This publication analyses the securities markets in the six "Dynamic Asian Economies" (DAEs): Hong Kong, Korea, Malaysia, Singapore, Taiwan and Thailand. The analysis deals in particular with the mechanisms in these markets to counter systemic risk.

The countering of systemic risk in financial markets has been a prime issue of concern in recent years for the OECD, which published "Systemic Risks in Securities Markets" in 1991. In securities markets "systemic risk" refers to the danger of a serious disruption of the financial system as a result of severe price shocks in one or more large financial centres. The increasing importance of the DAEs as financial centres has led the OECD to undertake the present analysis.

The DAE securities markets are at different stages of liberalisation. Korea and Taiwan have just begun to open their markets to non-residents, whereas Hong Kong and Singapore share a long tradition of liberal policies. The increasing degree of internationalisation of DAE securities markets makes these markets more sensitive to external price shocks, hence the need for proper mechanisms to counter systemic risks.

All DAEs have ways of regulating the pricing mechanism in the event of disorderly trading, such as circuit breakers and daily price fluctuation limits. Regulations concerning capital adequacy are, however, generally inadequate and their improvement is the most urgent item on the agenda for DAE securities markets. With the exception of Singapore, risk-based capital plans for securities firms are seriously lacking. Most DAEs rely on flat minimum capital requirements which do not consider size, risk exposure and type of securities business and which seem to be either too low (as in Thailand), or too high (as in Taiwan).

Clearing and settlement have been given increased attention in recent years. With the automation of their securities markets, the DAEs have made substantial improvements. There is, however, a need to evaluate carefully the size of the guarantee funds introduced in four DAEs (Hong Kong, Korea, Singapore and Taiwan) as part of their clearing and settlement system. The recommendation is made to establish close co-ordination between clearing and
settlement arrangements of securities and securities derivative markets in Korea and Taiwan, where the feasibility of introducing derivative products is under evaluation.

All securities markets in the DAEs are of the auction ("order-driven") type. But it is likely that the larger trade volumes, the internationalisation and the greater role of institutional investors will create a need for market makers to promote liquidity and stability. The derivative markets in Korea and Taiwan that are presently contemplated will be of the market-maker ("quote-driven") type.

"Securities Markets and Systemic Risks in Dynamic Asian Economies" was written in the context of the informal dialogue between OECD Members and the DAEs, which are not members of the Organisation. An earlier version was presented at a workshop on the organisation and regulation of securities markets, held in Singapore in May 1991. The author is Dr. S. Ghon Rhee, Professor of Finance and Director of the Pacific-Basin Capital Markets Research Center at the University of Rhode Island, United States.

Journalists may obtain a copy of the report from the OECD Press Division, 2 rue André Pascal, 75775 Paris cedex 16 (tel. 45 24 80 88 or 80 89).

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"Securities Markets and Systemic Risks in Dynamic Asian Economies"
96 pages, OECD, Paris 1992
ISBN 92-64-13638-X (21 92 01 1)
F100; £14; US$26; DM42
Available from the OECD Publications Distributors – see attached list.