



EXCHANGE-BASED BOND MARKETS – AN OVERLOOKED SOLUTION?

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Asian Bond Market Forum 14 November 2003
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Agenda

1. The Exchange value proposition
2. Exchange listing of bonds
3. Exchange trading of bonds
4. Organised OTC bond markets
5. Convergence?

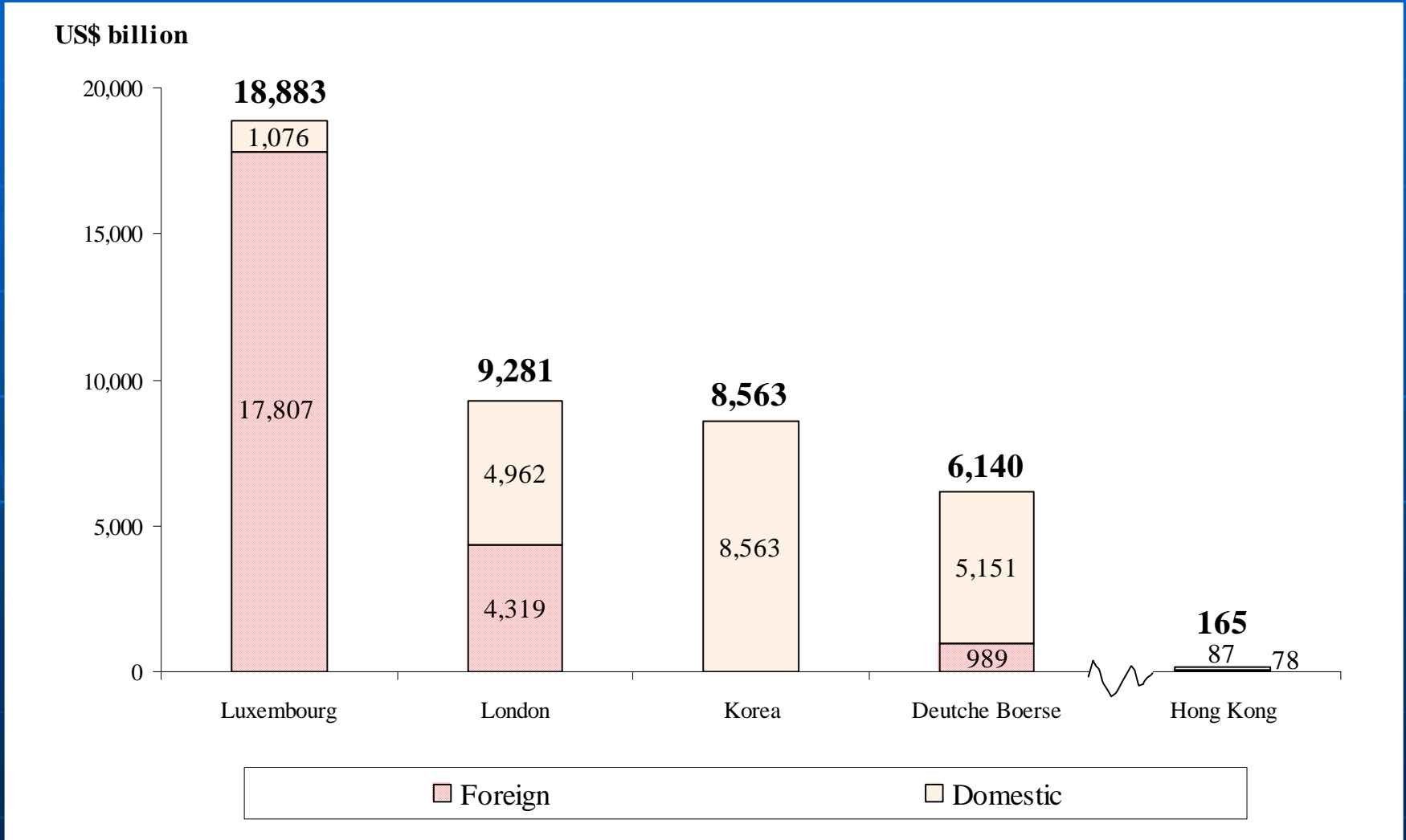


1. The Exchange value proposition

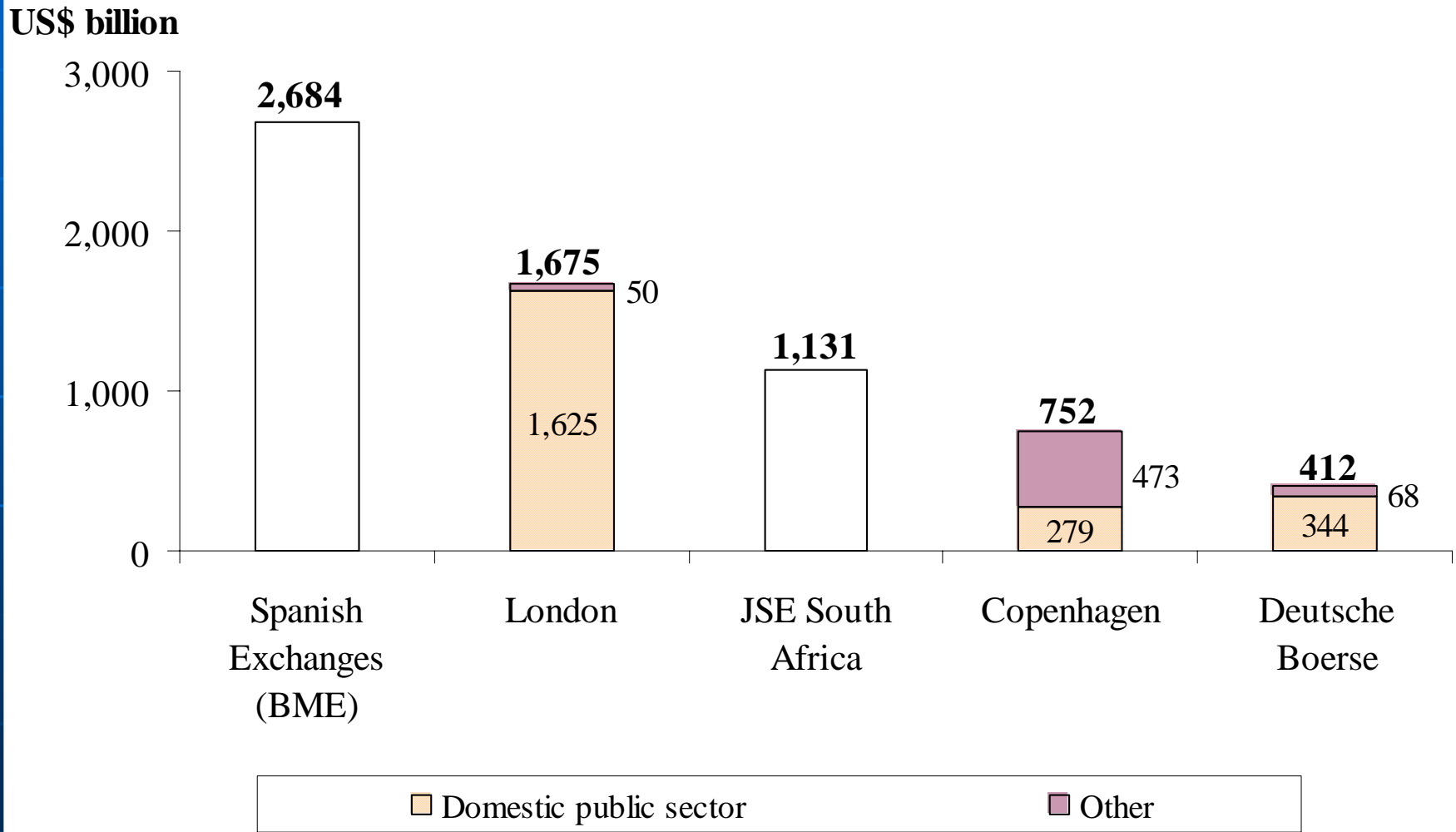
- ❖ To issuer
 - quality stamp
 - improved access to investors
- ❖ To investors and broker-dealers
 - price formation
 - centralised information dissemination
 - pooling of liquidity
 - standardised trading /settlement
 - central counterparty
 - custody
- ❖ Asian exchanges' order-driven mechanisms don't suit institutional bond investors
- ❖ But other elements of value proposition may be attractive



2. Exchange listing of bonds, December 2002



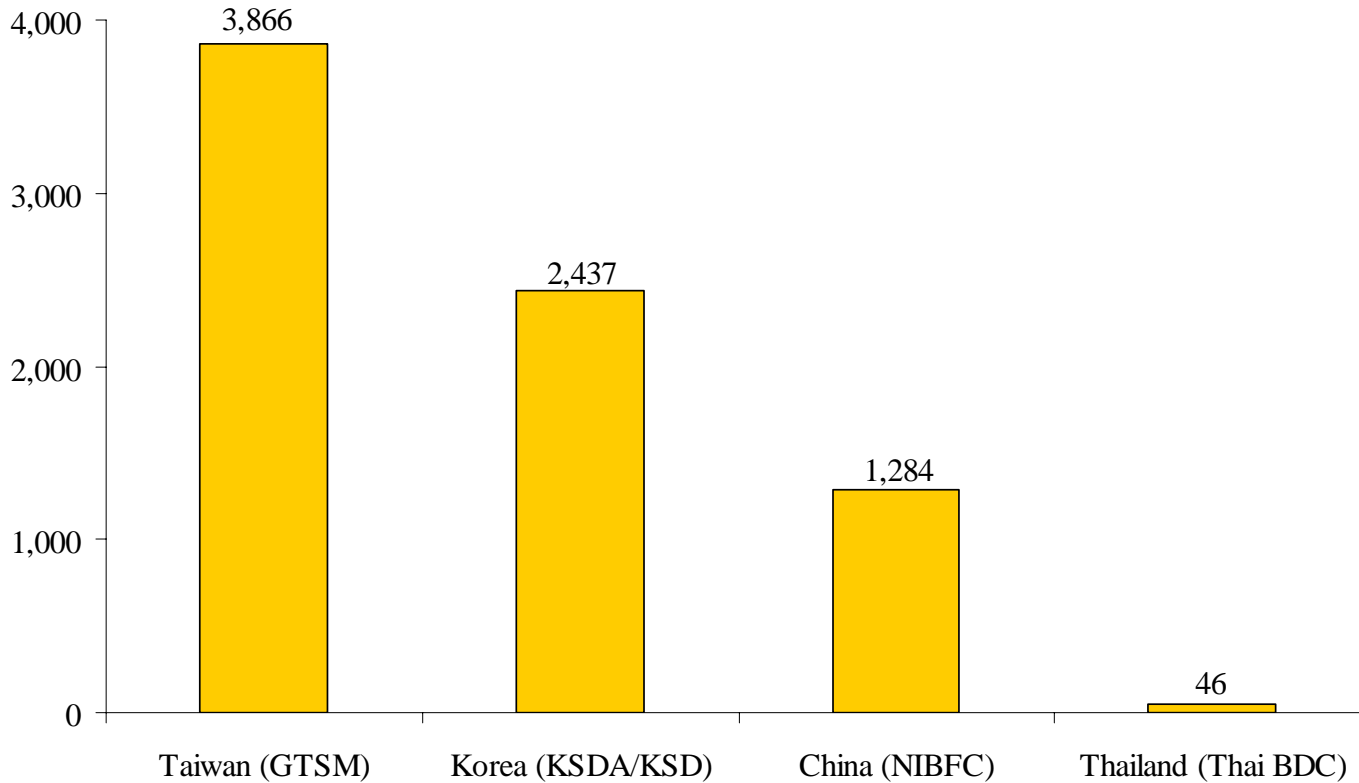
3. Exchange trading of bonds, 2002





4. Trading on organised OTC bond markets, 2002

US\$ billion



GTSM = Gre Tai Securities Market
KSDA = Korea Securities Dealers Association
KSD = Korea Securities Depository

NIBFC = National Interbank Funding Centre
Thai BDC = Thai Bond Dealing Centre



Example: Gre Tai Securities Market (Taiwan)

- ❖ Operated by GTSM – an exchange
- ❖ Provides trading mechanism with
 - Real time quotations
 - Trade confirmation
 - Trade execution (benchmark Govt bonds)
 - Central clearing
 - Risk control
 - Bond borrowing/lending (Bond Financing Trading System)
 - Govt Bond Pre-Issuance Trading System



5. Convergence?

- ❖ Hong Kong - informal OTC market
- ❖ Large developing economies (Taiwan, China, Korea) - organised OTC bond market
- ❖ Developed economies (US, UK)
 - Exchange central trading (if quote-driven), eg. LSE
 - Informal OTC market or bond portals (US)
- ❖ Is the future with organised central marketplaces for bonds?