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International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
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IOSCO Research reports on Corporate Bond Markets in Emerging Markets

The Research Department of the International Organization of Securities Commissions today published a Staff Working Paper entitled *Corporate Bond Markets: An Emerging Market Perspective*.

The report is the second in a series on Corporate Bond Markets. It presents findings from an in-depth study on the development and functioning of corporate bond markets in emerging markets specifically.

The report presents data and analysis in three streams:

(1) Identifying determinants of corporate bond market development in emerging markets;

(2) Tracking trends in primary and secondary market activity, including issuer make-up; and

(3) Risks and vulnerabilities.

The main findings of the report can be summarized in the following key messages:

1. Corporate bond markets across emerging markets are getting bigger, with a large portion of activity concentrated in Emerging Asia.

Corporate bond markets in Emerging Market Economies (EMEs) have more than tripled in size in the last 10 years, reaching $6.9 trillion in 2014. EME corporate bond issuance reached $1.06 trillion by end 2014, up from $0.9 trillion the year before. While around 80% of this issuance comes from Emerging Asia, other regions have also experienced growth.

2. Corporate bond market development in EMEs is being spurred by broad financial sector development, infrastructure improvement and increasing institutional health.

Domestic corporate bond market development is positively influenced by general financial sector development and improvements in financial infrastructure, while international corporate bond market development across EMEs is also related to institutional health. Specific determinants are analysed in the report using Kendall Tau correlation and panel regression with fixed effects across a sample of 62 EMEs.

Government policy and the existence of international credit rating services may also be underpinning factors in the general development of these markets in EMEs, particularly following bank-based crises.

3. The level of activity of emerging markets issued bonds on US and European secondary markets shows great divergence from region to region and country to country.

Secondary markets in EMEs are characterized as small, if they exist at all. As such, the report focuses on trading activity of EME corporate bonds on US and European secondary markets. According to this data, over the last four years, trading volume and turnover ratios of EME corporate bonds have been flat, except for in Emerging Americas where it is increasing. At the country level, trading volume and turnover ratios vary from country to country.

4. Discussion of risks emanating from EME corporate bond markets may require a shifting away from treating emerging market corporate debt as a homogenous source of risk.

Further research on risks and vulnerabilities will need to recognize the diversity across EMEs and the requirement for more granular, country-level and even firm-level assessment.

Growing corporate bond markets may represent a transition towards financial deepening in EMEs, with associated benefits. At the same time, the rate of growth, especially in the context of macro-economic and political developments on a global scale, may expose vulnerabilities.

These vulnerabilities may manifest through currency mismatch risk and credit risk; roll-over risk; and secondary market liquidity risk. Individually, these risks do not necessarily imply systemic risk. However, these risks can also interact with each other. Triggering factors may include developments such as falling commodity prices, appreciation of hard currencies (e.g. USD), hike in interest rates in the developed world; and the bursting of asset bubbles (e.g. in the real estate sector).

These vulnerabilities may have far-reaching implications at the country-level, especially in light of other macro-economic factors. A closer, more granular look at the data suggests that, at least currently, the potential for the identified vulnerabilities in emerging market corporate bond markets to develop into global systemic risk is not immediately apparent. Nevertheless, EME financial markets still face risk, including from reversal of capital flows and slowing growth, which may have spill-over impacts on the bond market.

Future Work

This staff working paper is the second in a three volume series. **Volume I** provides a view of how global corporate bond markets have changed, comparing developed and emerging markets. **Volume III (developed markets)** will provide more granular country-by-country data and analysis, in recognition of the diversity within the different regions.

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NOTES TO THE EDITORS

1. This Staff Working Paper should not be reported as representing the views of IOSCO. The views and opinions expressed in this Staff Working Paper are those of the author and do not necessarily reflect the views of the International Organization of Securities Commissions or its members.

2. IOSCO is the leading international policy forum for securities regulators and is recognized as the global standard setter for securities regulation. The organization's membership regulates more than 95% of the world's securities markets in more than 115 jurisdictions and it continues to expand.

3. The Growth and Emerging Markets Committee is the largest Committee within IOSCO, representing 75 per cent of the IOSCO membership. Mr. Ranjit Ajit Singh, Chairman, Securities Commission, Malaysia, and Vice Chair of the IOSCO Board, is the Chair of the GEM. The Committee endeavors to promote the development and greater efficiency of emerging securities and futures markets by establishing principles and minimum standards, providing training programs and technical assistance for members and facilitating the exchange of information and transfer of technology and expertise.

4. IOSCO aims through its permanent structures:

    - to cooperate in developing, implementing and promoting adherence to internationally recognized and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks;
    - to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in

enforcement against misconduct and in supervision of markets and market intermediaries; and

- to exchange information at both global and regional levels on their respective experiences in order to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

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Carlta Vitzthum	+ 34 91 787 0419
Outside office hours	+ 34 697 449 639
Email:	carlta@iosco.org
Website:	www.iosco.org
Follow IOSCO on Twitter	@IOSCOPress