ASIA SECURITIES ANALYSTS' FEDERATION ELECTRONIC JOURNAL

Issue no. 1

Welcome to the first issue of the ASAF Electronic Journal!

The purpose of this publication is to bring to members of the individual analysts' societies within ASAF quality articles relating to the investment industry in general and to Asia in particular.

We have decided to dedicate out first issue to some of the material which was presented at the ASAF 2000 conference in Taipei in November 2000.

We are always looking out for articles for future newsletters, so if you have any material which you would like published, then please let us know – you can reach the editors at rbunker@bentleyreid.com.hk or deepak.gupta@amphenderson.co.nz.

Also, if you know of anyone with work they would like published, please encourage them to submit it. As you will see in this issue, we give full accreditation and links to the authors' websites, emails etc.

Similarly, if you have any complaints, suggestions, criticisms, or anything that we can do to improve future Journals, then we would like to hear them. Of course, if you have nice things to say about the Journal, we would like to hear them as well.

In selecting the material from the Taipei conference, we have not included those presentations which were done in PowerPoint, as they tend to make the journal very

large, with long download times. What we are intending to do with these is to display them on a website, and we will provide links to them from this Journal.

Future material

Do please try and find articles which would be of interest to members. Preferably, we would like articles which are of general interest to the investment business, or to Asia, rather than country-specific work. Please submit them to the editors at the email addresses given above.

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Yi-Hsiung Hsu, Deputy Governor, The Central Bank of China, Taipei.
Mr Hsu holds a Bachelor of Business Administration degree from the National Taiwan University. He has been with the Central Bank of China since 1963, and has held a variety of senior positions in banking supervision and economic research amongst others.

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By
William P. Albrecht William.Albrecht@uiowa.edu
Dr Albrecht has served on the US CFTC and has studied extensively the development and regulation of derivative exchanges in Asia and Latin America. He is currently Justice Professor of International Business, Professor of Economics and Director of the Institute for International Business at the University of Iowa.

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ByShinichiro Takaya, General Manager, General Manager (Equity Dept) Kankaku Securities Ltd. Mr Takaya hold degrees in Engineering and Electronics, and has held a variety of senior positions in industry and in financial services.

Please note: Any views expressed are not necessarily those of the Federation, nor of the Board, nor of the Editors.

New Era for Asian Capital Markets

Yi-Hsiung Hsu

I believe that, as the theme of this conference, Asian capital markets will enter a new era as the new millennium dawns. In the past few decades, Asian countries have experienced a tremendous economic growth, although temporarily interrupted by the Asian financial turmoil. Along with the strong economic growth, capital markets in this region have shown a rapid expansion, and have played an increasingly important role in fostering economic development.

Asian countries have enjoyed abundant savings. Some countries in this region have recorded domestic savings rates of more than 30 percent. In no other regions in the world do countries have such large reservoirs of domestic savings at their disposal. Asian's high savings rates have provided the platform for robust capital markets.

While Asia has been preoccupied with economic recovery and financial reforms over the past few years, the economic structures of most Asian countries have been gradually modified, and their capital markets are also in the process of transformation. Along with these changes, several key trends are emerging in the region's capital markets.

First of all, Asian capital markets are expected to continue to grow and their market capitalization is expected to increase further, as the Asian economy is expected to recover steadily and require increasing capital to meet its investment needs. Also, in some Asian countries, technology-intensive industries have developed rapidly and hence a large sum of capital is needed.

The acceleration of privatization programs will also increase market capitalization in this region. The floatation of large state-owned enterprises will generally be the largest new issues on Asia's stock markets. In addition, because of easier practices for companies to go public, IPO（initial public offering）issues will flourish and increase market capitalization further.

As markets keep expanding, it has become all the more important to ensure the sound operation of markets. In the years ahead, regulatory reform which become widespread throughout Asia after the Asian financial crisis is expected to be continued. The regulatory reform in Asian capital markets will take the form of better regulation and greater liberalization simultaneously. In terms of better regulation, some capital markets in this region are still less than perfect. In many cases, more stringent and effective regulations are needed to prevent financial irregularities and to protect investors. Authorities in this region have already taken measures to address a wide spectrum of problems and potential weaknesses in capital markets. We can expect more efforts to be taken in the coming years.

Across the region, over the next few years, insider trading and illegal market activities will be condemned more widely. The requirement for greater public disclosure and transparency will be imposed. Corporate governance will be strengthened. The regulations governing the capital adequacy of market participants will be more stringent. Risk management and the surveillance of off-balance-sheet transactions will be enhanced. The self-discipline of market participants will also be strengthened. External and internal audits will be improved. And, supervision and inspection by the regulators will be reinforced.

In addition, the regulations and practices in Asian capital markets will increasingly become harmonized with international standards developed in leading financial centers as a result of regulatory reform.

In terms of liberalization, the liberalization in Asian capital markets is aimed at improving market dynamics, competitiveness, and efficiency. In the years ahead, the trend of liberalization will become even more apparent. Measures will be introduced to attract more investors to this region. New instruments and hedging tools will be encouraged. Market practices will become more flexible. Commissions and fees will become less rigid. Deregulation will also facilitate easy access to the stock market for capital raising. Markets in this region will hence be driven more by free competition.

Most importantly, a key factor of liberalization across the region is to allow more foreign investor participation in domestic capital markets and to permit local corporations to access more foreign capital offshore. In the case of Taiwan, we have gradually opened up our stock market to foreign investors since 1990 and the pace of relaxation has speeded up during recent years. It is planned that on January 1, 2001, the current 75% limitation on the total foreign investors' shareholding of each listed company shall be removed, except for a few strategic industries.

With the relaxation of capital movements throughout Asian countries, each market in this region will increasingly become an integral part of international financial system, and globalization is a trend that is unlikely to be reversed in the years ahead. In addition, the electronic links between stock exchanges across countries will tend to increase and this will also contribute to greater integration.

In the coming years, the gradual emergence of bond markets will also be an important trend throughout Asia. Asian bond markets are generally underdeveloped and relatively small in terms of size and diversity of instruments, as Asian investors traditionally prefer capital gain investments in equities and property.

The lessons from the Asian financial crisis suggest that the lack of robust bond markets led to too much short-term borrowing to finance long-term investments and that the resulting funding mismatch contributed to the financial crisis. In addition, because of the over-reliance on bank lending and stock markets, as bank lending shrank and stock markets tumbled in the wake of the crisis, firms could not find an alternative channel for raising capital and this made the reality of economic recession harsher than expected. Recognizing the need for a regular supply of medium- and long-term capital, many Asian

financial authorities are providing sufficient impetus and support to develop their respective bond markets. We can expect that, in the coming years, bond markets in Asia will grow steadily.

Along with the development of bond markets, bond futures and other related derivatives are gaining wider acceptance. In addition, some Asian countries are also going to develop asset-backed securities markets.

While people are still debating if there is a so-called New Economy or the implications of the U.S. high technology share plunge on the New Economy, the New Economy has already created a new era for capital markets in the world, including Asian markets. It has become a notable trend that most IPO issues in the stock markets are made by technology-based industries. Technology-based industries mop up a large portion of funds from the stock markets. The emergence of internet-related business has made some authorities adopt new regulations to allow fledging high-tech companies to be listed on stock exchanges. In Taiwan, the Taiwan Innovative Growing Entrepreneurs（TIGER）, or the second category on the OTC market, was launched in April this year. Internet-related companies that could not meet the more rigorous listing requirements of the main markets can seek a listing on TIGER. Although the performance of TIGER has been influenced by the recent general decline in stock prices, we believe that the listing of Internet-related companies will increase significantly in the near future.

Technology also brings about an evolution in stock market practices. In the coming years, high-tech telecommunications will be put in place in Asian capital markets. Transactions will be increasingly processed on a real-time basis. New distribution channels through the internet will emerge. Online share trading will become common. In addition, computer-driven trading and management information systems will be widely used by major market participants. Even individuals will use advanced software to help organize their financial transactions.

There are other trends that are ongoing in Asian capital markets. We can expect that, Asian capital markets will continue to improve their market infrastructure, their professionalism and their sophistication, to keep up with advanced markets.

We can also expect some structural changes in Asian capital markets. For example, some markets in this region will become dominated more by long-term institutional investors rather than by individuals as they had been for the past decades. Among institutional investors, pension funds will play an increasingly important role in Asian capital markets.

In addition, we can expect greater competition in Asian capital markets with more domestic and foreign intermediaries participating. Increased competitive pressure will lead to a new wave of mergers and alliances. Intermediaries will also increasingly use mergers and alliances to gain their global presence. Securities firms will need to explore their competitive advantage in e-finance, and pioneer new distribution channels to secure their customer base. The new era will also be an era of challenge.

It is clear that Asian countries need modern and advanced capital markets if they want to

maintain their economic momentum. It is also clear that we expect Asian capital markets to be reliable, fair and liquid markets. There is little doubt that the coming years will see countries in this region moving towards achieving these aims at varying speeds.

The international financial landscape is changing rapidly. Capital markets in Asian will need to keep abreast of changing developments as well as anticipate new trends. If we can do all these things and respond to new opportunities, we can expect a brighter prospect for Asian capital markets and hence a stronger and healthier economic growth in Asia.

THE DEVELOPMENT OF DERIVATIVE PRODUCTS AND ASIAN CAPITAL MARKETS

By

William P. Albrecht

I. Introduction

Five years ago, there were only three Asian countries (Japan, Hong Kong and Singapore) on which financial derivatives could be traded. None of these exchanges ranked in the top ten of the world's financial futures and options exchanges. Today, the situation is quite different. There are seven Asian nations with such exchanges (the original three plus India, Malaysia, South Korea and Taiwan). Moreover, for the past three years, one of them, the Korea Stock Exchange, has been one of the ten largest in the world. These numbers, however, only provide a hint of the magnitude of the changes in Asian financial markets over the past decade and of the growing importance of derivatives in these markets.

Asian capital markets have changed so profoundly over the past ten years and continue to change so dramatically, that the region truly is entering a new era. Accordingly, the theme of the conference (The New Era for Asian Capital Markets) is most appropriate. It is also quite fitting to have a panel devoted to the role of derivative products in these markets. As we examine some of the ways in which Asian markets have changed, we can appreciate how derivatives have served as an important catalyst in bringing about the transformation from the old era to the new. We can also see why these products will play a much more vital role in the new era than in the old.

II. The Evolution of Asian Markets

Until recently, most Asian capital markets have differed from those in the US and Western Europe in several important respects. The Asian tradition emphasized relationships and loyalties among the relevant parties. These relationships and loyalties were based upon a mixture of personal, commercial and political ties. When Asian capital markets were essentially domestic markets, borrowers operated on the belief that problems could be worked out satisfactorily in private and that what depositors did not know could not hurt them. Non-financial firms adhered to a similar tradition. They saw no need for the kind of transparency found in the west. And they were right; the system worked. Domestic depositors, lenders and large investors had faith in the banks and firms to whom they provided funds. There was no reason to worry if a firm's earnings fell temporarily; they would go back up in time. Similarly there was no reason to worry if a few loans went bad; things would be worked out without resorting to foreclosure or bankruptcy. Nor did major stockholders demand changes or sell their shares when earnings were disappointing. This would damage relationships.

Western capital markets, on the other hand, have relied much more upon transparency, well-defined procedures and a willingness to demand changes in management when expectations are not met. Those making loans or buying equities expect to be well informed about what is happening in the firms or countries to which they have provided funds. They want to know the financial conditions of borrowers and of the firms in which they have invested. If those with loans are unable to meet scheduled payments, the lenders expect to have specified and orderly procedures to enable them to get their money back. If firms in which they have invested are not doing well, investors demand changes in management or they sell their shares. The latter action, of course, depresses stock prices and incites the remaining stockholders to demand changes in management. Or it may bring about new management as a result of a hostile takeover, an action that is seldom seen in a relationship-based system.

In large measure, the differences in the two systems reflected the stages of development of their capital markets and the stages of development of the institutional infrastructures, including the regulatory systems, underlying the markets. In the early stages of development, processes are typically not well defined and markets are not very transparent. Under these circumstances, people are unwilling to provide funds to those whom they do not know and trust. That is, they lend money and provide equity financing only to those with whom they have a personal relationship.

Establishing personal connections and loyalties, however, is a slow and expensive process. As markets grow and the number of potential parties with whom one can do business increases, it is no longer efficient to deal only with those with whom one has personal connections. Thus, it becomes desirable to develop well-defined processes and a high degree of transparency. This, in turn, requires the development of a number of legal and regulatory institutions, such as those that establish property rights and enforce contracts. In the financial sector, it requires the establishment of a strong, independent regulator with a well-trained staff and the other resources necessary to fulfill its mission. Establishing these institutions is expensive, but once they are in place the marginal cost of using them is quite low. This means that it is much less expensive to enter into business with a new customer or investor than in a system in which personal connections are necessary before two parties will do business with each other.

As a nation's financial system evolves and matures, it plays an increasingly important role in the overall performance of the economy. A well-developed and well-functioning financial system performs five important functions:

1. It mobilizes savings.

2. It allocates resources efficiently among alternative uses.
3. It helps stockholders exert control over the corporations they own.
4. It enhances efficiency in production by facilitating specialization.
5. It facilitates risk management.

Capital markets that are impersonal (those that use transparent and use well-defined procedures) are more likely to be able to perform each of these functions well than are relationship-based markets. They are more likely to funnel funds to the most productive investment project than is the case when business relationships and business-government relationships play a critical role in investment decisions. Impersonal markets are certainly are more likely to provide stockholder control over corporate management than in a system where selling stock is considered improper because it might damage relationships. Impersonal, transparent markets reduce the cost of raising capital, thereby increasing specialization and enhancing efficiency. And markets with these characteristics are much more likely to provide avenues for efficient risk management than are those based upon relationships. That is, they are much more conducive to the establishment of well-functioning markets for derivatives.

III. The Role of Derivatives

Derivatives exchanges require transparency and the establishment of well-defined processes. It is, of course, true that one of the advantages of any organized exchange is that it eliminates counter-party risk for those using its services. That is, it eliminates the need for a personal connection between buyer and seller. Thus, the growth of Asian stock exchanges represented one stage in the evolution of Asian capital markets. But derivatives exchanges typically represent yet another stage. They rely even more upon transparency and clear-cut rules and are quite hostile to transactions based upon personal connections.

Consider, for example, the matter of a futures clearinghouse and its mark to market procedures. A person who wants to buy or sell a futures contract must post margin or a performance bond sufficient to cover the potential loss on the contract. This margin applies to all customers of similar type, although commercial customers may pay lower margin than retail speculators. Personal relationships do not affect the margin requirement. If the value of the contract changes so that amount of money remaining in the customer's account falls significantly, more margin must be paid immediately. There is no allowance made for friendship, trustworthiness or any other personal factor. The clearinghouses of futures exchanges realize that their viability depends upon a sound margining system and they demand payment when it is due—from all customers,

regardless of any personal or political connections.

We all know that derivatives make markets more complete and more efficient.

They assist in price discovery. They enable firms and individuals to manage risk. In so doing, they bring substantial benefits to market participants. They increase the efficiency of the entire economy, thereby making faster economic growth possible. These effects have been observed in many countries. Presumably, the expectation that the advent of futures and options would have similar effects in their jurisdictions led the governments of a number of Asian countries to encourage the development of exchanges for financial derivatives. On the other hand, at the same time that they were encouraging the development of exchanges for derivatives, many governments had policies that discouraged their development. That is, they had a variety of policies that discouraged the growth of demand for derivatives.

The major economic contribution of derivatives is that they enable market producers to manage risk more effectively and efficiently. (Risk management is one of the five functions of financial markets mentioned earlier.) Until recently, however, the governments of some Asian countries with industrialized economies tried to protect market participants from various types of risk directly (through such measures as pegged exchange rates, interest rate controls and restrictions on short sales). One consequence of this was that, when financial futures and options were introduced, there was little demand for them. Private parties had little need to hedge. As a result, they had not developed the expertise needed to be able to use derivatives effectively or safely. Nor did they have the necessary hardware and software. To varying degrees, however, the demand for hedging has grown, and some Asian futures and options exchanges have become important parts of the capital market. It is clear now, that the development of these exchanges has also accelerated the transition to the new era for Asian financial markets. It is also clear that this transition has occurred much more rapidly than most Asian financial authorities anticipated or desired, in part as a result of the Asian crisis of 1997.

IV. The Transition to the New Era

The crisis revealed that the two different traditions (relationship-based versus transparent with well-defined processes) do not mix well. The two systems could coexist as long as there was little connection between those operating under one tradition and those operating under the other. This was the case until fairly recently, because capital flows to and from most Asian countries were quite restricted. Several decades ago, there was little in the way of foreign private lending, foreign direct investment or foreign portfolio investment in Asia. Then, the restrictions on capital flows began to ease and flows from western investors to Asian markets increased. As long as Asian economies did well, there were no serious problems. In 1997, however, the basic incompatibility of systems

embodying the two traditions became apparent. When there were signs of trouble in Asia, the lack of transparency and the lack of well-defined procedures frightened westerners. Their reaction was just to take their money out. This turned what might have been a manageable problem into a crisis.

I suspect that many Asians, including some of those involved in financial regulation, were at least intuitively aware of the incompatibility of the two types of financial systems. They also realized that, in the US, UK and other western industrialized nations, the transition from relationship-based financial systems to more formal, impersonal ones took place over a number of years. As a result, Asian regulators were very cautious in opening up their markets to international capital flows and they were determined to control the rate at which their financial systems were liberalized. Once western money started pouring in, however, it became very difficult, if not impossible, to control the pace of liberalization. It was a bit like shifting from a system in which people drive on the left side of the road to one in which they drive on the right hand side. The change had to be made all at once.

Thus, for better or worse, the integration of Asian capital markets into the international financial system has forced the Asian markets to become more like those in the US and Western Europe quite rapidly. These changes encompass bank lending practices, the behavior of institutional investors, the regulatory systems and more. Most significantly perhaps, is the change from a relationship-driven, somewhat opaque capital markets to less personal, more transparent markets. In short, the lowering of barriers to capital flows to and from Asian nations inevitably has brought about the changes that sped up the transition to the new era in Asian capital markets. This transition has been accelerated by the development of financial derivatives exchanges.

V. Derivatives and the Transition

Derivatives markets tend to encourage the type of behavior that one associates with impersonal markets. Institutions do not buy and hold derivatives. The opportunity for arbitrage between cash and futures engenders more selling in cash markets. In stock markets, most participants hold long positions, and there is an overwhelming consensus that it is good when stock prices rise. Thus, in relationship-based markets, there is often pressure not to sell even when economic fundamentals suggest that selling is the appropriate action. This is not the case with derivatives. There are as many shorts as longs, and there is little reason for market participants as a whole to want prices to rise. Accordingly, they are more likely to sell when there are signs that it would be profitable to sell. One result of this is a market that better performs the function of allocating capital to its most productive use.

One of the most important ways in which the growing use of derivatives in Asia has sped

up the transition to the new era is often overlooked. Consider what happens when a financial institution (or any type of firm) decides to get serious about risk management. In order to be able to use derivatives effectively and safely, a firm must develop a well functioning risk management system. This, in turn, means the acquisition of hardware, software, and, most importantly, the hiring of personnel who are well trained in modern methods of risk management. As these people are brought into a firm, they begin to affect its culture. That is, they do more than just manage risk. They change the way the firm as a whole operates. Since the new risk management professionals are typically well trained in all aspects of modern finance, their influence expands beyond risk management. They speed up the pace at which the firm understands and uses, not just derivatives, but the whole range of modern tools of finance. For example, a firm with a high-powered risk management team is much more likely to develop innovative types of investment vehicles for its customers than a firm that has not yet hired a professional, well-trained risk management team.

One area that has not kept pace with the other parts of the Asian capital market is the bond market. Development of liquid bond markets will improve the overall performance of the markets in question and will provide additional opportunities for the use of derivatives. And derivatives tied to the bond markets, in turn, will speed up the transitions to liquid, efficient bond markets.

VI. Conclusion

Capital markets in many Asian countries have undergone a remarkable transformation over the past two decades. They have moved rapidly from one stage of development to another. In particular, they have moved from an opaque, relationship based system to a much more transparent, impersonal one in which processes are much better defined. This transition was accelerated by the crisis of 1997, but it was well underway before then. Derivative markets play a much more vital role in the new system than in the old, and the use of derivatives has also helped speed up the transition to the new era.

The transition is not complete, but it never will be. All modern markets, perhaps financial markets in particular, are in a constant state of change. Otherwise they cannot survive. The transition to the new era probably means that the pace of change will accelerate. If so, it will not be too long before we are holding a conference on the change to an even newer era in Asian (and other) capital markets and on the role of even newer financial products in the newer era.

THE INTEGRATION OF THE ASIAN CAPITAL MARKETS

BY SHINICHIRO TAKAYA

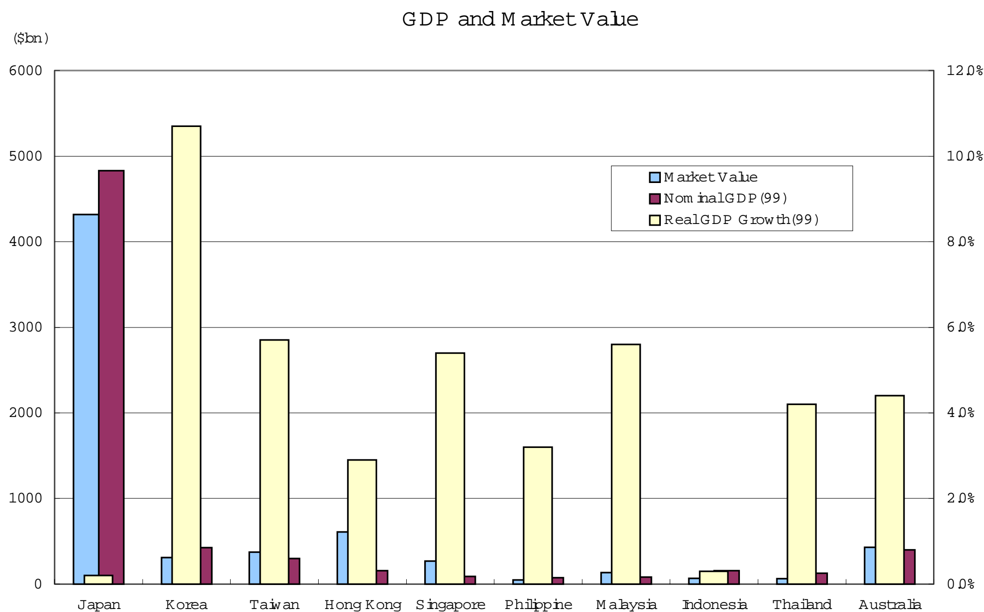
Matters on capital market integration are progressing quickly on a global basis under the rapid development of "Information Technologies". For example, the potential for a global equity market, so called GEM where investors in each geographical region are able to access the worlds major markets through their own market, by connecting up the leading trading systems is now being discussed. In addition, NASDAQ has a plan to build a global market by linking up with NASDAQ Japan and NASDAQ Euro. The world of investment is set on a path of rapid change cutting across culture, time and language barriers. We are looking at a new era of deregulation and the standardization of the regulatory environment, together with the introduction of international accounting standards.

Running parallel with the global movement, regional market integration is also surfacing in the areas of Pan-America, Pan-Europe and Pan-Pacific. Yes, we are seeing some setbacks, however, for example the move towards a Pan-European market is expected to be delayed with the breakdown of the merger talks between London Stock Exchange and Deutsche Börse. Nevertheless, the movement towards founding a single EU market has not changed, while in the pacific region the movement towards market integration seems to be accelerating. The Tokyo Stock Exchange and the Australian Stock Exchange signed a mutual cooperation agreement on August 8th of this year. In total, this, the Tokyo Stock Exchange has built cooperation relationships with seven markets in the region, and is currently discussing such a tie up with China and Taiwan. While these agreements focus on the exchange of information to support the development of each market together with the monitoring of offshore transactions, they can be expected in due course to lead to integration of these markets.

The integration of markets in the three time zones, US, Europe and Asia, should result in the global market being born. It would mean that as the global market develops investors could deal in securities on a global scale, 24 hours a day and at lower costs. The result should be improvements in the market efficiency and liquidity.

I would now like to focus our discussions on the integration of the Asian capital markets, merits and demerits of such integration and the issues to be solved. Finally, concluding by considering the role of security analysts in an era of global investment.

While the movement towards integration of markets within the EU is one model supported by currency unification, it is not currently applicable to Asia. This is because there is obvious discrepancy in the stage of development and scale of each economy and capital market in Asian countries. Establishing a common trading platform by linking the trading systems of the different nationality markets is more realistic under innovative Information Technologies. Once investors can access various overseas markets through their own market, by using the common trading platform, the global flow of funds should increase significantly. The result should be that each capital market will see its development accelerate and the funds raised from multinational investors will contribute to the development of each country's economy. This development may also lead to more volatile markets with the ability to punish poor performance or non-wealth creating political policies.



I would now like to discuss some of the merits of building a global market.

Benefits to investors

In general, the integration of the various markets should provide investors with the following benefits.

- Global diversified investment becomes easier, and with it the systematic risk, relating to each country or market in portfolio, can be reduced.
- More diversified sector investment and individual issues become possible and a better investment performance should be achievable.
- Investing in economies offering more potential or companies in the global market to achieve higher investment returns becomes easier. The end result may be more investment on a global sector basis rather than within each market.

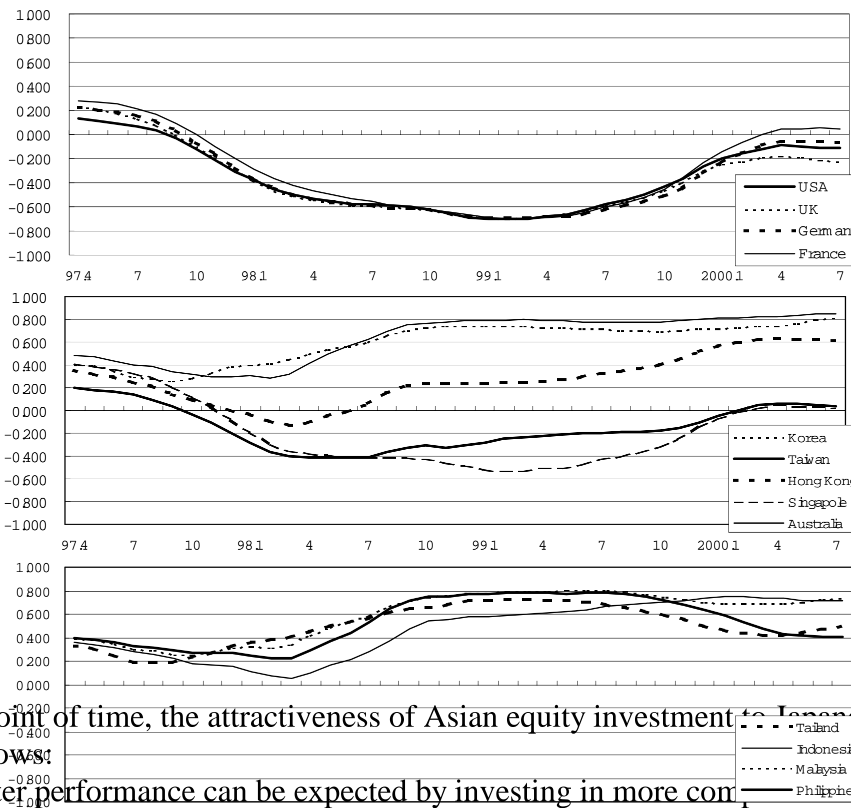
Benefits to issuers

Integration of markets should provide issuers with the following benefit.

- Access to foreign capital should improve, so conditions for raising funds, including costs, are expected to become more attractive to issuers.

From Japanese investor's standpoint, however, the risk aversion effect through diversified investment in Asian markets is expected to be limited, at least for the time being. This is because:

- The correlation in share prices between Japan and Asian countries except Taiwan and Singapore is high so the diversification benefit is limited.
- As already mentioned, the scales of market value in Asian countries is insufficient for Japanese investors to allocate enough weights to them to reduce the risk in their global portfolios.



At this point of time, the attractiveness of Asian equity investment to Japanese investors is as follows:

- Better performance can be expected by investing in more com[illegible] and leading companies in the global market place due to including NISE countries and Australia. Iron and steel companies in Korea, marine transportation companies in Singapore are some examples.
- High growth potential makes it appealing to investing in Asian countries. By access to country funds investment in Asia would become easier.
- Opportunities to invest in the business sectors, which do not exist in Japan, becomes possible, such as plantations in Indonesia, natural resources in Australia and so on.

Now, let us examine what is necessary to realize market integration covering the major issues and possible solutions.

For market integration, the harmonization of regulations in the member countries, securing of the transparency, ensuring justice and fairness of capital transaction are essential, in addition to securing free capital flows between countries.

The necessary infrastructure to be established is as follows:

- Deregulation of the current rules about the capital flows.
- Granting a single passport to a financial institution.
- Harmonizing the standards for listing and delisting.
- Unifying account standards and information disclosure.
- Securing of corporate disclosure in a common language, i.e. English.
- Reinforcing public services to provide accurate economic statistics quickly.
- Reinforcing of the international monitoring system parallel with the establishment of an international market watch organization or the closer cooperation between the supervisory organizations of the participating countries to ensure the legality and integrity of the global or regional market.

In addition, an efficient currency exchange system, which properly reflects the economic situation, is essential for the market integration in Asia where unification of currencies is at least not yet proposed. In 1997, Asian countries faced a severe currency crisis and experienced a serious correction in their economies as well as their capital markets. It is now accepted that the situation came about by hedge funds targeting the discrepancies between the equilibrium rate and the market rate under the dollar pegging system used to maximize returns. Once markets in various countries are integrated into a single market, the economic problems in one country become easily infectious to other partner. Thus, establishing an economic system which is as rational as possible is necessary for the successful integration of markets. The "Coinage System" based on the "Currency Basket" is believed to be the most realistic system in reflecting the real economic fundamentals.

It is also necessary to have in place measures to protect each domestic partners economy from the volatility that inflows and outflows can bring when an emerging market is incorporated into a global capital market network. It would be difficult to foster an emerging market if there is excessive volatility due to inflows and outflows of speculative funds. That kind of market would be too risky for long term investors. Strengthening regulations to exclude foreign speculative funds from the market, on the other hand, would not be appropriate, as a too tightly regulated market would not be attractive for investors. The way of giving long term investors incentives, such as the application of an advantageous taxation system to encourage investors to support a country's capital policy should be preferable to reinforcing the regulations.

Finally, I would like to comment on the role of securities analysts in a global market environment.

Securities analysts will need to work from a global perspective, in analyzing companies in the domestic sectors due to the flexibility of capital on a global basis. This trend should accelerate as the global integrated market develops. For global equity investment, a global competitive analysis and share price evaluation is essential. The comprehensive studies on the methodology are advisable. How to determine the risk premium to be used for the DCF model is one of the difficult questions that have to be answered.

In addition, the securing of a first class information source and the building of a database are essential for efficient global equity analysis. From the viewpoint of building a global information network, it is helpful to have opportunities such as this meeting for analysts from various countries to gather and exchange opinions. The ASAF Annual Meeting is very important as a platform from this standpoint. Moreover, the analyst education programme and the official approval examination system by ACIIA, which is due to start this year with the purpose of upbringing analysts' capability to a global standard, is a key to supporting the development of global investment.