

**Summary of ADB-Huarong Workshop  
on Strengthening the Future of Asia's Financial Markets Focused on NPL Markets  
(10 March 2015, ADB Headquarters)**

**Key Summary of Discussions**

**ADB panelists**

- The role of IPAF in trying to promote regional market for NPL is a natural progression, even a necessity, going forward in light of concerted initiatives to broaden regional financial integration.
- One of the preconditions for ASEAN and Asia to proceed with financial integration, particularly banking integration, is having a regional mechanism for resolution of distressed assets. The presence of regional SIFIs also necessitates a regional resolution mechanism.
- There are also some challenges ahead. One is that the Asian region will continue to operate in a multicurrency environment in the foreseeable future. The other challenge is how to balance the need for local knowledge and the need for international perspective in resolving distressed assets.
- Deposit insurance companies are the natural partners of AMCs in this endeavor.
- Public AMCs can serve as the risk “mitigator” or an intermediary to prevent sudden boom-bust cycles that are prevalent in least developed economies and can hopefully be an agent of change for the domestic financial markets to become better.
- Public AMCs are not just NPL resolution agencies. They can also help develop the financial markets. AMCs touch on lot of things in the public policy domain such as laws and regulations on bankruptcies, how to handle state owned enterprises and service infrastructure in the financial market (like credit bureaus, deposit insurance, collection agencies). Especially, in the least developed countries, AMCs will also be seen as agents of change in these respects.
- Expanding IPAF membership should be considered by inviting countries that do not have public AMCs nor deposit insurance as well. Doing so will help improve the breadth of information exchange regarding NPL resolution mechanisms and best practices. Nonetheless, although AMCs have been successful in many countries, AMCs are seen as a form of government rescue and a measure that does not encourage banks to conduct prudent business practices. During the Asian financial crisis, some countries established AMCs but failed because of poor governance standards. It is therefore important for the key stakeholders to know that things have changed—that there are a lot of good experiences accumulated. So bring them to the forum as an observer or a member.

### **ADB Executive Director Won-Mok Choi**

- New perspective: I want to look at the impaired asset issue as not just a macro and financial vulnerability issue but also a development issue for many Asian economies. IMF publication in 2013 pointed out the function of public AMC as part of the measures to boost economic activity and credit growth.
- On the One ADB Approach: I welcome research collaborations inside ADB in dealing with NPLs. Addressing NPL issue at the regional level would be better preceded by the collaborations within ADB.
- ADB's Role for Developing Asia: ADB should consider steps and measures towards convergence of NPL regulations and strengthen technical capabilities including knowledge sharing activities. We can learn from the European experience. Europe implemented the single resolution mechanism. However, Asia record shows more market-oriented approach and less top-down approach. ADB needs to put more efforts to have the financial markets resolve NPL issues at regional level as well as at the national level with the support of the governments in Asia.

### **KAMCO (Sun Joon Choe)**

- IPAF was initiated in 2013 as a results of requests from public AMCs and central banks to hold NPL-related consultations and trainings. Public AMCs came up with the idea of binding the institutions and have a common avenue to share our experiences.
- IPAF needs to be more institutionalized. In 2013, European Banking Coordination gave rise to a platform (the Vienna initiative) similar to IPAF to deal with NPLs in Eastern and Southeastern Europe. World Bank is working with Columbia AMC or CISA while a Danish initiative, which is a property-oriented public AMC, is under works. IPAF cannot just be handling NPLs, but also need to learn about IT, public property and other areas of business.
- “Modulization” of the topics and themes is important so that in the next years to come, IPAF can provide consultations in a more effective and economic way.
- More resources are needed in IPAF Secretariat as well as from the staff of public AMCs focusing on IPAF.

### **China Huarong**

- ADB can play a bigger role in regionalizing AMCs similar to its role in poverty reduction and in sharing information and experience; help countries with limited capabilities
- We need to establish a regional fund to support the regional AMC instead of relying on deposit insurance mechanisms.
- Additional measures that need to be considered are balance sheet streamlining, attracting foreign investors to AMC and crafting favorable tax policies.

- PRC experience can help countries which have no effective and efficient NPL resolution mechanisms. PRC benefitted a lot from inviting strategic investors before establishing the AMCs. The locals' understanding of the laws and the foreigners' experience overseas are very important.
- According to the experience of PRC, the four major public AMCs following the Asian Financial Crisis is evolving from policy-based to market-based approach in dealing with distressed assets. ADB should continue to provide support to IPAF.
- With nine major banks in PRC now public listed, the public AMCs followed suit. With the Chinese government's guidance, they have expanded operations to cover non-banking financial assistance, have started acquiring local banks, and has gradually evolved into a financial holding company.
- On the debate on exit policy for public AMCs, their accumulated experience, coupled with new problems in the financial sector, merits the continued operation of public AMCs in PRC. Currently, there around six provincial public AMCs in PRC and the number will increase soon. PRC therefore can share several examples in NPL management with the existence of both local and national level public AMCs in the country.
- In 2012, China Huarong embarked on a shareholder reform, with initial public offering scheduled in June 2015. Of the four major public AMCs in PRC, China Huarong and Cinda has both undertaken reforms, with the remaining two (China Great Wall and China Orient) expected to follow soon. In addition, China Huarong has already established a subsidiary in Hongkong, with plans to establish more in other regions. China Huarong is continuously in the hunt for cheap capital outside PRC, and intends to integrate their resources in both PRC and abroad. Finally, China Huarong continues to fulfill its corporate social responsibility through its projects in West China.
- Public AMC will continue to exist due to its important role in both pro and countercyclical periods. Public AMCs are important for countries with fractured legal framework and low economic growth, so that the growth/establishment of more public AMCs would be expected in the near future.
- Public AMCs are no longer just countercyclical mechanisms. Public AMCs can successfully deal with NPLs and gain profits as well. By extending support in managing NPLs, public AMCs have likewise helped address the industrial structures in Asian countries. Public AMCs has evolved and are now providing comprehensive assistance and help economies. With evolving role of public AMCs, ADB is expected to support in preparing public AMCs effectively to take on this new roles, through trainings for instance.
- State-owned enterprises reform can be a possible area for cooperation. He also proposed studying the possibility of state-owned AMCs to participate in asset disposition at local level. In general however, the rapid growth of local debts is not a major issue in China's context.
- Possible areas for cooperation will be: (i) training/capacity development; (ii) evaluation and pricing techniques for NPAs/NPLs; (iii) SOE transformation; and (iv) local debts.

