

Chairman’s Report to the 18th ACRAA Annual Meeting 7 December 2018, Tokyo Japan

Introduction

1. The Year 2018 marked the 20th anniversary of the Asian Financial Crisis and the 10th anniversary of the Global Financial Crisis and, within the current environment, domestic credit rating agencies (DCRAs) have an increasingly important role to play. The International Monetary Fund (IMF) alluded to two reasons for DCRA’s increased importance in its latest Global Financial Stability Report (GFSR). First, DCRAs help maintain vigilance of the corporate sector at a time when “... *the corporate sector leverage levels remain close to historical highs in many emerging market economies*”. Secondly, DCRAs can help deepen local bond markets, which “...*would increase countries’ resilience to capital flow volatility and help reduce currency mismatches*” in the midst of a challenging external environment for emerging market economies.¹

2. ACRAA’s Board of Directors for 2018-19, who were elected at last year’s annual meeting in Manila, have been pursuing a **three pronged strategy**, which is in line with discussions at CEO forums including the meeting in Beijing in April 2018. The components of this strategy are:

- to increase the **global visibility** of member rating agencies amongst cross-border investors
- to continue and strengthen ACRAA’s flagship **joint training** programs
- to deepen **cooperation with** the Asian Bankers Association (**ABA**) and the European Association of Credit Rating Agencies (**EACRA**).

3. In this report, I am pleased to set out an overview of ACRAA’s activities, achievements and also the challenges it has faced during the last year.

Global Visibility

4. ACRAA undertook a number of initiatives this year to increase its and the members’ global visibility. In April 2018, we organized a seminar in Manama, Bahrain entitled “**Showcasing Asian Bond Markets: Opportunities and Risks**” and invited a

ACRAA Board of Directors (2018-19)

Chairman		Satoshi Nakagawa
Vice Chairman		Rajesh Mokashi
Membership Committee	Chair	Rajesh Mokashi
	Vice Chair	Rafi Karagol
Training Committee	Chair	Razlan Mohamed ^{1/}
	Vice Chair	Luo Guang
New Horizons	Co-Chair	Satoshi Nakagawa
	Co-Chair	Grace Lee
ABA Desk	Head	Grace Lee
EACRA Desk	Head	Rafi Karagol
ACRAA Ambassador for International Relations		Faheem Ahmad

^{1/} Resigned in May 2018.



¹ The report (Oct 2018 edition of the IMF’s GFSR) is available at <https://www.imf.org/en/Publications/GFSR/Issues/2018/09/25/Glogjvbal-Financial-Stability-Report-October-2018>.

number of cross-border investors from the Middle East. There were presentations describing the bond markets of China, India, Japan, Malaysia, Taipei China and Thailand; there were also presentations on the Belt & Road Initiative (BRI) and Islamic Finance. I would like to register my appreciation to CARE Ratings, CCXI, Golden Credit Rating, JCR, IIRA, MARC, TRC and TRIS Rating who all sent representatives to speak at this event. The presentation materials have been uploaded to ACRAA's website so that any globally interested party may access this information provided by prominent rating agencies in Asia. In organizing this seminar, ACRAA was hugely indebted to Mr Faheem Ahmad and Ms Sabeen Saleem from the Islamic International Rating Agency (IIRA): their tireless work as the local coordinators was pivotal to the successful delivery of this event.

5. In June 2018, I was asked by the **Japanese Ministry of Finance (JMOF)**, in my capacity as ACRAA Chairman, to give a presentation setting out an overview of the rating industry in Asia. This seminar raised the visibility of Asian DCRA's directly with Japanese policy makers and, because the materials were added to the JMOF website, also with Japanese investors, a number of whom sent follow-up queries.²



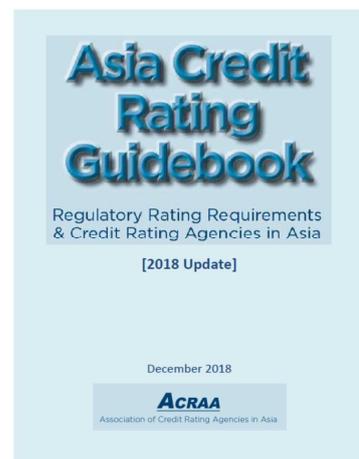
6. In November 2018, I was invited by the ABA to participate at their **35th General Meeting and Conference** in the Maldives; It was attended by about 70 bankers from across Asia. The ABA supported the establishment of ACRAA back in 2001 and we recently opened our joint training program to ABA members. I encouraged ABA member banks to take advantage of attending ACRAA workshops and that they should send their star analysts to increase their knowledge of credit assessment and also highlighted that it would be an excellent opportunity to network with ACRAA's cream of the crop analysts. The participation of ABA members in our workshops has led to an increase in the number of attendees and broadened the discussions, as well as widened everyone's networking opportunities. Their participation also contributed to ACRAA's healthy financial position through the collection of their registration fees.



7. ACRAA published the **"Asia Credit Rating Guidebook – 2018 Update"** in December and is now on our website; it updates the 2016 version. The new guidebook sets out:

- Regulatory rating requirements in Asia's 13 jurisdictions
- Profile of 27 credit rating agencies in Asia.

I believe that this is an important ACRAA output which is beneficial to all members; it is the result of positive collaboration between Asian DCRA's, with ACRAA playing a



² The presentation material (in Japanese) is available at: https://www.mof.go.jp/pri/research/conference/fy2017/asean2017_03_02.pdf.

coordinating role. I would like to thank all the member rating agencies who cooperated with ACRAA's New Horizons Committee (NHC) in the preparation of the guidebook, and specifically to my co-chair, Ms Grace Lee, for dedicating so much time and effort to this work. I recommend that the next update should be published in 2020 and that it might include new information of interest to cross-border investors, such as each rating agency's cumulative default rates (CDR) if appropriate.

8. In December 2018, ACRAA organized a seminar in Tokyo entitled **“Showcasing Asia's Green Bond Markets”**. There was a strong interest in this investment opportunity: more than 80 cross-border Japanese investors heard presentations on the green bond markets of China, India, Indonesia, Japan, Malaysia, and Taipei China. I would like to record my appreciation to CARE Ratings, Golden Credit Rating, JCR, MARC, PEFINDO and TRC who sent representatives to speak at this event. Their presentation materials will be available on ACRAA's website, allowing for a wider dissemination of the activities of prominent Asian rating agencies.

9. Finally, in order to boost our global visibility, the ACRAA Board has decided to issue a **press release** from the December 2018 Annual Meeting, and in order to promote its activities amongst Japanese investors your Chairman accepted an interview with Kyodo News, Japan's leading news agency .

Joint Training

10. In 2018, two training workshops were organized:

- **“Bank Rating & Analysis”** in **Taipei** on 28-29 June 2018; and
- **“Infrastructure Projects: Their Evaluation and Financing”** in **Manila** on 6-7 September 2018.

11. The training workshop in **Taipei** was organized in collaboration with the ABA, and attracted over 50 participants from eight different Asian countries who came from 24 different financial institutions. There were presentations by six noted experts at the event and in addition there were nine specialized presentations. I would like to thank Golden Credit Rating and JCR who sent lecturers to the workshop and record my special thanks to Ms Grace Lee and the staff of Taiwan Rating Corp. (TRC) for their excellent organization and giving key lectures at the workshop.



12. The training workshop in **Manila** discussed “Infrastructure



Projects: Their Evaluation and Financing”; there were 16 ACRAA member participants who came from eight agencies and 24 non-ACRAA participants from 12 companies who were mostly ABA members. I would like to once again record my appreciation to Golden Credit Rating for sending a lecturer to this workshop.

Cooperation with the ABA and EACRA

13. As I have noted elsewhere in this report, we have undertaken a number of successful activities in cooperation with the ABA over the past year and we wish to continue to enhance this good relationship.

14. We did not, however, have as much interaction with EACRA as we would have liked. When ACRAA and EACRA organized a joint meeting in Vienna in June 2017, the Boards of the two associations agreed to co-organize a seminar in Bahrain in April 2018, but unfortunately there were no EACRA member participants at this event. Notwithstanding this, at an informal bilateral meeting with one EACRA member in October 2018, there was a strong interest from them who said they would like to send its analysts to future ACRAA training workshops if allowed. I recommend that we continue to seek to engage with EACRA through our joint training program and invite their members through our EACRA Desk.

Other matters

15. ACRAA is a not for profit organization and I am pleased to report the Association’s financial position is healthy and sustainable. Our workshops have been an important source of fee revenue: all ACRAA members may send one participant to workshops at no cost, and any additional participants from a ACRAA member and all non-members are charged a fee.

Conclusion

16. In closing my report, I would like to express my heartfelt gratitude to you all for your trust and confidence in me as the serving Chairman of ACRAA. I feel truly privileged, honored and proud to undertake this role in which I have strived to serve the best interests of all ACRAA members. I wish you all good health and continued success.



Satoshi Nakagawa
Chairman