

Development of Domestic Government Bond Market: A Perspective from a Local Institutional Investor

Axel Christensen

AFP Cuprum

Chile

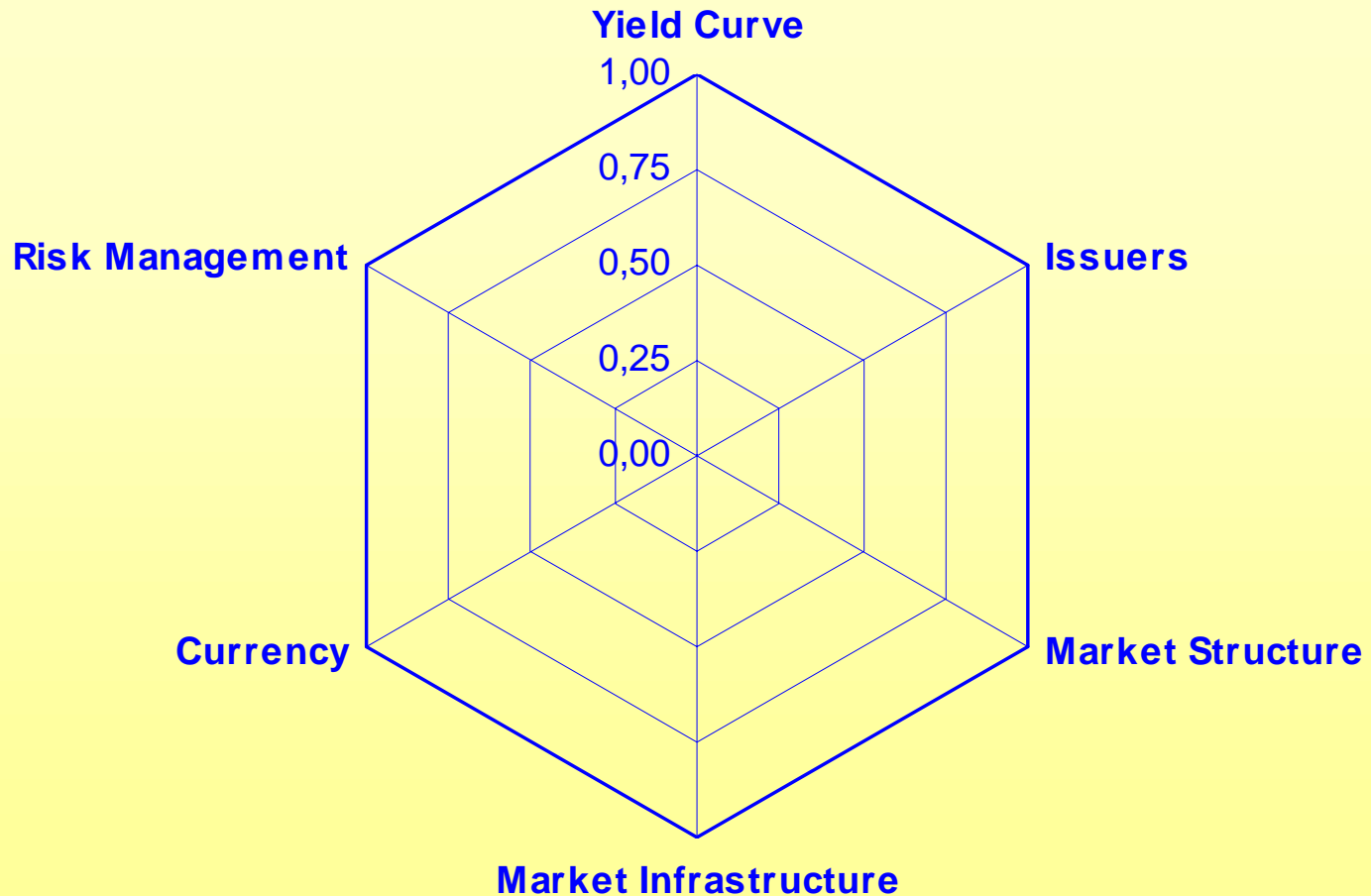
Completeness of Domestic Government Bond Market: Dimensions

- Yield Curve
- Liquidity
- Related Markets
- Derivatives Market
- Internationalization of Currency

Completeness of Domestic Bond Market: A Framework Proposal

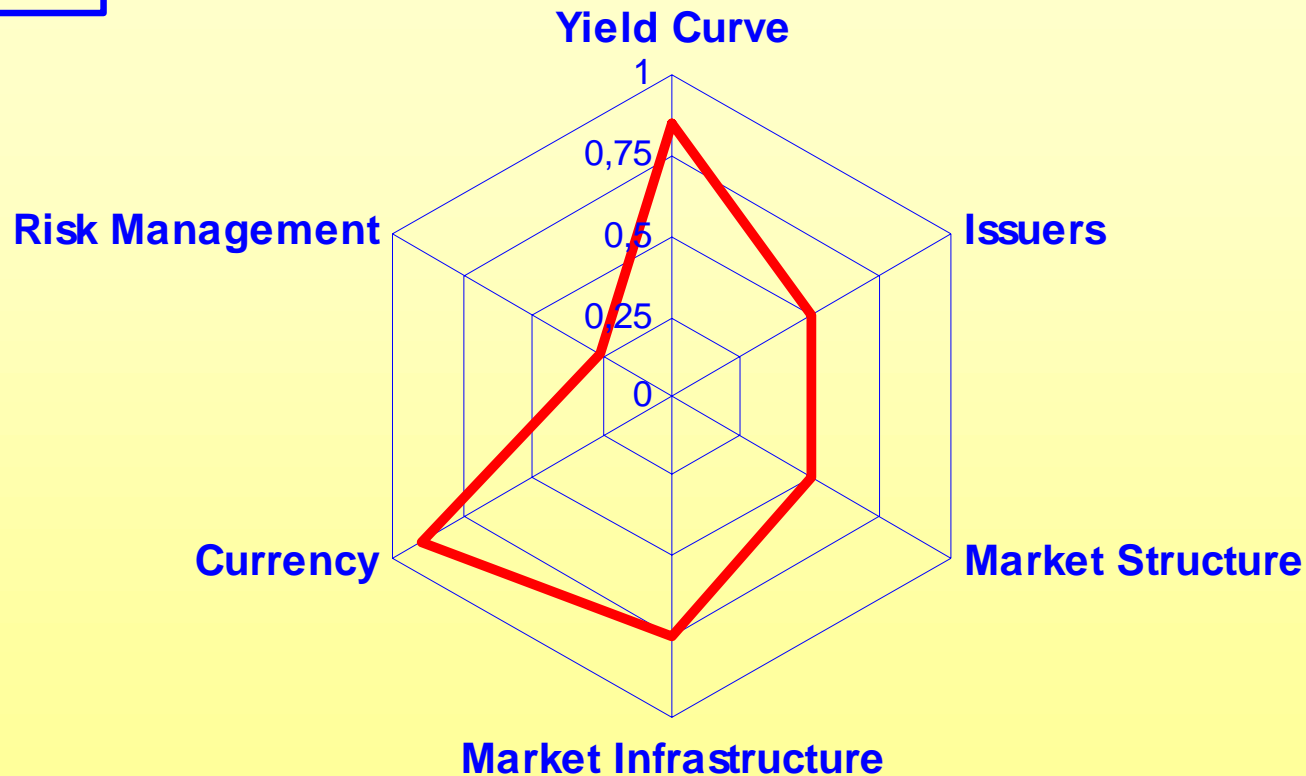
Feature	Degree of Completeness				
	0,00	0,25	0,50	0,75	1,00
Yield Curve	Sporadic issues	Short Term (less than 1 year)	Medium Term (up to 5 years)	Long Term (more than 10 years)	Zero Coupons; Benchmark bonds; Populated Yield Curve
Issuers	Central Government	Government Agencies	State Owned Companies	Government Guarantee	Local Government
Market Structure	Sub-market funding	Primary Market; Market Price Auctions	Secondary Market	Primary Dealers	Market Makers
Market Infrastructure	Simple; minimum security		Electronic trading; centralized depositories		Dematerialized instruments; Delivery vs.Payment
Currency	Local Issue Local Currency		Local /Foreign Issue Foreign Currency		Foreign Issue Local Currency
Risk Management	None	Repos	FRAs	Swaps	Futures/ Swaptions

Completeness of Domestic Bond Market: Framework Graphic Representation



Completeness of Domestic Bond Market: An Well Known Example

CHILE



Defining the Agenda for Chile: the Priorities

1. Risk Management
2. Issuers
Market Structure
3. Market Infrastructure
Currency

Defining an Agenda for Chile: the Details

- Risk Management
 - Short selling of Government bonds
 - Allow pension funds to
 - repos
 - FRAs
- Issuers
 - Develop government guaranteed issues
 - Secondary education loans
 - Legal changes for local government issues
- Market Structure
 - Primary dealers
 - Market makers

Defining an Agenda: the Case for Chile (cont.)

- Market Infrastructure
 - Dematerialize all government issues
 - Incentive
 - dematerialization of private issues
 - linkage of local custodians with global systems
- Currency
 - Develop Issues in CLP (nominal)
 - Include CLP and UF in main benchmarks