



*Growing Asia's Markets*

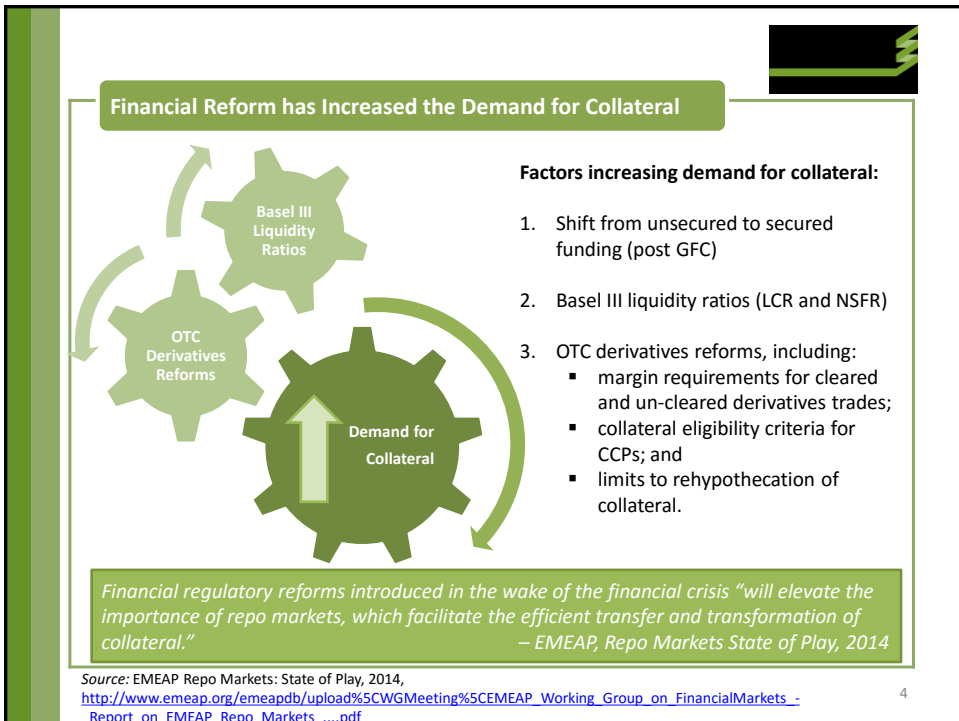
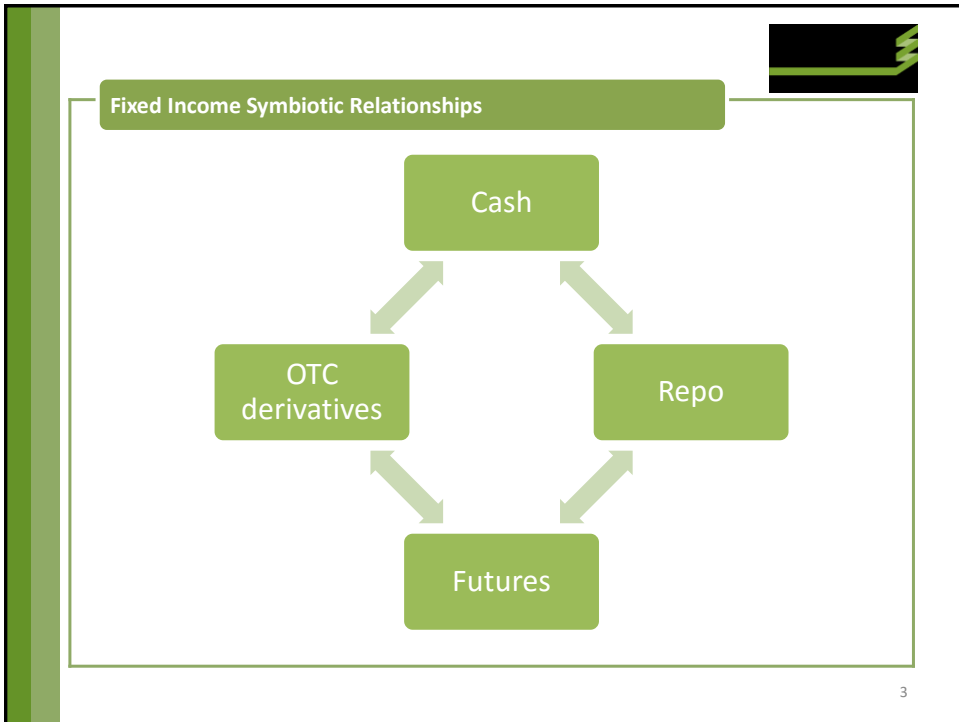
**Asia Securities Industry & Financial Markets Association**

## ***Promoting the Development of a Deep and Liquid Repo Markets***

**Mark Austen, CEO  
August 2016**

### Seven Basic Requirements for Liquid Fixed Income Markets

1. Disciplined issuance and reissuance programs to support large benchmark issues
2. Liquid "classic" term repo markets that allow easy short selling of government bonds
3. Active, liquid government bond futures markets
4. A broad range of liquid OTC derivatives contracts and exchange-traded derivatives contracts
5. High-quality, efficient and cost-effective electronic price discovery, trading, clearing and settlement platforms
6. A broad, active domestic and foreign investor base (e.g., pension funds)
7. Market friendly regulatory, accounting and tax regimes: no withholding taxes and no transaction taxes





### Why Classic Term Repos Are Important

- Provide support to primary markets
- Allow Primary Dealers to hedge
- Improve secondary market liquidity by fostering:
  - Price discovery, two-way pricing
  - Market making, trading vs. broking
  - Counterparty participation for shorting which provides:
    - Multiple trading strategies
    - Hedging tools
- Provide the prerequisite for a bond futures market
- Facilitate development of OTC derivatives markets
- Broaden funding markets
- Link money markets, bond markets, futures markets and OTC derivatives markets

5



### Key Challenges to Repo Market Development in Asia

- Repo markets, and indeed local currency bond markets, are underdeveloped in much of the Asian region;
  - In fact, HKMA estimated that the overall size of repo markets is less than 1.8% of GDP in Asia ex-Japan (in 2013).
  - In comparison, US and European repo markets are approximately 40-50% of GDP.
- The Asian repo market environment is fragmented and many markets lack a consistent legal architecture, contract enforceability, clear netting opinions and close-out rights and tested bankruptcy proceedings;
- Standard repo documentation such as the Global Master Repurchase Agreement (GMRA) is not universally utilized in Asian markets;
- Some Asian repo markets suffer from lack of benchmark yield curves, short tenors (predominantly overnight), lack of liquidity and adverse tax treatment.

Source: Presentation by HKMA at Euroclear Asia Collateral Conference, November 2013.  
[https://www.euroclear.com/dam/Presentations/2013/AsiaCollateralConference/02%20b-Presentation\\_HKMA\\_Keynote%20Speech.pdf](https://www.euroclear.com/dam/Presentations/2013/AsiaCollateralConference/02%20b-Presentation_HKMA_Keynote%20Speech.pdf)

### Necessary Conditions to Develop Classic Repo Markets

- Deepen domestic bond markets
- Requirements for term repo
- Establish interoperability between market infrastructures
- Address barriers to currency convertibility and market access
- Legal clarity and documentation
- Improve creditor's rights in legal frameworks and judicial proceedings
- Neutralize tax treatment of repo transactions
- Market participant requirements

### Next Steps for APFF Capital Markets Workstream (Repo Substream)

