

The *Asia Bond Monitor* (ABM) reviews recent developments in East Asian local currency bond markets. In this issue, the theme chapter examines securitization in East Asia.

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The *Asia Bond Monitor* April 2007 was prepared by the ADB's Office of Regional Economic Integration and does not necessarily reflect the views of ADB's Board of Governors or the countries they represent.

## Emerging East Asian Local Currency Bond Markets: A Regional Update

### Highlights

#### Bond Market Development in 2006, Outlook, and Policy Options

- Emerging East Asian bond markets expanded rapidly in the second half of 2006, lifting full-year growth to 32.4%, well above the rates for both 2004 and 2005.
- Local currency government bond market growth remained strong in 2006, despite declining central government deficit financing in most countries.
- Corporate bonds outstanding surged 36% in 2006, largely the result of growth in the PRC and the trend of encouraging quasi-government corporations to issue under corporate market regulations.
- Despite the rapid growth in total bonds outstanding in 2006, turnover ratios showed no clear regional trend in the government sector, while corporate ratios were generally down.
- After yield curves steepened during the first half of 2006—the result of monetary tightening and inflationary fears—continued sound economic growth and stabilized short-term rates brought long-term rates lower, flattening yield curves.
- Local currency bond index returns were exceptionally high in 2006 across most emerging East Asian markets, reflecting flattening yield curves and currency appreciation in many markets.
- The region's financial sectors remain strong into 2007, but there are signs of uncertainty such as softer-than-expected economic growth, inflationary pressures, persistent global payments imbalances, and financial market volatility.
- Governments in emerging East Asia have shown increasing confidence in the pace of reform, expanding their focus from market deepening to broadening supply and attracting increased investor demand.

#### Securitization—Concepts and Development in East Asia

- Asia's use of securitization is far more modest than in Europe and North America despite its growth since the 1997/98 financial crisis. Yet structured finance holds considerable potential for regional development.
- Securitization can be applied to all defined credit risks—including delinquent assets or claims—but for costs is typically associated with risks involving similar, unconnected, and predictable cash flows.

*Continued overleaf*

## Acronyms and Abbreviations

ABM	Asia Bond Monitor
ABS	asset-backed security
ADB	Asian Development Bank
ALB	JSC Alliance Bank
AMC	asset management company
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BIBOR	Bangkok Interbank Offered Rate
BIS	Bank for International Settlements
Cagamas	Malaysian National Mortgage Corporation
CDO	collateralized debt obligation
CDS	credit default swap
CHIBOR	China Interbank Offered Rate
CPF	<b>Central Provident Fund</b>
CSRC	China Securities Regulatory Commission
DPR	diversified payment right
EU	European Union
EVN	Electricite' de Vietnam
GDP	gross domestic product
HIBOR	Hong Kong Interbank Offered Rate
HKMA	Hong Kong Monetary Authority
HKMC	Hong Kong Mortgage Corporation
IMF	International Monetary Fund
JIBOR	Jakarta Interbank Offered Rate
JSX	Jakarta Stock Exchange
KAMCO	Korea Asset Management Corporation
KLIBOR	Kuala Lumpur Interbank Offered Rate
KORIBOR	Korea Interbank Offered Rate
KRX	Korea Stock Exchange
LCY	local currency
MAS	Monetary Authority of Singapore
NPL	nonperforming loan
OECD	Organisation for Economic Co-operation and Development
OREI	Office of Regional Economic Integration
PHIBOR	Philippine Interbank Offered Rate
PRC	People's Republic of China
REIT	real estate investment trust
RMBS	residential mortgage-backed security
SBI	<b>Sertifikat Bank Indonesia</b>
SEC	<b>Securities and Exchange Commission</b>
SGS	Singapore Government Security
SGX	Singapore Exchange
SHIBOR	Shanghai Interbank Offered Rate
SIBOR	Singapore Interbank Offered Rate
SME	small and medium enterprise
SPV	special purpose vehicle
SSX	Surabaya Stock Exchange
SWIFT	<b>Society for Worldwide Interbank Financial Telecommunication</b>
T-bill	Treasury bill
TIBOR	Tokyo Interbank Offered Rate
UK	United Kingdom
US	United States
YTD	year-to-date

bp = basis point

Note: To conform with market practice, the *Asia Bond Monitor* uses two-letter official ISO Country Codes and three-letter currency codes rather than ADB's standard symbols.

- Securitization in Asia evolved from simple profit-seeking prior to the crisis to debt recycling afterward. Future Asian securitization may have broader applications by facilitating the release of individual capital and assisting in public policy.
- National and regional policies should complement commercial trends by supporting institutional improvements; promoting common standards and applying structured finance techniques.
- In addition to institutional improvement, the promotion of common standards can both support securitization and provide incentives for improved intermediary practice, especially in data collection, documentation, and credit risk appraisal.
- Specific new initiatives to encourage the use of securitization include (i) supporting refunding through microfinance, (ii) providing credit support and refunding for long-term student loans and human resource development, and (iii) securitization of infrastructural risk.



## **About the Asian Development Bank**

ADB, based in Manila, is dedicated to reducing poverty in the Asia and Pacific region through pro-poor sustainable economic growth, social development, and good governance. Established in 1966, it is owned by 67 members—48 from the region. In 2006, it approved loans and grants for projects totaling \$8.5 billion, and technical assistance amounting to almost \$242 million.