

Roles of Public AMCs in Asia

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Banks are important especially in Developing Asia

- Banks account for about half of Asia's credit
- Some economies in the region rely on banks for almost all their credit needs
- Banks play a big role in equities and debt markets (supply and demand side)
- Banks have extensive linkages across sectors and socio-economic strata: Large corporations, SMEs, Cooperatives, Households and Individuals

Banks, Financial Markets and Public AMCs

- Past Banking /Financial Crises: Credit channels froze, economic confidence ebbed fast, and industrial activity slowed down considerably. Poverty incidence and unemployment rates picked up.
- Public AMCs were used as an exit strategy tool in a number of crisis episodes previously (e.g. Savings and Loans Crisis in the US, Swedish banking crisis, Central Asia banking crisis and Asian Financial Crisis). They are sometimes created as a special purpose vehicle.

General Roles of AMCs

- Address market failures in times of crisis: Market failure in the traditional banking sense and market failure in NPL
- Mitigate impact of financial crisis and provide a form of safety net
- Develop the NPLs market

AMCs: Structure and Ownership

- Decentralized Private AMC (Private Sector-Led)
- Decentralized Public AMC
- Centralized Public AMC
- Hybrid: Public-Private AMC

AMCs: Types of Mandate

- Rapid Asset Disposition
- Corporate Restructuring
- Rapid Asset Disposition and Corporate Restructuring

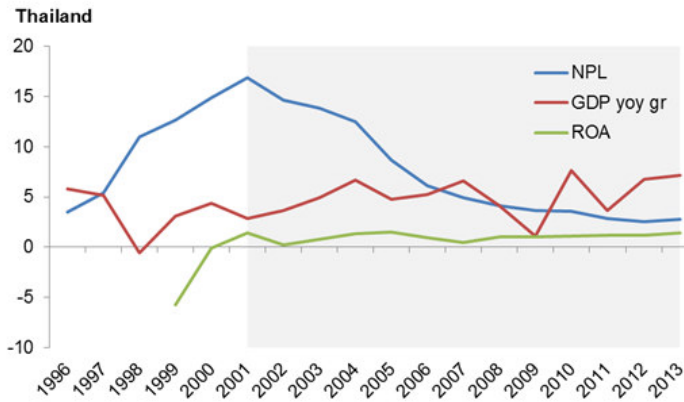
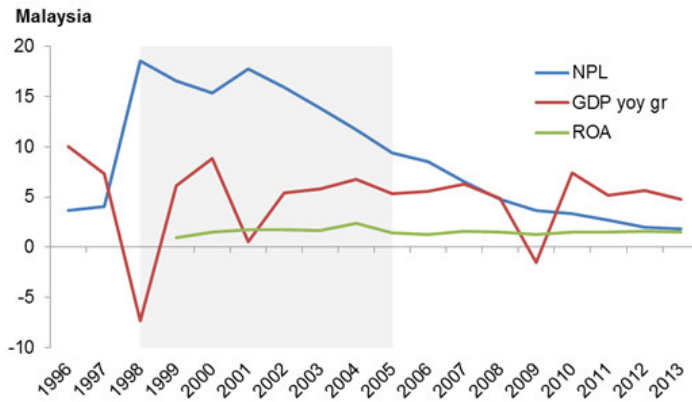
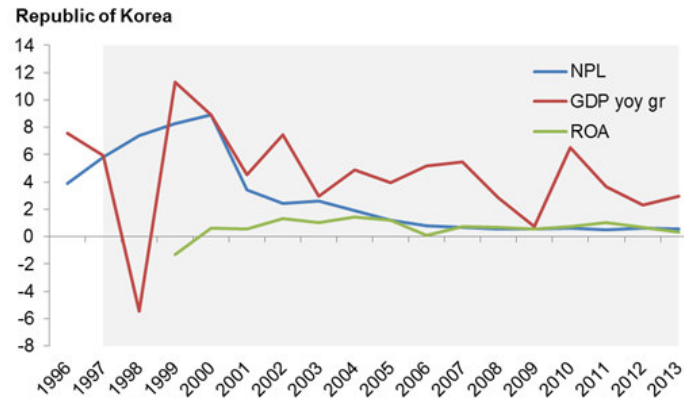
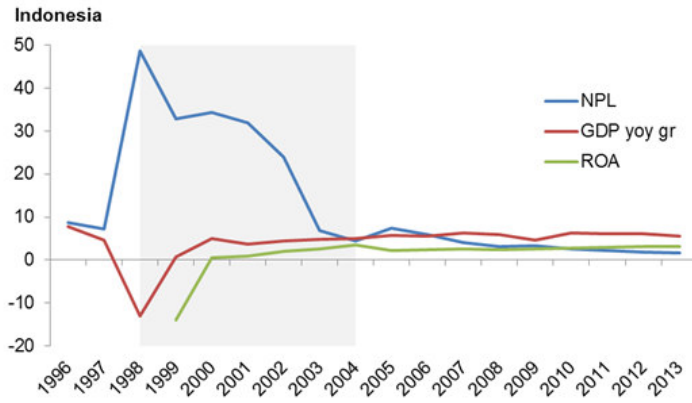
Public AMCs in Asia

	Name of AMC	Year set up	Legal basis	Official mandate	Sunset date
China	Great Wall Asset Management (Great Wall)	1999	State Council executive order in 2000	Restructuring/rapid asset disposition	
	Orient Asset Management (Orient)	1999	State Council executive order in 2000	Restructuring/rapid asset disposition	
	Cinda Asset Management (Cinda)	1999	State Council executive order in 2000	Restructuring/rapid asset disposition	
	Huarong Asset Management (Huarong)	1999	State Council executive order in 2000	Restructuring/rapid asset disposition	
Indonesia	Indonesia Bank Restructuring Agency (IBRA)	1998	Presidential Decree in 1998 and revision of Banking Law	Restructuring	Feb 2004
Japan	Resolution and Collection Corporation (RCC)	1999	A merger of HLAC and the RCC, following the revision of two laws	Rapid asset disposition/collection	NA
Korea	Korea Asset Management Corporation (KAMCO)	1962	Established by law in 1962, role expanded in 1997	Restructuring/rapid disposition	NA
Malaysia	Danaharta	1998	Incorporated under the Company Act of 1965	Restructuring/rapid disposition	2005
Taiwan, China	Financial Restructuring Fund (FRF)	2001	The Statute for the Establishment and Management of the FRF in 2001	Rapid asset disposition	NA
Thailand	Thai Asset Management Company (TAMC)	2001	Emergency Decree in 2001 later ratified by Parliament	Restructuring	June 2013

Source: Fung, et. al. (2004)

Public AMCs: 1997/98 AFC

Public AMCs, NPL ratio, GDP growth and Banks' Return on Asset



Note: Shaded area refers to the years when public AMCs were operating.

Source: CEIC, *Global Financial Development Database*, World Bank; *Financial Soundness Indicators Database*, IMF; ADB (1999); Kataoka, H (2000); and national central banks

NPL ratios of Asia and Europe: Then and Now

NPL ratios of Selected Asian and European Economies

Asia	Earliest data	Year	Latest data	Year	Diff
Indonesia	48.60	1998	2.09	2014	(46.51)
Japan	5.40	1997	1.90	2014	(3.50)
Korea, Rep. of	5.80	1997	0.57	2013	(5.23)
Malaysia	4.10	1997	1.78	2014	(2.32)
Philippines	4.70	1997	2.43	2014	(2.27)
Thailand	42.90	1998	2.31	2013	(40.59)

Europe	Earliest data	Year	Latest data	Year	Diff
Greece	13.60	1998	33.48	2014	19.88
Ireland	1.00	2000	25.32	2013	24.32
Italy	9.20	1997	16.54	2013	7.34
Portugal	4.50	1997	10.83	2014	6.33
Spain	2.90	1997	9.38	2013	6.48
United Kingdom	2.90	1997	3.66	2012	0.76

Source: *World Development Indicators Database*, World Bank

Public AMCs: Issues

- Centralized or Decentralized?
- Sunset or No Sunset?
- Ex-Post or Ex-Ante?
- Profitability
- Moral Hazard

Public AMCs: Financial and Technical Considerations

- Supporting a public AMC requires a good amount of balance sheet space to absorb contingent liabilities
- The public institutions' technical capabilities to appropriately price various types of assets and maximize the returns off asset sales are another key consideration. This concern arises especially if financial market is quite sophisticated and the assets that need to be disposed have diverse varieties.

Public AMCs and RCI in Asia

- This is an opportune time for Asian governments to work closely in developing domestic NPLs market and eventually forming a regional NPLs market.
- This can greatly benefit some of the Asian economies whose NPL ratios remain relatively high today
- This can go hand-in-hand with the regional bonds market including harmonizing standards, definitions, regulations and practices. (Note: NPL definitions vary across countries)