, FSA Financial Research Center, Tokyo, Japan, February 2011.

# Accessibility to financial services varies widely across the region – improving financial inclusion is a major challenge

## Indicators of Financial Inclusion

	Deposits	Loans	Outreach	
	No. of accounts per 1,000 adults	No. of accounts per 1,000 adults	No. of bank branches per 100,000 adults	No. of ATMs per 100,000 adults
Cambodia	108.0	28.9	4.0	5.1
Indonesia	504.7	274.8	8.3	13.4
Lao PDR	44.3	4.0	2.6	4.3
Malaysia	1,619.9	284.1	10.5	56.2
Myanmar	na	na	na	na
Philippines	487.8	na	7.7	14.9
Singapore	2,134.3	967.7	10.3	58.6
Thailand	1,119.9	237.0	11.2	77.7
Viet Nam	na	na	3.3	17.6
Japan	7,169.0	171.0	34.0	133.0
High-income Europe	2,022.0	701.0	32.0	94.0
US	2,021.9	na	35.7	173.8
South Asia	317.0	38.0	7.0	4.0
Sub-Saharan Africa	163.0	28.0	3.0	5.0

(Source) ASEAN 2030: Toward a Borderless Economic Community, ADBI, Tokyo, 2014.



# There is room for infrastructure development in Asia

– Needs for long-term investment for further growth

## Infrastructure Index for Asian countries

Country	Rank	Score
Indonesia	56	4.37
Malaysia	25	5.46
Philippines	91	3.49
Thailand	48	4.58
Vietnam	81	3.74
Japan	6	6.13
China	46	4.66
United States	12	5.82

(Note) Rank is based on a sample of 144 economies and the score ranges from 1 to 7, with the latter indicating highest efficiency.

(Source) World Economic Forum. *The Global Competitiveness Report 2014-2015*.

### **3. The JFSA's Technical Assistance Activities in Asia**

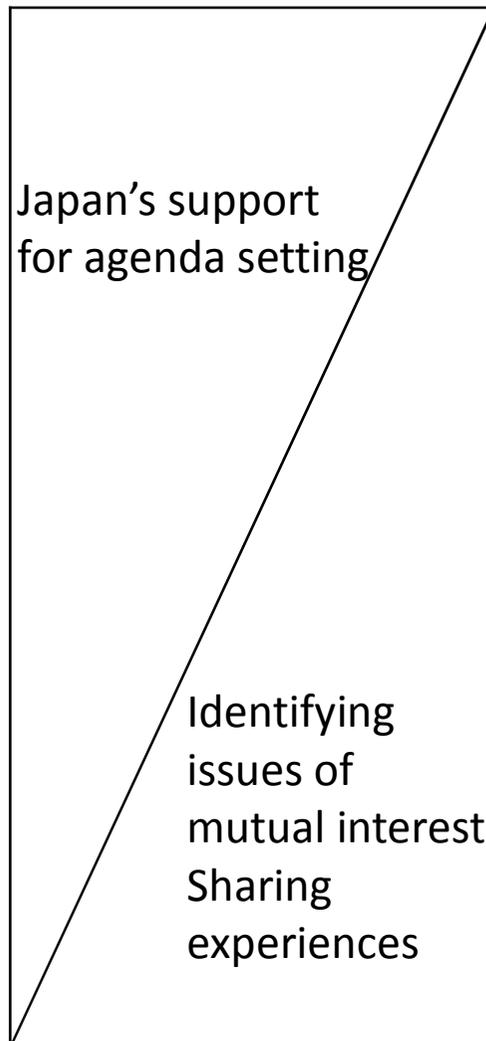
# Overview of Technical Assistance Activities by JFSA for Financial Sector Development in Asia

## Basic Strategy for Technical Assistance in Asian Countries

### Development stages of fin. infrastructure

Least Developed Countries
Developing (including Middle-Income Countries)
Developed

### Stance on assistance



### Technical cooperation menu

#### Assistance in Developing Institutional Base

- Introducing laws/regulations
- Capacity building on supervision/inspection
- Facilitating capital procurement by SMEs

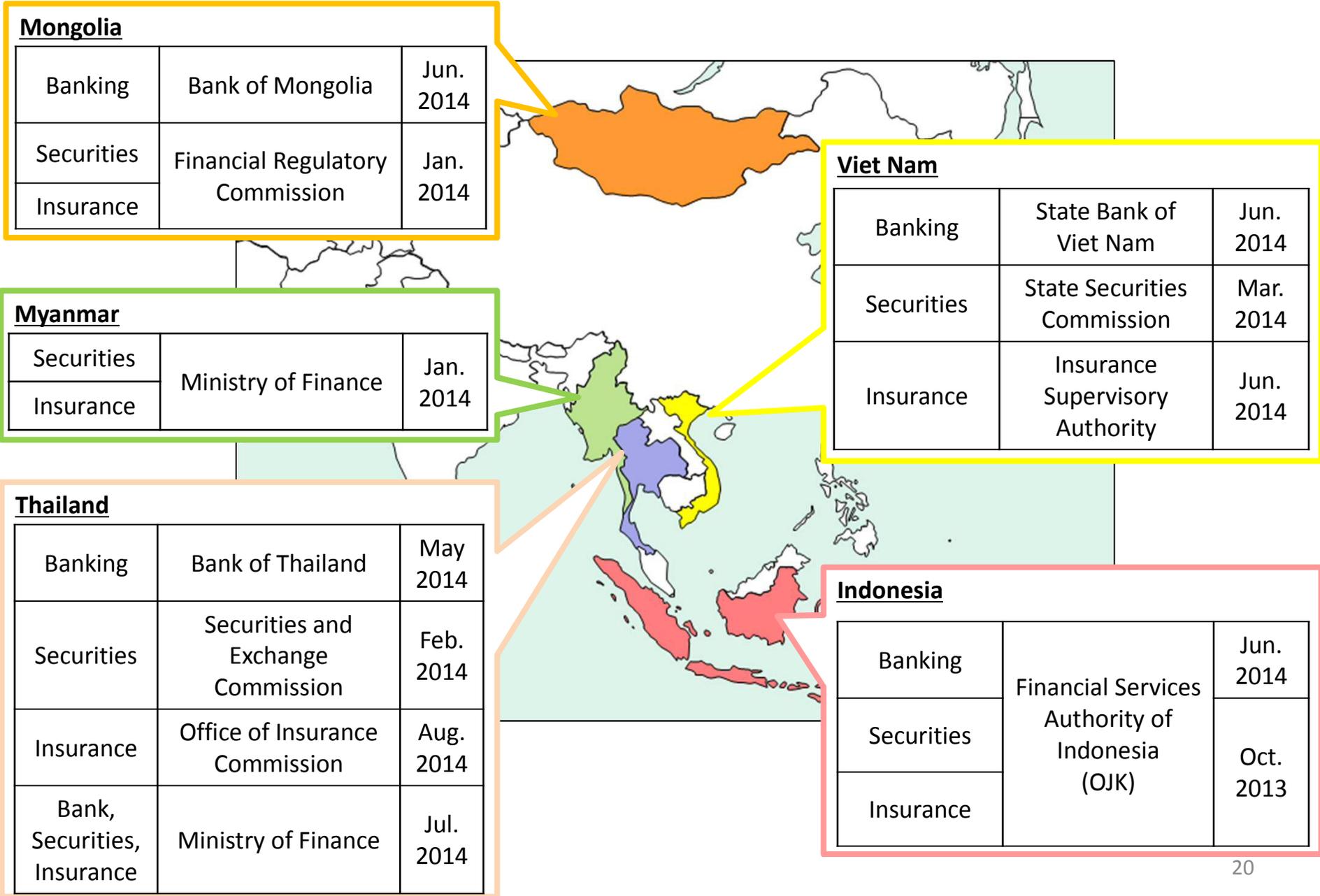
#### Specific Assistance for Financial Infrastructure

- IT introduction to settlement system
- Establishing stock exchange
- Establishing non-life insurance rating organization

#### Sharing Knowledge and Experiences

- Fin. regulatory organization
- Disaster response
- Setting int'l standards

# Signing of MOU/EOL between Asian Countries and JFSA

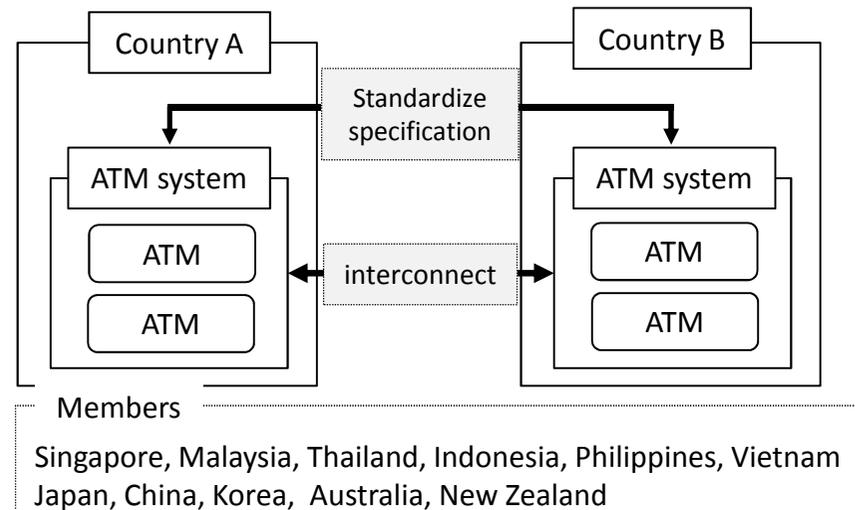


# Improving the Asian payment system

## Regional integration through the payment system (APN)

### ○ APN (Asian Payment Network)

- Initiated in 2006 by the central banks of major ASEAN countries, aiming to establish Asia's own integrated payment networks for retail.
- The payment infrastructure companies from the member countries have joined, promoting standardization and interconnection of the payment systems such as ATM systems.
- After 2010, countries other than the ASEAN members, such as Korea (Korea Financial Telecommunications and Clearing Institute; partly funded by the Bank of Korea) and China (China UnionPay; funded by the People's Bank of China), have joined.
- From Japan, a private company joined in Jan 2014.



### (Ref) JFSA Cooperation on settlement issues with Asian countries

#### Myanmar

- Signed an MOU with the Ministry of Finance (Jan 2014).
- The contents of cooperation, including settlement systems, are now under discussion.

#### Thailand

- Signed an EOL with the Bank of Thailand (May 2014).
- Currently exchanging views on the facilitation of financing for small and medium-sized enterprises, including settlement related systems.



#### Vietnam

- Signed an EOL with the State Bank of Vietnam (Jun 2014).
- Started discussions on the contents of cooperation, including the settlement systems.

#### Indonesia

- Signed an EOL with the Financial Services Authority of Indonesia (Jun 2014).
- Currently planning to cooperate on matters regarding banking, financial market, insurance, non-bank, etc.

# **Asian Financial Partnership Center (“AFPAC”)**

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**The AFPAC was established at the Financial Services Agency in April 2014. Since this summer, it has started to invite officials from Asian financial authorities as Visiting Fellows. It offers training programs tailored to the areas of interest for each Visiting Fellow.**

## **[Main Objectives of AFPAC]**

- To study issues related to financial and capital markets in Asia and to utilize the findings for financial sector development in Asian countries**
- To contribute to the development of business operations by Japanese firms in Asia and by Asian firms in Japan through enhancing cooperative relationships with Asian financial authorities**
- To effectively express a stronger Asian voice in the discussions for global financial regulatory reform**

# The AFPAC Visiting Fellow Program

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- Through the Visiting Fellow Program, Visiting Fellows will acquire knowledge, enhance their understanding of, and develop expertise in financial regulation and supervision, with a view to be able to contribute to the development of the financial sectors of their home countries.
- The findings of Visiting Fellows are to be disseminated at seminars/symposiums.
- Through the program, AFPAC aims to build stronger cooperative relationships with other Asian financial authorities.



*At the Opening Ceremony of AFPAC*

# Latest update on the AFPAC Visiting Fellow Program

- On 29 July 2014, AFPAC welcomed its first three Visiting Fellows – two officials from the Financial Regulatory Commission of Mongolia and one official from the State Bank of Vietnam.
- During their first month, they attended various lectures led by JFSA staff to study the basics of the Japanese financial system, financial regulation and supervisory practices at the JFSA. They also visited other organizations and institutions, including the Bank of Japan, the Tokyo Stock Exchange, self regulatory organizations, private financial institutions, and research institutes, to attend lectures and exchange views with them on various topics.
- Following those visits, each Visiting Fellow is now following a training program focused on their respective areas of interest at the JFSA and other relevant organizations, and deepening their understanding of specific topics.



***After a lecture on “Lessons from the Banking Crisis in Japan” by Mr. Ryoza Himino, Deputy Director-General of the Supervisory Bureau***



***AFPAC Visiting Fellows at the Tokyo Stock Exchange***



**Thank You**

