

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Manila Room, Makati Shangri-La Manila Hotel
Makati City, Philippines

Meeting Paper 8-A

Research Project: International Discussions on Credit Rating Agencies and Enhancing Infrastructure to Strengthen Regional Credit Rating Capacity in the ASEAN+3 Region

Institute for International Monetary Affairs (IIMA)

<i>PURPOSE</i>	For information.
<i>ISSUE</i>	Concept paper of a research project being undertaken by IIMA for the ASEAN+3 Research Group
<i>BACKGROUND</i>	<p>It is generally understood that there is a lack of comparable and reliable “regional” credit rating capacities in Asia which would provide with a common credit scale and encourage more investors to expand region wide bond investments.</p> <p>Based on this understanding, research institutions are expected to clarify what is the obstacles that prevent regional credit rating capacities from developing, how we can solve such problems and suggest how we can create regional credit rating capacities to circulate Asian money for Asian investment.</p>
<i>PROPOSAL</i>	N.A. (Proposals for possible endorsement will be presented after the completion of the research project)
<i>DECISION POINT</i>	Note the concept paper.

Research Project
on
the International Discussions on the Credit Rating Agencies
and
Enhancing Infrastructure to Strengthen the Regional Credit Rating Capacity
in the ASEAN+3 Region

On request of : the ASEAN Secretariat Office on behalf of the ASEAN + 3 Research Group

Conducted by : Institute for International Monetary Affairs (IIMA), Japan
Korea Institute of Finance (KIF), Korea
Angelo King Institute (AKI), the Philippines
Fiscal Policy Research Institute (FPRI), Thailand

Background of the research

It is generally understood that there is a lack of comparable and reliable “regional” credit rating capacities in Asia which would provide a common credit scale and encourage more investors to expand region wide bond investments.

Based on this understanding, research institutions are expected to clarify what are the obstacles that prevent regional credit rating capacities from developing, how we can solve such problems and suggest how we can create regional credit rating capacities to expand the circulation of Asian money for Asian investment.

Research Objectives

1. To review discussions on global CRAs and rating systems since the crisis of 2008
The discussions include (a) disclosing methodologies and procedures, (b) reducing conflicts of interest, etc.
2. To conduct research on the activities of CRAs and region-wide rating systems in Asia -- such as (a) clarifying their rating methodologies, (b) their data sources and (c) what purposes their ratings are used for in the region
3. To suggest appropriate credit rating systems which provide the region with a common scale of measuring risks to promote cross border bond investments in Asia

Possible Policy Suggestions of IIMA

Three suggestions:

A: Establishing a new regional credit rating agency under the cooperation and sponsorship of stakeholders,

-- Stakeholders: major financial institutions/ relevant federations of financial markets/ governmental organizations

B: Enhancing the credibility of local credit rating agencies by third party

-- e.g. publishing evaluation reports on local credit rating agencies by third parties or rating of credit rating agencies

C: Upgrading mutual comparability of credit ratings in domestic scales by standardizing and disclosing debtors' information, which is;

-- facilitated by establishing centralized on-line site where standardized debtors' information is uploaded

-- enabling investors to compare the ratings of domestic scale

-- resulting in a convergence of domestic scales of each economy