FIA Conference "Capital Markets in Singapore – A New Era"

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Introduction

1 Thank you for inviting me to address you. The timing of the Conference is propitious, as Asia seems to have put the financial crisis behind her. Currencies, which were plunging 12-18 months ago, have not only stabilised but also begun to rise with such conviction as to elicit dampening intervention by, dare I say it, all Central Banks in the region. Interest rates have come down progressively and the stock markets are probably in danger of over-anticipating future recovery. Whether 'V' or 'W', steep or gentle, the outlook is for growth, redevelopment and restructuring. Whatever the scenario, financing needs will grow which in turn indicates potential for the development of a vibrant debt market. Many of us remember the arguments made in favour of developing long-term bond markets, pre-crisis. The same arguments now hold new meaning. The mood and timing are ripe for both issuers and investors. We can see, on the horizon, the approach of the Asian debt markets.

2 All around us, securities regulators and central banks in Asia are taking initiatives to develop their bond markets. In Singapore, we have been working hard to establish an active bond market. These individual efforts should yield a good harvest. I think it is the collective growth of the Asian market that is the prize. A single country's bond market, by itself, is an attractive investment proposition for a time but not forever. As positions become saturated or economic cycles turn, investors exit and look for better pickings, elsewhere. An experience or two of everybody rushing for the door at the same time and even the most ardent issuers and intermediaries will become disillusioned. Our objective must be to attract funds into Asian emerging markets, which will be managed long-term within this region. Individual countries, markets or sectors may fall in and out of favour but the funds remain committed to the region. Differentials between individual issues would tend to narrow. Economists would applaud a more efficient distribution of credit and a more transparent price discovery process. Even regulatory norms would be satisfied by the discipline imposed on individual issuers.

Opportunities in Asia

3 The experience of the Euro-zone in the years leading up to EMU provides clues to the opportunities in Asia. Bond investors moved into European countries years ahead of 1999 and well before the Maastricht Agreement. Not only did funds pour into the higher yielding markets to take

advantage of the convergence of yield spreads; even the low-yielding German Bunds saw increased demand. Taken together, the European markets offered a spectrum of risk characteristics that could cater to the whole gamut of investors from risk averse to derivative and highly leveraged investors. The whole pie grew. It was not a zero-sum game between individual markets.

4 Even after conversion to the single currency, European bond markets are by no means homogeneous. Individual countries retain some unique practices though a degree of standardization has taken place. Efforts to harmonize market conventions and re-denominate debt will foster a bigger, deeper and still more liquid market.

5 In Asia, the presence of several developing bond markets from Korea to Indonesia provides the potential to mobilise capital inflows. As in Europe, there is room for high-yield bonds, but also for low-yield higher credit paper. Although a common currency would hasten convergence, there is no prospective common currency, nor am I advocating one. Global investors, who enjoyed handsome profits from the market growth and convergence in Europe, will look for similar opportunities elsewhere. Those who witnessed the recovery of Brady bonds as Latin American yields improved and converged on higher credits can visualize the opportunities that Asia offers. Individual Asian bond markets may be attractive, but collectively they offer a wide range of sector exposure and a variety of credits to attract and retain portfolio funds.

6 Taking another lesson from Europe, harmonization of bond conventions will work to our collective advantage. As we shift from traditional bank financing to new bond markets, we must resist the tendency to perpetuate existing individual conventions and move towards the preferred alternative, which is to align our bond conventions and market practices with the best that prevail in the international bond markets. This will go a long way towards allowing Asian markets to be accessed easily by international investors and borrowers. By adopting international best practices, we will create confidence so that long-term investors will come to Asia and stay here. Our prospects of doing this are greatly enhanced by continuing improvements in corporate governance, standards of information disclosure and commercial law. Taken together with progress towards sound supervisory regimes for financial markets, we have strong underpinnings for a deep and liquid market in bonds, not just in equities.

7 The task at hand is not to build infrastructure. Much of that is already completed, or at least well in hand in most Asian countries. We must now use the improved frameworks and bring issuers and investors to the market. What part does Singapore play?

The role for Singapore

8 Singapore is well positioned to play a key role in the development of sophisticated capital markets in Asia. We can contribute an intermediation function, by performing the role of an international debt hub in Asia for lead managing, distributing and trading debt issues with an international reach. Singapore's established financial centre can offer the services of a strong network of banks and financial institutions to serve as a conduit for global funds into the rest of Asia.

9 Please let me elaborate on some of the steps we have taken to encourage greater Asian debt market activities.

Infrastructure

10 As part of basic infrastructure, bond participants expect an efficient custody and settlement system. We have recently established a link between the CDP (Central Depository of Singapore) and MEPS (the MAS Electronic Payment System) to enable transactions in Singapore Dollar bonds to be settled on a real-time and gross basis, delivery versus payment. To facilitate access by international investors to the Singapore Dollar bond market, the CDP also has a link to Euroclear and Cedel. This allows Euroclear and Cedel to use their CDP account via depository agents in Singapore, to custodise Singapore Dollar equities and bonds on behalf of international investors. The IFC bond in October 98 was the first Singapore Dollar bond to be custodised with CDP and clearable by Euroclear without Euroclear holding the global bond certificate.

Encouraging Corporate Issuance

11 To make the Singapore market more available to debt issuers, we have changed our guidelines to allow foreign issuers to tap the Singapore Dollar bond market. Our tax regime is now more conducive for debt issuance. Over the last two years, we have introduced a comprehensive package of tax incentives to encourage debt origination, fixed income investment and trading activities. In March this year, we further streamlined the tax package by introducing an Approved Bond Intermediary (ABI) scheme. Debt securities arranged by financial institutions with the ABI status are automatically eligible for tax exemptions covering interest, trading and fee income from arranging, underwriting and distribution activities. MAS will soon announce the names of ABI financial intermediaries.

12 Credit ratings play a key role in successful international placement. Singapore has a AAA sovereign rating by Standard & Poor's and Aa1 by Moody's Issuers. This is a fine benchmark for other Singapore bond issues to determine their credit spread. To date, statutory boards and most local corporates, which are household names, have been able to sell their bonds easily without a

rating. However, as the reach of the market becomes increasingly international, the use of ratings will become increasingly important. The major international credit rating agencies have been in Singapore since 1996. Issuers can and should actively tap onto such services.

Enlarging the Investor Base

13 To enlarge the investor base, we have been mobilising foreign and domestic funds to invest in Singapore and the rest of Asia. Last year, we announced changes to the CPF Investment Scheme and enlarged the pool of domestic funds for professional management. To offer investors more choice, the selection of CPF-approved fund managers was widened. New investment guidelines for CPF unit trusts allow fund managers more flexibility to invest in a wider range of assets with less stringent liquidity requirements. For the unit trust trading, MAS has issued clear guidelines on the investment of unit trust funds to facilitate the growth of professionally managed funds.

14 Retail investors have had improved access to bonds. Last year, CPF included statutory board bonds as allowable investment instruments under the CPF Investment Scheme. Local ATM systems were also modified to accept applications to purchase statutory board bonds. These additional channels make fixed income investments more accessible to the general public.

Working with the Industry

15 Over the last year, the bond market has benefited from considerable public-private sector interaction. MAS has received comments and suggestion from industry participants. In September 1998, fourteen capital market professionals formed an ad-hoc Capital Markets Working Group. Their recommendations include growing the Singapore Government Securities (SGS) market, ways to encourage greater issuance, arranging and trading, as well as suggestions for broadening the investor base. MAS is reviewing these recommendations.

16 Moving forward, there is room for establishing a permanent industry association, much like what the Investment Management Association of Singapore (IMAS) has done for the asset management industry. A properly institutionalised association would be better able to represent the common interests of the industry players and move the growth of the Singapore debt markets to greater heights.

The Future

17 I would not claim that there are boundless opportunities or easy pickings in Asia's emerging bond market. Even with efficient infrastructure, a sound regulatory framework and the presence of intermediaries with local, regional and global reach, it is not possible to sit back and let it all happen. Individuals must take up the challenge. In fact, investors must be weaned away from stock punting, as will issuers from accustomed by loans equity fund raising. Both will have to practice what they have learned of the advantages of diversification. We must attract an enlarged pool of long-term investors into our markets.

18 You will be hearing from various financial intermediaries and issuers over the course of the day about the development of the Singapore bond market and the opportunities available. I urge you to stretch your imagination and let your ideas take flight. I hope that by the end of this conference, you will have formed strategies that you can start implementing straightaway.

Thank you.