



Forum for Asian Insolvency Reform meeting

Opening address by

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Vice Minister Kim, Mr. Lee, Distinguished Guests, Ladies and Gentlemen,

It is a great pleasure and honour for me to add my word of welcome you to this third meeting of the Forum for Asian Insolvency Reform, and I thank the Korean authorities for hosting it.

I am sure you know, this Forum – also known as “FAIR” - was born of the Asian financial crisis of the late 1990s. It is intended to provide a platform for sustained policy dialogue to promote insolvency reform in the Asian region. The first FAIR, which took place in Bali nearly three years ago, focused on the role of the judiciary. The second FAIR, in Bangkok, discussed informal work-outs and looked in detail at the state of insolvency reform in Thailand. At this third meeting, we will be looking at maximising value of non-performing assets.

As we see it, the Forum is intended to help policy makers:

1. to develop an agenda for insolvency reform in Asia;
2. to build a regional constituency for reform;
3. to share regional experiences so as to identify viable policy options; and
4. to monitor progress to help ensure that reform efforts are maintained.

Last year, FAIR participants noted that in order to sustain momentum for economic growth, Asian countries need to target distressed assets as a priority. As the estimated burden of bad loans has reached 40 per cent of total credit, Asia cannot afford “reform fatigue”. A clear message coming out of the Bangkok meeting was that many Asian countries have tried to implement advanced rescue and informal-workout regimes without first putting in place the basic processes of liquidation, secured transactions and creditor rights enforcement that make the advanced regimes work. This message has given clear direction to local policy makers while also reminding the international policy community that global standards describe the “end state” of a developed legal framework. I believe that such a standard is best formulated in terms of aspirations, leaving the precise “hows” of implementation and enforcement to local effort and ingenuity. A great deal of the effort must involve implementation, taking the difficult actions and finding the resources needed to get the job done.

Ensuring adequate investor protection – that is shareholder and creditor protection – is a key factor for well functioning insolvency regimes, as well as for financial market development and economic growth. Since 1999, the OECD in partnership with the World Bank has promoted corporate governance reforms around the world. These activities have been based on the OECD

Principles of Corporate Governance – one of the 12 core standards identified by the Financial Stability Forum and the global benchmark in this field. The White Paper on Corporate Governance in Asia is a landmark product of this work..

The Corporate Governance Principles include important principles – including disclosure and transparency – are aimed at the protection of shareholder rights.

But if shareholders can protect their investment by nominating, monitoring, and removing managers and directors, the threat of insolvency is the ultimate tool for creditors to enforce their contracts. Creditor rights are thus a fundamental element of insolvency systems. Creditors should be able to recover their resources from insolvent enterprises and employ them elsewhere in a more profitable way. If creditor rights are well defined and enforced, reorganisation can happen more smoothly, and recourse to insolvency proceedings may be less frequent.

Insolvency reform is certainly a necessary but by no means a sufficient condition for sustainable private sector development and growth. It is equally important to regain confidence of domestic and foreign investors and attract new money for new business. Both financial and corporate reform, and the restructuring that comes with them, are affecting the structure of Asian economies. Results will not come overnight. They require a sustained and focused effort.

From our OECD perspective, FAIR is part of this broader effort of building strong economies in the region. Therefore, we try to organise it within the broadest possible co-operation with regional and national partners. Our co-operation with the World Bank, the ADB and the government of Japan is a good example and I take this opportunity to thank them for it.

I would also like to congratulate our hosts, the Ministry of Finance and Economy and the Financial Supervisory Commission for their successful preparation of this meeting, with the support of the Korea Development Institute and the Korea Asset Management Corporation. They have done a fantastic job in putting this event together.

I am no expert in insolvency systems, but I can see the major role they play in modern market economy: a lot is at stake for the efficient use of economic resources; for stability of financial systems and hence for investor confidence and economic growth. “Insolvency systems” may be quickly said, but the term covers a remarkable range of legal, institutional and regulatory issues as well as policy questions and practical market matters. Their range and complexity is daunting for any country, but especially so for emerging markets and transition economies. Despite the wealth of accumulated experience, there is no single model to be applied, and learning continues, in OECD countries as well.

I am delighted therefore, to see such an impressive gathering here today of experts from all sides – legislators, officials, regulators, practitioners, academics and others including colleagues from other international organisations.

We are fortunate to have such a distinguished group to help deepen our understanding of insolvency reforms in Asia and guide us in developing the future work of the FAIR.

I am very much looking forward to the discussion over the next two days, and as we go along I hope we can identify some shared insights and priorities for future dialogue in the Forum.

Thank you.