



# **OECD-ADBI 10<sup>th</sup> Roundtable on capital market reform in Asia**

**2-3 March 2009**



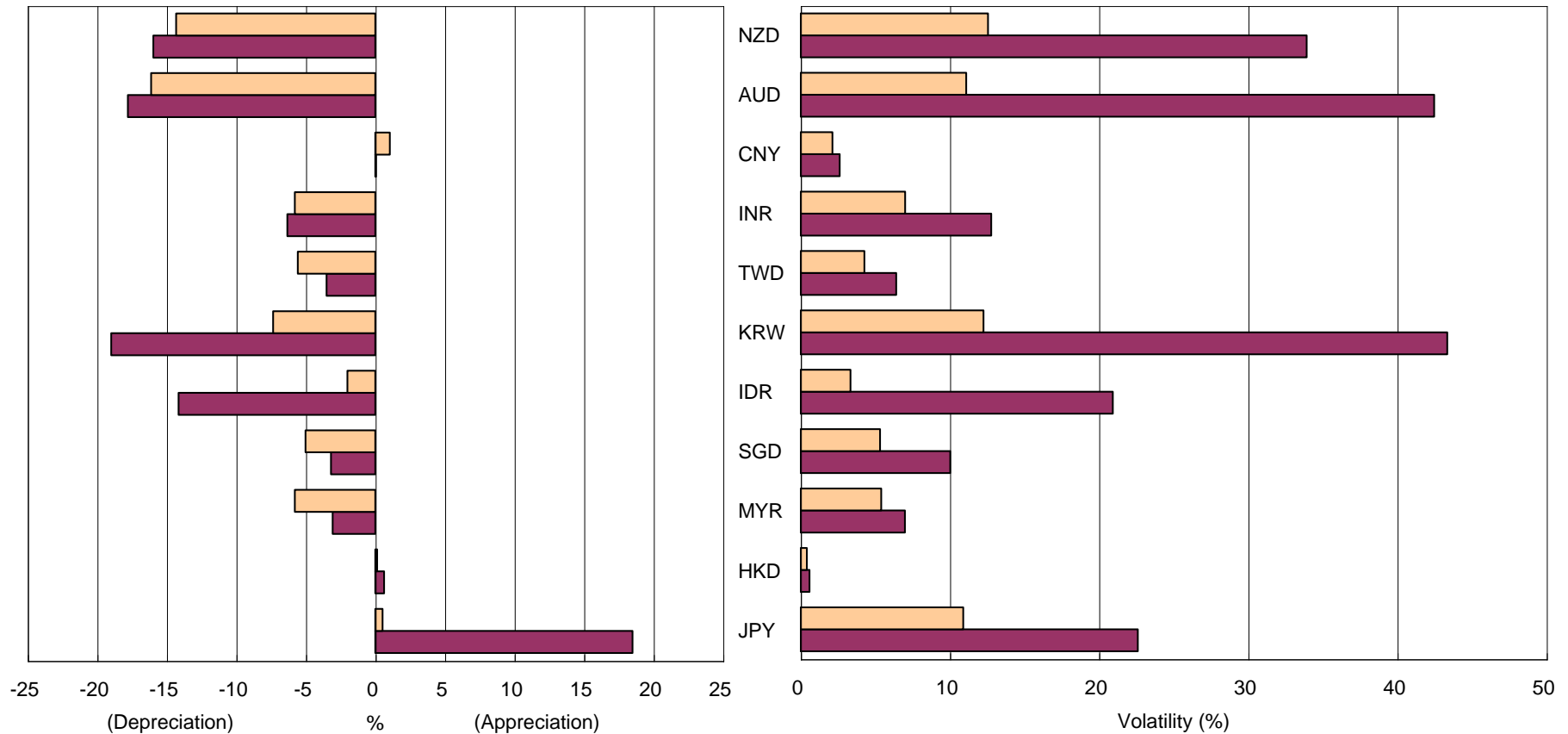
# Outline

- **Impacts of the global financial crisis on the Asian markets**
  - Financial channels
  - Trade channels
- **Policy responses to the crisis worldwide**
- **Hong Kong's regulatory responses**
- **Challenge ahead – second wave**



# Impacts on Asian markets (I)

*Exchange rates depreciated and volatilities increased*



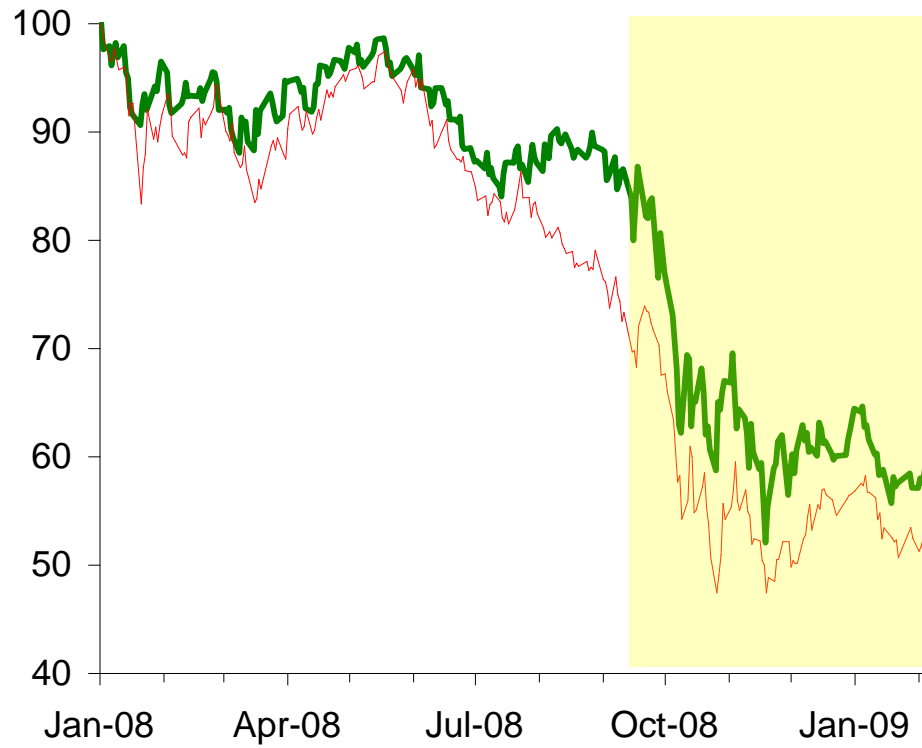
■ Three months after the failure of Lehman Brothers    ■ Three months before the failure of Lehman Brothers



# Impacts on Asian markets (II)

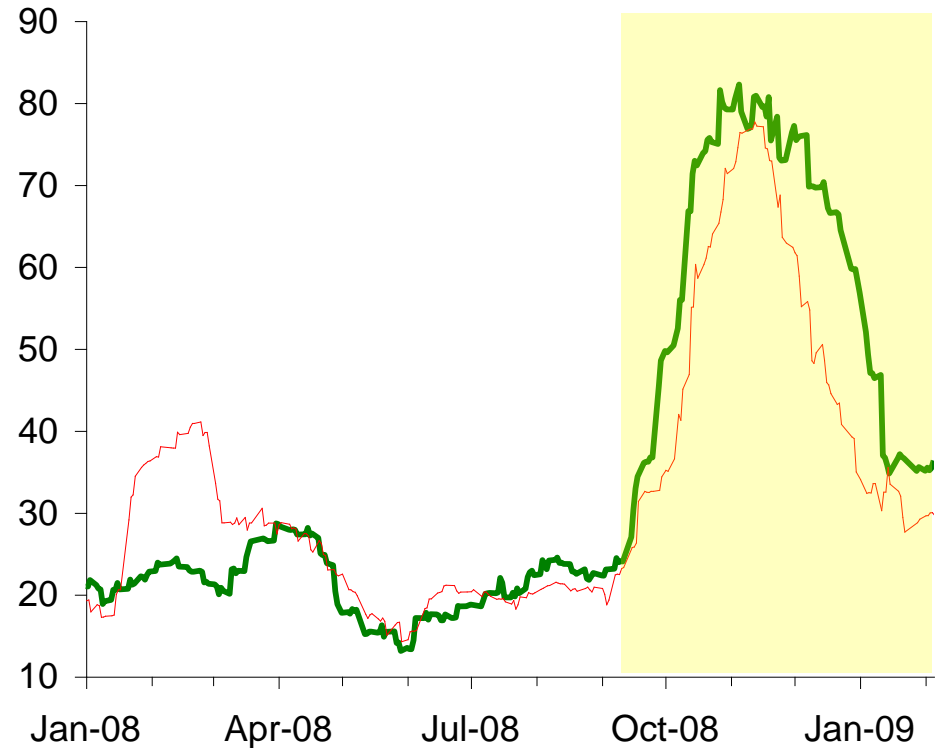
*Equity prices plunged and volatilities rose markedly*

2 Jan 2008 = 100



— S&P 500

Volatility, %



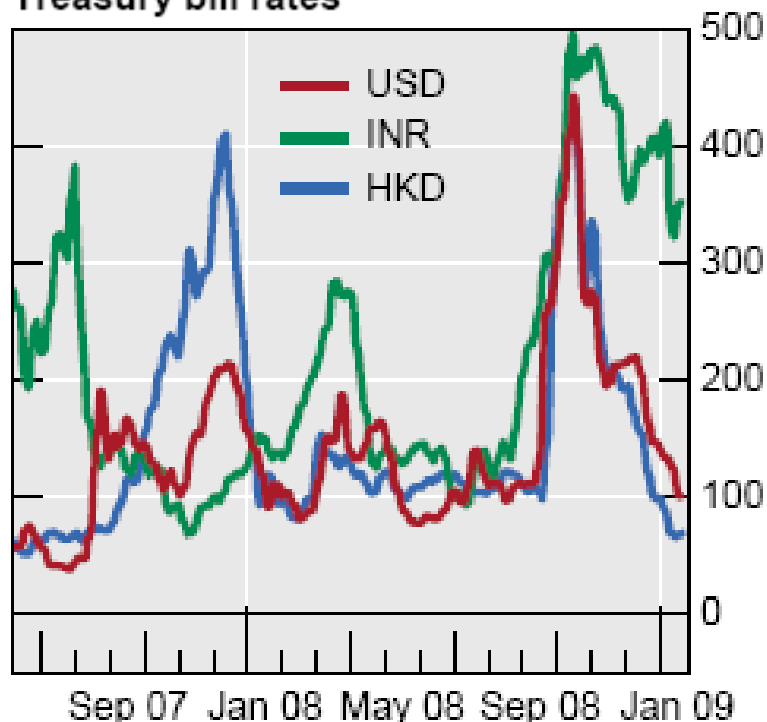
— MSCI Asia Pacific



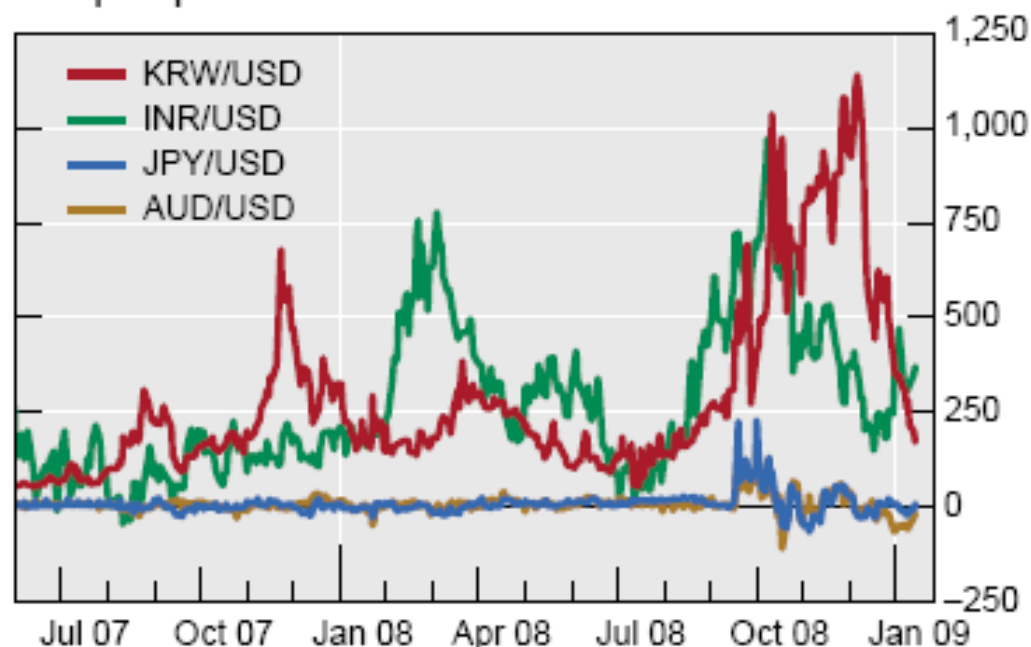
# Impacts on Asian markets (III)

## Money markets came under stress

Spreads between interbank and Treasury bill rates<sup>1</sup>



Swap-implied US dollar rates over Libor<sup>2</sup>



AUD = Australian dollar; JPY = yen; KRW = won; HKD = Hong Kong dollar; INR = Indian rupee; USD = US dollar.

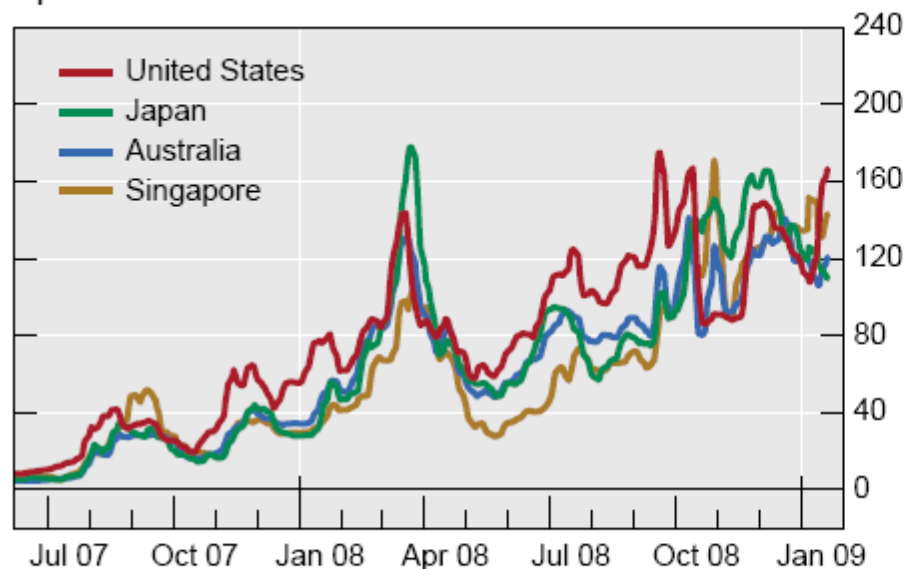
<sup>1</sup> Five-day moving average, in basis points; updated to 20 January 2009. Based on three-month interest rates. <sup>2</sup> Spreads between US dollar interbank rates implied by covered interest parity and three-month US dollar Libor, in basis points; implied rates are calculated from forward and spot exchange rates against the US dollar and local onshore interbank rates.



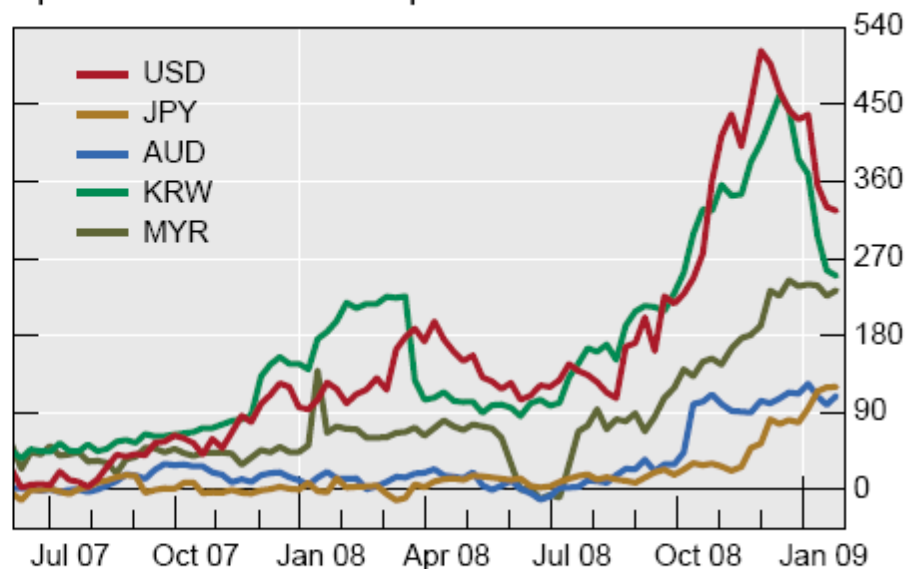
# Impacts on Asian markets (IV)

## Credit market condition tightened

Spreads on US dollar CDS for banks<sup>1</sup>



Spreads on AA-rated corporate bonds<sup>2</sup>



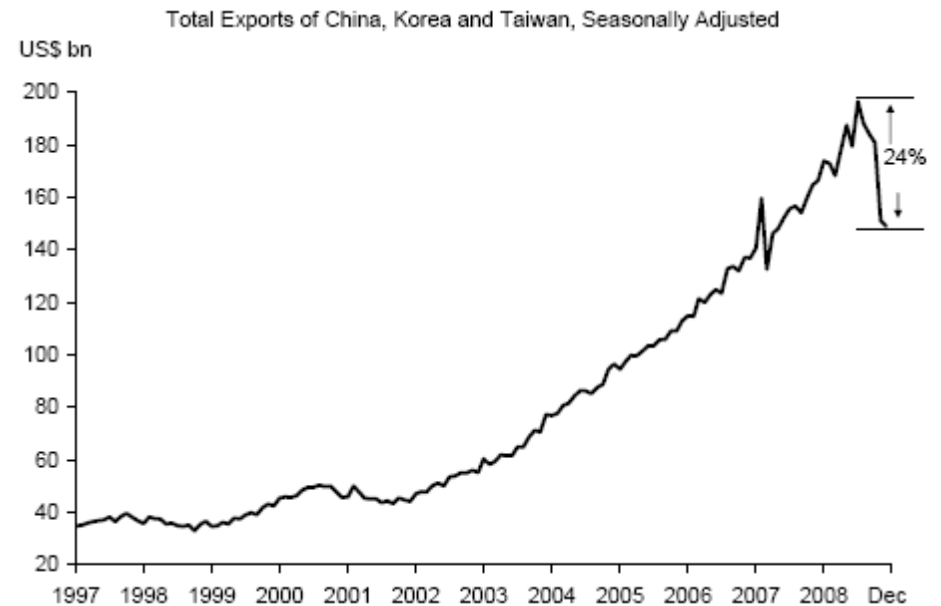
AUD = Australian dollar; JPY = yen; KRW = won; MYR = ringgit; USD = US dollar.

<sup>1</sup> Five-year credit default swap spreads, in basis points. Simple averages across a sample of banks; for the United States, Bank of America, Citigroup, JPMorgan Chase, Wachovia and Wells Fargo; for Japan, Mizuho Corporate Bank, Norinchukin Bank, Resona Bank and Sumitomo Mitsui Banking Corporation; for Australia, ANZ, Commonwealth Bank of Australia, National Australia Bank and Westpac; for Singapore, DBS Bank, Oversea-Chinese Banking Corporation and United Overseas Bank. <sup>2</sup> Spreads over interest rate swaps, based on Bloomberg fair value, five-year corporate bond yields; for USD, AA-rated financial bonds; for AUD and JPY, AA-rated eurobonds; for KRW, industrial corporations' bonds rated AA by Korean rating agencies; for MYR, private debt securities rated AA by Malaysian rating agencies.



# Impacts on growth in Asia

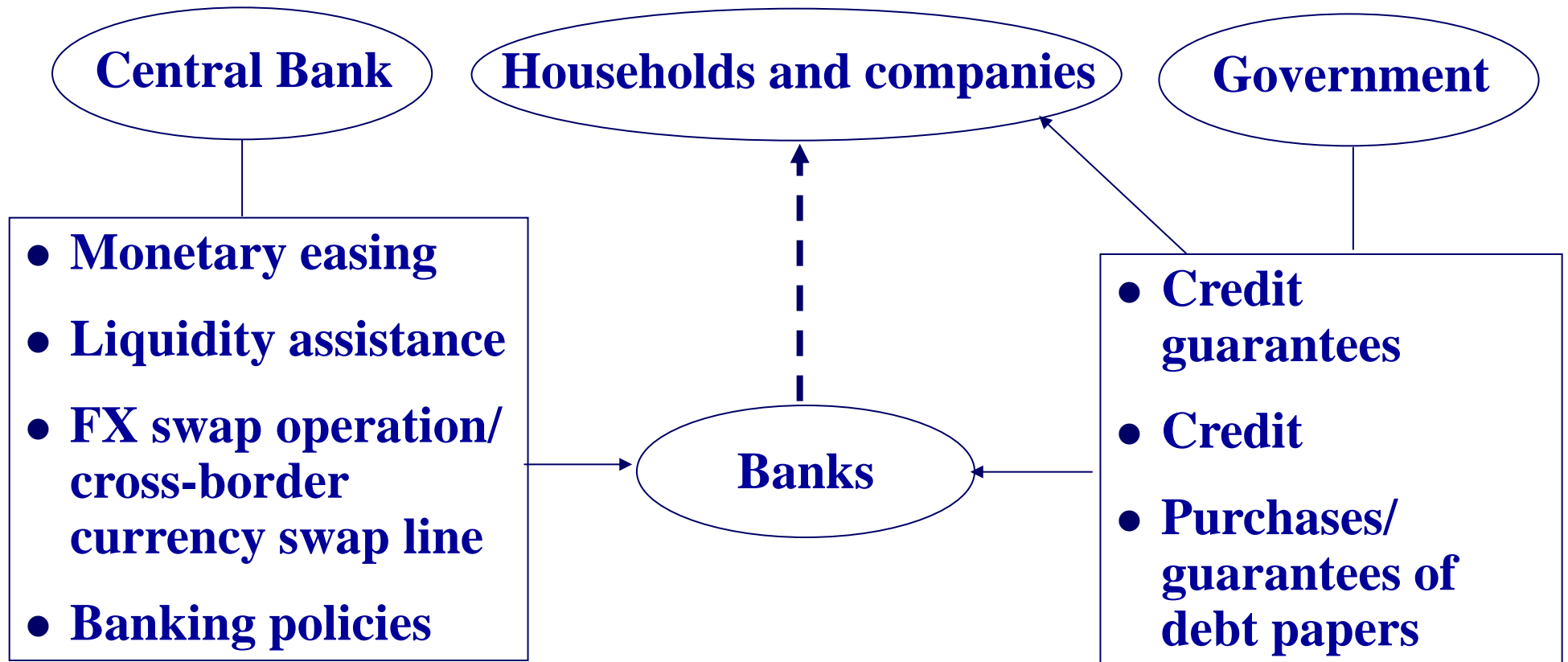
## *Exports fell on a marked slowdown in external demand*



Source : GS research report



# Policy responses worldwide







# Hong Kong's regulatory responses (I)

## *Lessons learned and room for enhancement in the regulation of banks*

- **Mitigating procyclicality: bank capital and lending policies**
- **Corporate governance issues**
- **Risk management issues**
- **Financial products valuation and risk disclosure**



# Hong Kong's regulatory responses (II)

## *Mitigating pro-cyclicality: bank capital and lending policies*

- **Adopt a flexible approach towards the relevant premium over the statutory capital adequacy ratio**
- **Lower the minimum loan-to-valuation threshold of mortgage insurance programme**



# Hong Kong's regulatory responses (III)

## *Corporate governance issues*

- **Senior management oversight**
  - balance between risk appetite and risk controls
- **Remuneration policies**
  - guard against incentivising excessive risk taking
- **Firm-wide risk management approach**
  - Identify and analyse risk from a firm-wide perspective



# Hong Kong's regulatory responses (IV)

## *Risk management issues*

- **Liquidity risk management and supervision**
- **Risk management on complex structured credit products**
- **Stress testing**
- **Counterparty credit risk management**



# Hong Kong's regulatory responses (V)

## *Valuation and transparency*

- **Risk disclosure**
  - Adopt the leading disclosure practices developed by the Senior Supervisors Group
- **Valuation of complex securities**
  - Ensure adherence to the accounting standards concerning valuation disclosures



# Key challenges ahead

## *Second wave is looming*

- **Continued weak confidence among financial counterparties**
- **Negative interaction between the economy and the financial sector**
- **Risk of financial protectionism**



**End**