Welcoming remarks

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Good morning, everyone. It is a great pleasure to welcome you all to the Bank of Japan-BIS High-level Seminar, and to the city of Yokohama. Despite the tight schedule, a number of distinguished participants have kindly come all the way to the seminar, including central bank colleagues and well-known academics and experts, not only from Asia and the Pacific but also from other regions. Thank you all. I believe this seminar will be of great benefit to all the participants in discussing the development of capital markets from both a regional and a global perspective.

This seminar is an important part of the activities of the Asian Consultative Council (ACC), and is held annually under the chairmanship of the incumbent ACC Chair. Since I assumed this role in October 2010, this is my second opportunity, following the first one in Hong Kong just a year ago.

The objective of this seminar is to discuss frankly and candidly the timely policy issues of mutual interest among high-level officials of the ACC membership, together with representatives of other major central banks, academics and professionals. At the last seminar in Hong Kong, we exchanged views on the implementation of Basel III and a variety of macroprudential policy measures. This time, in consultation with the BIS, we have selected the development of regional capital markets as the seminar topic. This topic is very important for all of us in terms of ensuring regional financial stability, and thus promoting sustainable economic growth. At the same time, it has been one of the most challenging policy tasks for the monetary authorities in the region since the Asian financial crisis.

By the way, Yokohama, the largest port city in Japan, has a long history of trade and interaction with overseas economies, particularly with Asian and Pacific nations. As you may recall, the 18th APEC Economic Leaders Meeting was held here in Yokohama in November last year, at the adjacent hotel to be precise. I believe Yokohama is an ideal location for us to discuss such an important, challenging policy agenda.

Before introducing each session, let me briefly express my own thoughts on the development of capital markets in Asia and the Pacific.

It is often said that if there were well-developed bond markets in the region, the negative impact of the Asian financial crisis on the regional economy could have been mitigated. In the late 1990s, many local firms were in general limited to equity issuance and bank borrowing for their financing. As a result of rapid capital outflows and a bank credit crunch caused by severe external shocks, there was a widespread deterioration in firms' sentiments, and their production and investment activities were severely impaired. This happened almost regardless of the soundness of the corporate sector in the region. If local firms had access to an alternative source for their funding, namely the issuance of corporate bonds, some fundamentally sound firms might not have suffered so critically from the banks' credit crunch, and could have thereby continued their operations. One of the lessons we learned from the Asian financial crisis is that firms would benefit from having access to multiple funding instruments.

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Since the Asian financial crisis, the region's monetary authorities have continued to work closely to develop their bond markets. They have launched a number of initiatives, such as the Asian Bond Funds Project of EMEAP and the Asian Bond Market Initiative of ASEAN+3. The primary focus was on developing liquid, local currency sovereign bond markets, as they offer a risk-free yield curve, which is indispensable for the pricing of corporate bonds. In this regard, although still lacking in depth compared to Western counterparts, and still varying across jurisdictions, the region's sovereign bond market has been growing steadily, attracting considerable capital inflows from overseas markets after the Lehman shock.

In contrast, there has been no significant progress in regional corporate bond markets. Why? My personal observation is as follows. First, the majority of corporate bond markets in the region are still insufficiently liquid. Although I acknowledge this is a typical "chicken and egg" problem, we need to make greater efforts to enhance market liquidity and attract global corporate bond investors. In this regard, given the smallness of each individual corporate bond market, one idea might be the creation of an investment class by integrating each market to increase the total liquidity. Second, however, even if we did choose to consider the region as a group, there are a wide variety of market infrastructures across jurisdictions, such as legal, tax, accounting, and payment and settlement systems. These differences might be resolved to some extent by the kind of economic integration to be introduced in ASEAN countries in the coming years, but they will not be perfectly harmonised. Third, corporate disclosure in the region is still not adequately developed or transparent. Fourth, relating to the third point, the region's credit rating system is not sufficiently developed.

Under these circumstances, the cost of bank borrowing in some jurisdictions has been less expensive than that of corporate bond issuance for most local firms. For such firms, there is less incentive to issue corporate bonds by paying higher costs in the domestic market, and running the risk of being attacked by market participants, particularly in times of crisis. As for investors, they are reluctant to invest in such illiquid corporate bonds. Moreover, domestic major banks, which are also the largest institutional investors in the region, have tended to maintain or increase traditional corporate lending, rather than actively changing their asset allocation to hold corporate bonds.

I look forward to hearing a variety of views during the seminar on the development of regional capital markets in general, and regional bond markets in particular. We may be fortunate enough to determine how to advance from the above-mentioned "chicken and egg" situation of regional corporate bond markets, and to agree on what are the desirable and feasible policy actions. I will also actively participate in the discussions.

This one-and-a-half day seminar comprises five sessions and one policy panel, each focusing on the key aspects of the topic in a well-balanced manner. The five sessions will cover;

i) the development of domestic bond markets,

ii) the development of off-shore bond markets,

iii) the current status of credit derivatives and structured finance in Asia and the Pacific,

iv) the role of credit rating agencies, and

v) the promotion of market liquidity.

The impact of capital flows on bond market development in Asia will be discussed at the policy panel tomorrow.

I hope this seminar will serve as a valuable opportunity to see how best we can contribute to the prosperous growth of our capital markets. If this seminar can help us deepen our understanding of this issue, including the potential cooperative and effective policy actions we can make, it will have been a great success.

Thank you for your attention.