

## ANNEX VI.

### Credit guarantees and credit guarantee agencies

Many Asian bonds are likely to belong to the “junk-bond” category, according to the standards of the international bond markets. A large number of East Asian firms do not have credit ratings that are good enough to issue bonds in the domestic bond markets let alone the international bond markets. As a result, even under securitization schemes, the amount of funds that can be raised through senior bonds is likely to be quite limited. In order to increase the portion of securities that can be absorbed by the market, credit guarantees can be utilized. Credit guarantees on timely payment of interest and principal enhance the creditworthiness of bond issues because the issues with a full credit guarantee can acquire the credit rating of the guarantee agency. Credit guarantee agencies may provide coverage for the entire issue or a specific tranche.

Credit guarantees can be obtained from private credit guarantee agencies such as monoline and multiline insurance companies and from government agencies and international financial institutions. However, the existing credit guarantee agencies may not be suitable for providing credit guarantees for Asian bonds. For example, the Japan Bank for International Cooperation (JBIC) cannot provide credit guarantees for private corporations or special-purpose companies. JBIC can only guarantee bonds denominated in Japanese yen. ADB and JBIC are restricted from providing guarantees to bond issuers from advanced economies. As a result, regional securitization deals involving issuers from Japan or the Republic of Korea cannot obtain credit guarantee services from these official sector agencies.

Private credit guarantee agencies in general prefer dealing with credit risk alone and, as a result, are reluctant to provide currency swaps together with credit guarantees. More effective schemes for regional bonds may require currency swaps to overcome the currency mismatch problem in addition to credit guarantees. Private guarantee agencies might also have limited capacity to provide guarantees.

In order to provide credit guarantee services for Asian bond markets more efficiently, it would be useful to establish an international organization to provide regional credit guarantees. The operational mode (monoline or multiline) and the governance structure (an international agency or a private company) need to be discussed and negotiated. Such a regional guarantee agency might also provide currency swaps.