OECD-ADBI 10th 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

Source: Bloomberg
Impacts on Asian markets (II)

Equity prices plunged and volatilities rose markedly

Source: Bloomberg
Impacts on Asian markets (III)

Money markets came under stress

Spreads between interbank and Treasury bill rates

Swap-implied US dollar rates over Libor

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

1 Five-day moving average, in basis points; updated to 20 January 2009. Based on three-month interest rates. 2 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.

Source: BIS
Impacts on Asian markets (IV)

Credit market condition tightened

Spreads on US dollar CDS for banks

- United States
- Japan
- Australia
- Singapore

Spreads on AA-rated corporate bonds

- USD
- JPY
- AUD
- KRW
- MYR

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

1 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. 2 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.

Source: BIS
Impacts on growth in Asia

Exports fell on a marked slowdown in external demand

Source: GS research report
Policy responses worldwide

- Monetary easing
- Liquidity assistance
- FX swap operation/cross-border currency swap line
- Banking policies

Central Bank

Households and companies

Banks

Government

- Credit guarantees
- Credit
- Purchases/guarantees of debt papers
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
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
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
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