Financial Market Infrastructure & Cross-Border Investment Flows

Asia Pacific Financial Forum

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Growth in capital flows to Asian emerging markets & financial centres since mid-2000s

Source: BIS databases. IMF staff calculations.
Note: The figure shows regional averages of cumulative weekly BIS equity and bond flows since 2005 (emis) or 2004 (bond) through February 2014.
Sequence of cross-border portfolio investment

- Investment
- Bonding
- Borrowing
- Technology
- Entity ID

Market Entry/Capital Injection
- Corporate Action
- Portfolio
- Flowing
- Trading
- Brokerage
- Infrastructure
- Technology
- Entity ID

Settlement
- Pricing
- Settlement
- Brokerage
- Infrastructure
- Technology
- Entity ID

Credit
- Credit
- Credit
- Credit
- Credit
- Credit

Treasury
- Treasury
- Treasury
- Treasury
- Treasury
- Treasury

Source: 7-Stage Market Access & Repatriation Framework, Deutsche Bank

Continuum of market development

- Standard messaging codes & identifiers
  - Enhances settlement efficiency, reduces the risk of errors and enables STP
- STP
  - Enhances settlement efficiency and reduces settlement risk
- T+2
  - Mitigates counterparty and operational risks and optimizes collateral efficiency
  - Interoperability
    - Improves collateral efficiency, improves price discovery and enhances risk management
Issues we highlight

- A relatively high level of changes, across different countries, in different areas and at different paces
- Focus on later-stage areas (T+2) rather than the pre-requisites and enablers (standards, platforms)
- Increasing KYC focus hampering overall efficiency and raising new issues of cross-border data privacy and security
Recommendations for 2015

   i. Explore the creation of a regional roadmap of upcoming regulatory and market changes
   ii. Discuss the feasibility of a regional private-public-market infrastructure forum that will exchange views on changes
   iii. Explore the feasibility of longer consultation and notification periods of key regulatory and market changes

2. Focus on a more streamlined regional KYC/AML documentation compliance and process, recognising the layers of global intermediary chain and practices between securities issuers and the ultimate beneficial owners.
   i. Regional, globally-aligned standards for KYC/AML documentation collection and reporting
   ii. Explore the use of 3rd party industry utilities for a centralised KYC/AML electronic depository
   iii. Discuss the minimum standards of data privacy, protection & security and cross-border flows