



# THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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## **Meeting Paper 4-A**

### **Capital Market Development: Considerations for the Advisory Group's 2010 Agenda**

*[First Draft]*

ABAC Japan

# THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

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## Capital Market Development: Considerations for the Advisory Group's 2010 Agenda

*First Draft  
As of 4 November 2009*

- 1 In its 2009 report, the Advisory Group observed that while the region's bond markets have undergone significant development in recent years, emerging bond markets are still far from adequate in meeting the financing needs of the private sector. Supply constraints related to depth and liquidity, market infrastructure and the legal, policy and regulatory framework continue to pose significant obstacles to market development. Economies also need to meet the challenges in broadening the institutional investor base.
- 2 Consequently, the Advisory Group recommended that (a) developing economies continue to undertake improvements in key areas such as transparency, creditor protection, market regulation and supervision, investor education, markets for hedging instruments and the operation of credit guarantee institutions; (b) these economies review their tax regimes; and that (c) APEC undertake bold steps to take bond market development in the region to the next level, with emphasis on promoting the growth of corporate bond markets and financial integration. A key activity for advancing the bond market development agenda will be the holding of a 4th APEC Public-Private Sector Forum on Bond Market Development, which is being proposed to be held in 2010 in collaboration with the Japanese Ministry of Finance and APEC senior finance officials.
- 3 ABAC Japan has received comments from various officials and industry players with respect to bond market development. Key points were as follows:
  - 3.1 There is significant interest in bringing current initiatives within the region, such as the Asian Bond Market Initiative, to the next level, and officials welcome proposals from the private sector.
  - 3.2 Corporate bond market development has lagged far behind that of government bond markets in emerging economies, especially after the crisis, which saw the rapid growth of government, central bank and public entities' bond issuances. Aside from the fact that the current economic situation has reduced the need for corporate issuance, there are structural issues that need to be addressed, including the corporate sector's heavy reliance on equity markets.
  - 3.3 There is still much room for the region's bond markets to develop to significantly reduce the region's dependence on external capital inflows and on bank lending.
- 4 Inasmuch as there are huge overlaps among issues related to bond and equity market development, and that there is also a real need to strengthen equity markets while

promoting greater financial integration in the region, it would be desirable for the Advisory Group to include consideration of equity markets in 2010 and integrate this with its work on bond markets. This work could build on the initial work that has been done by ABAC FEWG on equity markets in 2009. Expanded collaboration with the ADB, which has initiated a program focusing on broader capital markets, as well as the IDB, could be explored.

- 5 ABAC Japan, in collaboration with other interested economies and the Institute for International Monetary Affairs (IIMA), has been holding discussions with various industry players, with the objective of gathering valuable perspectives from market players on the key issues that need to be addressed to promote the development of corporate bond markets and equity markets and to accelerate market-based regional financial integration. So far, discussions have been held with major issuers, institutional investors, asset managers, credit rating agencies and investment banks. Several more interviews and discussions are planned to be undertaken over the next couple of months. It is intended that the results of these discussions will be used as inputs for the 4<sup>th</sup> APEC Public-Private Sector Forum, and that the process will help enlist greater private sector participation in the Forum.
- 6 Regarding the 4<sup>th</sup> APEC Public-Private Sector Forum, there is a tentative indication that this will be held in conjunction with one of the APEC Senior Finance Officials' Meeting (SFOM) in 2010, most probably in the middle of the year, as in the case of the previous forums. It is expected that the Japanese Ministry of Finance will finalize its decision and confirm the date and venue sometime within the next few weeks. Possible ideas under consideration are as follows:
  - 6.1 Regarding focus economies, the bond markets of the following member economies have already been discussed in previous forums: Chile, Indonesia, Malaysia, Mexico, Peru, Philippines, Thailand and Vietnam. Developing members that have yet to report are Brunei, China, Korea, Papua New Guinea, Russia, Chinese Taipei, as well as the two Asian regional financial centers (Hong Kong and Singapore). Two or three of these economies could be considered as focus economies, with emphasis on corporate bond markets.
  - 6.2 Consideration could also be given to including some discussions on equity markets in the Forum.