Joseph Yam: APEC initiative on development of securitisation and credit guarantee markets

Opening remarks by Mr Joseph Yam, Chief Executive of the Hong Kong Monetary Authority, at the Second High-Level Policy Dialogue, APEC Initiative on Development of Securitisation and Credit Guarantee Markets, Hong Kong, 22 March 2004.

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It is a pleasure to welcome you all to this Second High-Level Policy Dialogue under the APEC Initiative on Development of Securitisation and Credit Guarantee Markets. We are honoured that Mr Gwang-Lim Kim and Mr Jamil Kassum will be opening this Dialogue, and the excellent list of participants promises a very constructive and lively discussion.

Hong Kong, China is pleased to co-chair, with Korea and Thailand, the APEC Initiative on Development of Securitisation and Credit Guarantee Markets. On behalf of all three co-chairs, I would like to extend our sincere thanks to the World Bank for its considerable contributions to this Initiative. These contributions range from active participation to sponsoring experts to provide technical advice to APEC member economies on how to develop their domestic securitisation and credit guarantee markets.

It is generally recognised that there is considerable room for improvement in the efficiency of financial intermediation in this region. The bulk of savings find their way back to the region largely in the form of foreign portfolio flows and short-term banking credits, which present risks to financial stability. Local corporations have been relying too much on bank credits and equity markets as the major sources of financing.

Among the various measures that have been put forward to address the structural impediments to the development of the bond market, securitisation, coupled with credit enhancement, provides the most effective and immediate solution. Securitisation enables borrowers to issue asset-backed securities that can enjoy a credit rating higher than a single borrower can obtain on its own. When combined with credit enhancement and guarantee arrangements, these securities can further attain a credit rating high enough to meet the requirements of investment managers. Securitisation will also help smaller corporations gain access to regional bond markets and reduce their reliance on short-term commercial bank finance.

Securitisation is gradually gaining momentum in Hong Kong. The Hong Kong Mortgage Corporation (HKMC) has been issuing mortgage-backed securities since 1999. More recently, synthetic securitisation and credit card receivables securitisation transactions began to appear. Not only is securitisation a tool for developing the bond market, it is also useful for financing infrastructure projects. The Hong Kong SAR Government intends to securitise the income receipts of five toll tunnels and the Tsing Ma Bridge to raise more than HK$6 billion in the coming months.

It is against this background that the idea for this APEC Initiative was conceived. The objectives of the Initiative are to promote the understanding and awareness of the importance of securitisation and credit guarantees to bond market development in the region, and to assist APEC member economies in identifying market impediments and taking concrete steps to remove them. We tackle the impediments in the domestic bond markets first, so that the regional bond market can be developed from liquid and deep domestic bond markets.

The Initiative comprises two core parts. The ***first*** part involves expert panel visits to the APEC economies interested in developing their domestic securitisation and credit guarantee markets. The first panel visits, to China and Mexico, were launched in 2003, and a second panel visit was made to Thailand earlier this month. Draft action plans have been prepared for the economies receiving expert advice. The ***second*** part of the Initiative involves the holding of policy dialogues to promote understanding and exchange views about securitisation and credit guarantee markets. The first policy dialogue under the Initiative was held in April 2003 in Seoul, Korea. We are delighted that Hong Kong is now the host for this second policy dialogue.

This APEC Initiative aims at developing the bond markets from the supply perspective. Two other initiatives in the region tackle the issue in a complementary way. An initiative by ASEAN+3 focuses on facilitating access for a wide variety of issuers to the regional bond markets and on creating an environment conducive to the development of bond markets. Working groups have been established to examine the creation of new securitised debt instruments, issuance of debt by international financial institutions, regional credit guarantees and enhancement facilities, as well as the establishment of local and regional credit rating and credit enhancement agencies.

Meanwhile, a group under EMEAP is developing the Asian Bond Fund (ABF). The first phase of ABF, or ABF1, has a size of about US$1 billion and was launched in June 2003. The Fund is now fully invested in US dollar denominated bonds issued by sovereign and quasi-sovereign issuers in EMEAP economies. ABF1 is an important step forward in promoting the efficiency of financial intermediation in the region. It helps to channel a small portion of the very sizeable official reserves held by the Asian economies back into the region. After the launch of ABF1, the EMEAP Group is now studying the extension of the ABF concept to local currency-denominated Asian bond funds, or ABF2.

ABF2 will have a positive impact on the demand and supply of local currency bonds in the region, as well as improving the market infrastructure. On the supply side, ABF2 will provide a new asset class to international investors who wish to have a well-diversified exposure to Asia’s bond market. On the demand side, the investment of EMEAP Group in ABF2 will help foster an increased interest in Asian currency bonds amongst domestic and regional investors. Individual EMEAP economies can also leverage on the interest and momentum generated from the collective investment of the EMEAP central banks to further develop their domestic bond markets by improving their market infrastructure and removing market impediments. This should further contribute to the broadening and deepening of local currency bond markets in the region.

I think you will agree with me that the heterogeneous nature of the bond markets in this region presents considerable difficulties to developmental efforts. However, I am very pleased to note the many initiatives now in place, and governments have moved from “words” into “action”. Academics and market practitioners have also been supporting the public sector initiatives by providing valuable and practical advice on the action plans to remove market impediments. The timing for development has never been better. Let us continue to work closely together, through bond market development, to enhance the diversity, and therefore the stability and efficiency, of financial intermediation in the region.

Thank you.