

THIRD ROUND TABLE ON CAPITAL MARKET REFORM IN ASIA

Organisers: ADB Institute, OECD

Co-operation: IOSCO, WB, IMF and ADB

DRAFT AGENDA

Tokyo, 10th to 11th April 2001

10th April (Tuesday)

08:45 Registration

09:00 Welcome remarks by **Mr. Seiichi Kondo**, Deputy Secretary-General, OECD
Welcome remarks by **Dr. Masaru Yoshitomi**, Dean, Asian Development Bank Institute

Introductory remarks by the Moderator of the Round Table, **Mr. Anthony Neoh**, Chief Advisor to the China Securities Regulatory Commission and Professor of the Peking University

09:20 **Part I: Progress in Capital Market Reforms in Asia**

Session 1: Country Reports

Following the Asian financial crisis of 1997, countries in the region have been accelerating efforts to strengthen their capital markets in order to increase the efficiency of financial intermediation and lessen the risk of future crises. They must also deal with the challenges posed by the progress of globalisation and technological advances. In this session, representatives of countries in the region will make presentations on the key events in the capital market in their jurisdictions since the last Round Table in 2000

Some of the major trends in recent events are; (1) strengthening the infrastructure of the capital market (new laws or regulations, institutional reforms), (2) policy measures related to Internet (trading on the Internet, Measures to combat fraud on web sites, IPO through Internet, investor education; dissemination of information via the Internet) (3) creation of “second boards” and (4) policies toward foreign participation. Speakers are expected to touch on their experiences in at least one of these items

China: Ms. Haiying Zhao, Member of Strategy and Development Committee, China Securities Regulatory Commission, China (10 minutes)

Hong Kong, China: Ms Alexa Lam, Executive Director, Securities and Futures Commission, Hong Kong (10minutes)

India: Prof. J. R. Varma, Member, Securities and Exchange Board of India (10 minutes)

Indonesia: Mr. Herwidayatmo, Chairman, Indonesia Capital Market Supervisory Agency (BAPEPAM) (10 minutes)

Korea: Mr. Yoon, Yeo Kwon, Director, International Co-operation Division, Financial Supervisory Commission, Korea (10 minutes)

Malaysia: Mr. Ranjit Ajit Singh, CEO, Securities Commission, Malaysia (10 minutes)

Q & A (20 minutes)

10:40 Coffee break (20 minutes)

11:00 **The Philippines: Ms. Lilia Bautista**, Chairman, Securities and Exchange Commission (10 minutes)

Singapore: Ms. Yeo Lian Sim, Assistant Managing Director, Capital Markets, Monetary Authority of Singapore (10 minutes)

Thailand: Mr. Prasarn Trairatvorakul, Secretary General, Securities and Exchange Commission (10 minutes)

Chinese Taipei: Mr. Tang-Chieh Wu, Vice Chairman, Securities and Futures Commission, Chinese Taipei (10 minutes)

Japan: Mr. Tatsuya Kanai, Director, International Financial Markets, Financial Services Agency (10 minutes)

Q & A (25 minutes)

12:15 **Lunch: Luncheon speech by Mr. Haruhiko Kuroda**, Vice Minister for International Affairs, Ministry of Finance, Japan

14:00

Part I (continued)

Session 2: Viewpoint of International Financial Institutions

The role of capital markets in Asia: Mr. Garry Schinasi, Chief, Capital Markets & Financial Studies, IMF (15 minutes)

Activities of the World Bank for capital market reform in Asia: Mr. Noritaka Akamatsu, Lead Financial Economist, Financial Sector Development Department, World Bank (15 minutes)

Q & A Session (20 minutes)

- 14:50 **Part II: Analytical Framework for the Development of the Bond Market in Asia**
The ADBI organised the "Asian Policy Forum" by inviting 17 policy-oriented research institutes in Asian economies. In this session an analytical framework that is needed to derive policy recommendations on how to develop corporate bond markets in bank-dominated Asian economies will be presented. The outline of the recommendations will also be introduced and discussed.

Presentation by **Dr. Masaru Yoshitomi**, Dean, ADB Institute

Dr. Sayuri Shirai, Associate Professor, Keio University, Visiting Scholar, ADB Institute (60 minutes)

- 15:50 Coffee break (20 minutes)

- 16:10 **Part II (continued):**

Q & A (30 minutes)

- 16:40 **Part III: Joint IOSCO CPSS Recommendations for Securities Settlement Systems**

The IOSCO Technical Committee and the Committee on Payment and Settlement Systems (CPSS) set up a Task Force to prepare "Recommendations for Securities Settlement Systems". The draft of the recommendations was released in January 2001 for public consultation, which will last for three months (until 9 April 2001). The outline of the draft will be introduced and discussed.

Outline of the recommendation

Mr. Giovanni Sabatini, Head of Market Regulation Office, CONSOB, Italy and Chairman of the WP2 of the Technical Committee of the IOSCO (20 minutes)

The future of national financial markets and trading centres

The OECD's report on the future of national financial markets and trading centres will be briefly introduced as one of the reference points on the issue of securities settlement systems.

Mr. Stephen Lumpkin, Principal Administrator, DAFPE, OECD (10 minutes)

Discussion (40 minutes)

- 17:50 End of the first day

- 19:00 **Reception**

11th April (Wednesday)

Moderator of the second day: Dr. William Witherell, Director, Directorate for Financial, Fiscal and Enterprise Affairs, OECD

09:00 **Part IV: Overview of Institutional Investors in Asia**

How to promote institutional investors in Asia and the necessary regulatory framework for their sound development

Session 1: Introduction

Institutional investors [insurance companies, collective investment schemes (CIS) and pension funds] have been gaining in importance in both OECD and non-OECD countries. The presence of institutional investors is one of the strongest stimuli favouring the development of capital markets. The experience and current situation of OECD countries as well as of Asian countries will be introduced and discussed.

--- Highlights of the experience of OECD countries

- (1) Background: Common factors favoring the development of Institutional Investors
- (2) Rapid, but uneven institutionalization of savings in the 1980s and 1990s
- (3) The role of professional fund managers
- (4) Effects of the entry of foreign institutional investors
- (5) Regulation of investments by institutional investors

(6) Issues regarding the role of institutional investors, such as “market destabilization”, accountability and their role in governance

--- Current situation in Asian countries

Overview: many countries have high savings rates, but savings are often held in traditional forms such as deposits.

Equity markets tend to be dominated by insiders and retail investors rather than by professional investors.

What can be done to encourage institutional savings?

Will aging populations stimulate the growth of institutional savings?

Has over-regulation stifled the growth of institutional savings?

Do institutions and fund managers in Asia have the necessary independence from government and industry to act in the interests of investors?

What is the role of foreign institutional investors in domestic markets?

Current situation in OECD countries

Mr. Eric Engen, Senior Economist, Board of Governors, Federal Reserve System, US (25 minutes)

Current situation in Asian countries

Ms. Shamshad Akhtar, Manager, IEFI, ADB (25 minutes)

Q & A session (20 minutes)

10:10 Coffee break (20 minutes)

10:30 **Part IV Session 2: Development of Collective Investment Schemes (CIS) and Pension Funds**

Collective Investment Schemes (CIS) are another important form of institutional savings. Long-term trends in the CIS sector as well as its prospects in OECD countries will be discussed. The main points of the recent growth and the prospect of the CIS industry in the OECD countries are given below. Though the CIS industry in most Asian countries is rather underdeveloped, the potential for growth is quite high.

--- Main points of the recent growth and the prospect of the CIS industry in OECD countries

(1) Spectacular growth of the CIS sector in most OECD countries and its background
--- Good performance in bond and equity market in OECD countries in the 1980s and 1990s.

--- Strengthening of legal and regulatory framework

--- More emphasis by financial services industry on investment management business

(2) CIS are very well adapted to retirement plans, particularly defined contribution plans.

(3) Prospects for the CIS Industry

--- Good prospects in principle due to ageing populations and reliance on capital markets

--- CIS is expected to play major role in providing retirement income.

--- Competition among distribution channels

--- The increase of the availability of investor information

--- Internationalisation

--- Current situation of CIS in Asia

(1) Though rapidly growing, the share in the financial market is still low

(2) Possible reasons for the underdevelopment of CIS include the lack of innovation in financial markets --- the lack of competition in financial market --- the exclusion of CIS from pension funds business and the lack of funded pensions

Lack of tradition of independence among fund managers.

(3) Other barriers

(4) Efforts to develop CIS by removing these obstacles are underway.

The development of a strong pension system is another important issue in this area. The experience of pension reforms in some Asian economies and its relevance to capital market development will be introduced and discussed.

--- Current situation of pension systems in Asia

(1) A great deal of challenges (Dominance of PAYG system, etc.)

(2) New Asian pension systems are based on a defined contribution system --- need to ensure the financial security of pension benefits. [Defined contribution plans usually leave this to the beneficiary. Defined benefit plans usually are regulated to assure the adequacy of benefits.]

Some countries (Malaysia and Singapore) have public “provident fund” arrangements. Some countries such as Korea have cash payment on retirement.

Current situation of CIS in the OECD countries

Mr. John Thompson, Counsellor, DAFPE, OECD (25 minutes)

Current situation of CIS in Asia

Mr. Yuta Seki, Financial Industry Analyst, Capital Market Research Unit, Nomura Research Institute (25 minutes)

Development of pension systems and its relevance in capital market development in Asia

Mr. Hugh Davies, Executive Director, Prudential Corporation Asia (25 minutes)

Q & A session (20 minutes)

12:05 **Lunch: Luncheon speech by Prof. Eisuke Sakakibara**, Keio University, Former Vice Minister for International Affairs, Ministry of Finance, Japan

14:00

Part IV Session 3: Legal and Supervisory Frameworks for CIS

For the sound development of CIS, an appropriate regulatory framework is indispensable. While there is growing agreement about standards for adequate supervision and regulation of CIS, legal and governance structures differ significantly. The OECD issued its standards in 1971. Working Party 5 of IOSCO has developed a large body of standards during the 1990s. Among these standards, there are common understandings on the importance of investor protection and the necessity of independent custodian, appropriate disclosure etc. IOSCO is continuing work on these issues and is developing further elaborated principles.

There is no consensus among OECD countries on the best institutional arrangements to ensure that standards are observed. Within each legal framework, the CIS operator is responsible for designing systems to monitor compliance with laws and regulations. In this regard, there is a sharp division of opinion concerning the merits of alternative systems of governance in the CIS sector in OECD countries, between the United States system and the European system.

Another important challenge for regulators is how to deal with the different types of industries in the CIS business. Now that different types of financial industries, banks, securities firms, insurance companies etc. have entered CIS business, key issue for regulators is how to maintain integrity in regulation: to avoid duplication and gaps and how to secure consistency in regulation. The creation of an integrated single regulator may be a solution to this challenge. One famous example is the UK. Japan, Korea and Singapore have adopted more or less similar systems. On the other hand, the US is coping with this problem under a fragmented regulatory system.

Trends in international standards on CIS regulation, institutional structures to assure compliance with standards, as well as legal forms of CIS and governance structure will be introduced as suggestions for a regulatory framework in Asian countries. The experience in Asian countries and concrete measures to promote the growth of institutional sectors will be discussed.

Viewpoint of IOSCO and the Experience in the UK

Mr. Robert Aitken, Financial Services Authority, UK (20 minutes)

Experience of Korea

Korea has had a major crisis in its CIS industry in the past two years. They can provide substantial information on the pitfalls of inadequate regulation and attempts to introduce reforms.

Mr. Yoon, Yeo Kwon, Director, International Co-operation Division, Financial Supervisory Commission, Korea (20 minutes)

Experience in Australia

Mr. Ian Johnston, National Director for Financial Services Regulation, Australian Securities & Investments Commission, Australia (20 minutes)

Experience in Singapore

Ms. Yeo Lian Sim, Assistant Managing Director, Capital Markets, Monetary Authority of Singapore (20 minutes)

15:20 Coffee break (20 minutes)

15:40 **Consolidated regulation of CIS**

Mr. Stephen Lumpkin, Principal Administrator, DAFPE, OECD (20 minutes)

16:00 Q & A session (20 minutes)

16:20 **Session 4: Tour de table**

Tour de table (60 minutes)

Concluding Session

The Round Table concludes at 5:30 p.m.