

Muhammad bin Ibrahim: Pilot platform for cross-border investment and settlement of debt securities

Remarks by Mr Muhammad bin Ibrahim, Deputy Governor of the Central Bank of Malaysia, at the press conference for the launch of the pilot platform for cross-border investment and settlement of debt securities, jointly with the Hong Kong Monetary Authority and Euroclear Bank, Hong Kong, 13 March 2012.

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The world as we know is changing. Many aspects of how the global financial landscape will change have been discussed. One key area of focus has been the uneven growth momentum across the world, which is expected to persist for some time, and this development will have an impact on the trends and direction of the flows of trade and capital across the world. In essence, the nature of trade and capital flows will be significantly different from what we have experienced in the past decades; gross capital flows from across the globe between the east and the west, the north and the south, will be larger in size and more robust, going forward. These developments may pose risk in particular, to open economies like Malaysia and Hong Kong. A key safeguard to manage the risks that may arise from this transformation would be by strengthening our financial systems, to further develop the capital markets and to strengthen the regulatory and supervisory frameworks.

In the Asian region, accentuating this global transformation are the rapid regional economic and financial integration and the expansion of domestic demand. While these developments are likely to further reinforce the strong intra-regional trade and investment linkages that are already in place, a key aspect of the increased financial integration in Asia is the need for more efficient intermediation of funds within the region. This includes the mobilizing and channeling of some part of the sizeable savings in Asia to productive investments. The average savings rate in Asia is 35% of GDP and Asia as a group has a total of about USD5 trillion in foreign reserves. Even if we invest 1% of this amount, the impact would be significant.

With further liberalisation of the financial sector and the capital account, and the increased linkages of the national payment systems in Asia, financial flows within the region is envisaged to increase. This trend is reinforced by the increased presence of regional institutions in the individual countries' domestic financial systems and Asia's favourable economic prospects and the increasingly more developed and sophisticated financial markets. This region has already experienced an increase in intra-Asian financial flows. One should expect that given the uneven growth paths across economies in the next few years, issuances out of the emerging economies, in particular Asia, will also likely assume greater importance as an asset class. The greater variety of asset classes would contribute to the stability of the international financial system. It will also provide a wider range of options for investors and borrowers and thus, contribute to a more efficient allocation of financial resources across borders. It should be emphasised that the impact of Asia's economic and financial integration, would extend beyond its own region to other parts of the world. Today, the economic and financial linkages between the emerging economies have gained significant traction and are likely to continue. All the issues that I had mentioned earlier would only be significantly realized if we have a seamless payment system that links markets as one.

As part of our continuing journey in deepening and strengthening our financial markets in Asia and Malaysia in particular, Bank Negara Malaysia is pleased to be a party to the launching of the Pilot Platform for Cross-Border Investment and Settlement of Debt Securities, jointly with the Hong Kong Monetary Authority and Euroclear Bank. This initiative marks an important milestone in our vision towards deeper financial integration. The rollout of

this platform will provide investors and market intermediaries with more efficient and cost-effective cross-border access to the bond markets in Hong Kong and Malaysia.

Over the years, the bond market in Asia has expanded significantly. To date, Asia's share of the global bond market has increased by almost four-fold since the pre-Asian financial crisis. In tandem with the growth of the bond markets, the sukuk market in the region has also evolved as an important avenue for international fund raising and investment activities, generating significant cross-border flows. Malaysia has been an important part of this development with well developed bond and sukuk markets. As at 9 March 2012, the outstanding amount in the Malaysian bond market was RM899 billion compared to RM301 billion at the end of 2001. This represents a 300 per cent increase over the last decade. Within the region, both Hong Kong and Malaysia have participated actively within the EMEAP Group in promoting regional bond market development initiatives such as the Asian Bond Markets Initiative and the Asian Bond Fund.

I am confident that this pilot platform will bring benefits, not only to Hong Kong and Malaysia, but the region as a whole. We envisaged that this pilot platform will increase the efficiency of issuance, investment and settlement of bonds through the increased harmonisation of cross-border processes and standards. We expect this initiative to strengthen the cross-border linkages and facilitate the intermediation of surplus funds within the region. This increase in cross-border flow of funds will further enhance the efficiency in the mobilization of surplus funds to meet the rising investment needs of the region.

The implementation of this pilot platform is indeed timely and opportune and, will serve as an important catalyst for further development in linking financial markets within this region. This, I believe, is a development that we should all welcome.

Thank you.