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Strengthening the Financial System and Mobilizing Savings to Support More Balanced Growth in ASEAN+3

A. Noy Siackhachanh

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Abstract

As witnessed during the 1997/98 Asian financial crisis, the dependency on short-term foreign capital for long-term investment made the region vulnerable to the sudden reversal of capital inflows. Rapid capital outflows not only caused the collapse of the financial system but also a sharp economic contraction that caused millions of citizens to fall below the poverty line and reversed overnight the gains in poverty alleviation that had taken decades for governments in the region to achieve. To mitigate against risks associated with the sudden stop of capital inflows, the Association of Southeast Asian Nations (ASEAN) and the People's Republic of China, Japan, and the Republic of Korea—collectively known as ASEAN+3—have been working together to develop local currency bond markets in order to mobilize domestic savings to finance long-term investment and strengthen the resilience of the financial system in the region. The first regional initiative designed to achieve this endeavor was the Asian Bond Market Initiative (ABMI), launched by ASEAN+3 in 2002. The second was Asian Bond Fund 1 and 2, launched in 2003 and 2005, respectively by EMEAP economies.[*] The Asian Development Bank has provided support to ASEAN+3, as the secretariat, to facilitate the implementation of the policy actions promoted under ABMI.

This paper reviews the progress made under ABMI over the past 10 years, particularly the progress made in mobilizing domestic savings for investment. The paper then proposes measures for ASEAN+3 economies to more effectively channel domestic savings for investment and stimulate domestic demand to help modify growth patterns and improve savings–investment imbalances.

Keywords: Local currency bond markets in Asia, ASEAN+3, Emerging Asia.

JEL Classification: G10, G12, G20, G24

[*] The Executives' Meeting of East Asia-Pacific (EMEAP) central banks is a cooperative organization of central banks and monetary authorities in the East Asia and Pacific region. It comprises the central banks of 11 economies: Reserve Bank of Australia, People's Bank of China, Hong Kong Monetary Authority, Bank Indonesia, Bank of Japan, The Bank of Korea, Bank Negara Malaysia, Reserve Bank of New Zealand, Bangko Sentral ng Pilipinas, Monetary Authority of Singapore, and Bank of Thailand.

1. Introduction

Prior to the 1997/98 Asian financial crisis, financial institutions and corporations in the region relied on overseas foreign currency loans for funding. With inadequate hedging, however, this made them vulnerable to foreign exchange risks. In addition, much of the borrowing was short-term for the financing of long-term investment. With poor corporate governance at both corporations and financial institutions together with poor supervision of financial institutions, credit was misallocated, thereby contributing to the weaknesses of banks' balance sheets as financial systems were largely bank-based. When foreign capital inflows to the region came to a halt and then reversed to become outflows, the stability of the exchange rate gave way. The financial system collapsed, causing drastic economic contraction and job losses. Millions of citizens in the region fell below the poverty line and gains in poverty alleviation that had taken decades for governments in the region to achieve were reversed overnight. The most immediate responses to the crisis included greater exchange rate flexibility, financial institutions' improved risk management, and a gradual build-up in international reserves.

To mitigate against the risks associated with the sudden stop of capital inflows, and to minimize the currency and maturity mismatches of the corporate sector, ASEAN+3 governments launched the ASEAN+3 Asian Bond Market Initiative (ABMI) in 2002 to foster the development of local currency bond markets. Developed local currency bond markets, in view of policymakers in ASEAN+3 economies, would enable the region to achieve sustainable, private-sector-led growth that builds on the large pool of savings in the region for intraregional investment.

To achieve this objective, policymakers aimed to facilitate access to bond markets by expanding the number and variety of issuers, promoting a diverse range of bonds, and creating an environment to support bond market development. Working groups were initially established to focus on six areas: (i) the creation of new securitized debt instruments; (ii) a credit enhancement facility; (iii) foreign exchange transactions and settlement issues; (iv) issuance of bonds in local currencies by multilateral development banks (MDBs), foreign government agencies, and multinational corporations; (v) technical assistance coordination; and (vi) domestic and regional rating agencies.

To implement these measures, ASEAN+3 policymakers would meet at least twice a year. In addition, they would conduct policy dialogues and discussions among themselves as often as required, and hold seminars and conferences to solicit views from academics, think tanks, and the private sector in shaping their proposals and recommendations to promote the development of the region's bond markets. The Asian Development Bank (ADB) was invited to provide technical support for selected activities under ABMI.[1] The Government of Japan also provided a series of technical assistance support to ASEAN member countries—including Indonesia, Malaysia, Myanmar, the Philippines, and Viet Nam—to address specific constraints to bond market development

[1] The technical assistance support has largely been funded by the Government of Japan. The Governments of the PRC and the Republic of Korea have also provided funding to support preparation for the establishment of a regional credit guarantee facility.

in these economies. Every 3 years, ASEAN+3 policymakers reviewed the progress made under the ABMI framework and modified its scope and activities as appropriate.

The first review on the ABMI activities was carried out in 2005 and based on the outcome of the review, a road map to develop local currency bond markets was prepared. Activities that achieved their objectives and could be advanced without further support were dropped from the ABMI agenda. In 2008 policymakers underwent another review of the road map and adopted a revised road map for ABMI to demonstrate their renewed commitment to further develop bond markets in the region.

There were three specific features of the 2008 road map. First, the road map focused on four key areas: (i) promoting issuance of local-currency-denominated bonds, (ii) facilitating demand for local-currency-denominated bonds, (iii) improving the regulatory framework, and (iv) improving related bond market infrastructure. Second, to further advance the development of the regional bond market in a concerted manner, each member of ASEAN+3 would make a periodic self-assessment of its own progress in developing the bond market in its own country in line with the objectives of ABMI. Third, given the importance of the private sector in developing the bond markets, ASEAN+3 would welcome and encourage the private sector's participation in policy discussions relating to cross-border bond transaction and settlement issues. Detailed information on the ABMI framework is included in Appendix 1.

In addition to ABMI and in support of the development of local currency bond markets, the EMEAP central banks group launched a $1 billion Asian Bond Fund 1 (ABF 1) in 2003 that allowed its members to invest in bonds issued by Asian sovereign issuers in the eight EMEAP economies other than Australia, Japan, and New Zealand. In 2005 the EMEAP group launched ABF 2. Although ABF 1 invested in United States (US) dollars bonds, ABF 2 invested in local currency bonds issued by sovereign and quasi-sovereign issuers in the same member economies as those in ABF1. The objective of the initiative was to provide a low-cost product in the form of passively managed index bond funds, broaden investor participation, identify impediments to bond market development in EMEAP economies, and act as a catalyst for regulatory reforms and improvements to market infrastructure.[2]

Section 2 of this paper reviews the progress made under ABMI over the past 10 years, particularly whether domestic savings have been successfully mobilized for long-term investment in the region. Section 3 of the paper then proposes measures for ASEAN+3 economies to more effectively channel domestic savings for investment in the corporate sector, particularly for infrastructure and for other business investment by smaller enterprises, and stimulate growth patterns and improve savings–investment imbalances. Finally, Section 4 concludes.

[2] Chan, Chui, Packer, and Remolona 2011.

2. Progress Made under ABMI

In assessing the achievements made under ABMI, the following factors should be highlighted. First, in designing the roadmap for ABMI activities, ASEAN+3 does not specify numerical targets for the member countries to achieve within a certain time frame since measures under ABMI are comprehensive and member countries are voluntarily encouraged, but not required, to implement the recommended measures. Second, some measures and approaches under ABMI are intended for immediate action, while others are for the medium- and long-term.[3]

Third, as indicated in the introduction, ABMI is not the only regional initiative that encourages the development of the local currency bond markets. ABF2 focused on mitigating impediments to investors and improving liquidity in the major government bond markets, while ABMI focused more on fostering increased diversity among issuers and products in its early years (Chan, Chui, Packer, and Remolona 2011). Nevertheless, from 2008 ASEAN+3 governments have increased their focus on building market infrastructure and improving cross-border bond transactions. Lastly, ASEAN+3 economies have undertaken a series of reforms at the national level necessary to improve the financial system in the region in the aftermath of the 1997/98 Asian financial crisis. These reforms include (i) restructuring balance sheets to dispose of nonperforming loans (NPLs); (ii) an overhaul in bank ownership; (iii) privatization of many state-owned institutions; (iv) major upgrading of macro-prudential oversight (via revamped regulations and supervision); (v) strengthening risk management of financial institutions and introducing and developing new business products; and (vi) strengthening corporate governance in both financial institutions and corporations, and improving other laws and regulations relating to secured transactions, debt recovery, and bankruptcy procedures. These reforms have all contributed to the development of the region's bond markets.

Overall, the sequencing of the activities under ABMI is appropriate. Initially, policymakers focused on measures to expand the volume and issuer base of local currency bonds in the region. At the same time, they undertook market research on proposals to support market development and dropped those that were found not feasible. For those found feasible, the policymakers have worked together to implement the recommendations of the studies. As the ABMI road maps have evolved over time, with new measures included and old ones dropped, this paper assesses the progress made under ABMI by looking at all measures that ABMI has supported since its launching in 2002 in the five following areas.

2.1 Facilitating Access to Bond Market by a Wider Variety of Issuers

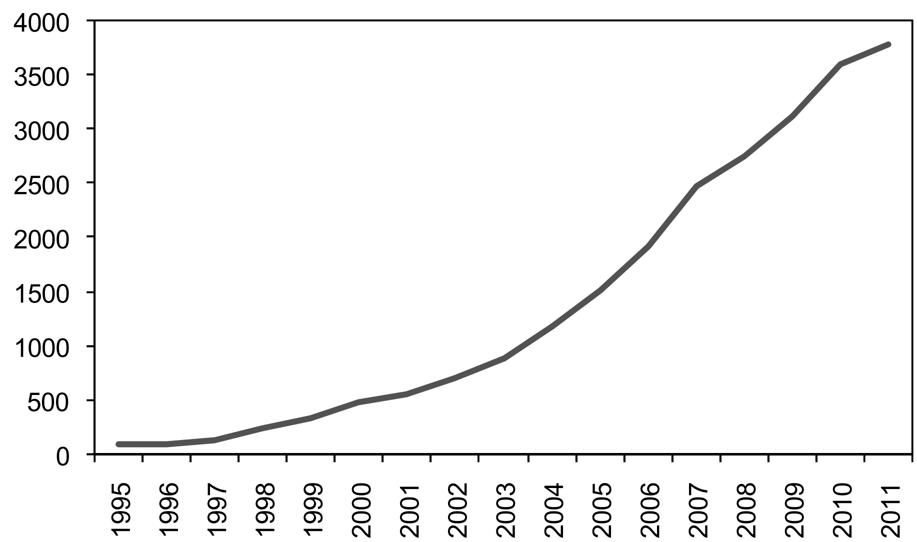
In promoting the issuance of local currency bonds, ASEAN+3 has encouraged its members to issue sovereign bonds to meet their financing needs for the restructuring of financial institutions and state-owned enterprises after the crisis and to establish a benchmark yield curve for the pricing of other fixed income instruments. This

[3] Taniguchi 2003.

encouragement has paid off. Government debt markets in the region grew from just about $710.8 billion in 2002 to nearly $3.77 trillion by the end of 2011 (Figure 1). As a share of GDP, local currency government bonds outstanding have grown significantly across the region, except in the Philippines and Indonesia where the governments have taken steps to contain fiscal deficits (Figure 2).

As part of its efforts to develop the benchmark yield curve in Malaysia the government now issues benchmark securities with tenors of 3-, 5-, 7-, and 10-years. These securities are often reopened to increase outstanding issue sizes in order to improve market liquidity. In addition, the government has also lengthened the benchmark yield curve by issuing bonds with 15- and 20-year maturities. To ensure consistent and predictable issuance of new bonds, regardless of market conditions and periods of fiscal balance or surpluses, the government may conduct a switch auction to buy back or redeem certain pre-determined bonds that are illiquid and replace them with more liquid benchmark government bonds. This also provides flexibility for the government to manage its liability through the re-profiling of debts and caters to investors' demand for securities of certain durations.[4]

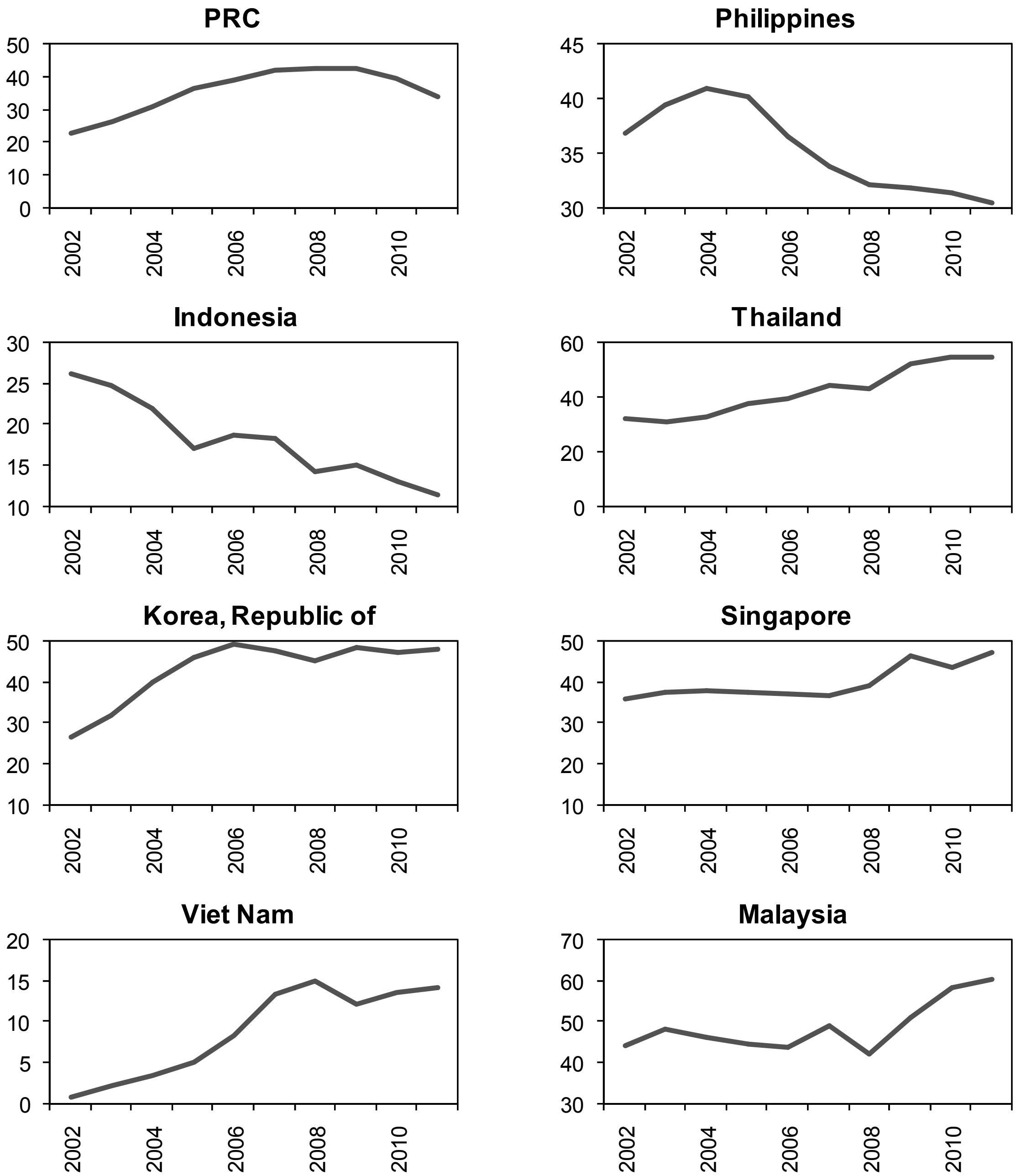
Figure 1: LCY Government Bonds Outstanding in Emerging East Asia
($ billion)



Source: *AsianBondsOnline*.

[4] Bank Negara Malaysia, Bond Info Hub.

Figure 2: Size of Local Currency Government Bonds
(% of GDP)



LCY = local currency, PRC = People’s Republic of China.
Source: *AsianBondsOnline*.

The Republic of Korea has come a long way with its government bond market development program. Prior the 1997/98 Asian financial crisis, the 3-year bank-guaranteed corporate bonds were considered to be the benchmark as the primary and secondary markets for government bonds were underdeveloped. However, after the crisis banks ended their guarantees of corporate bonds in compliance with new prudential requirements. With the government's increased issuance of government bonds to finance the restructuring of insolvent companies and financial institutions as a result of the crisis, 3-year government bonds superseded corporate bonds as the 3-year benchmark. The government has since moved to issue treasury bonds with maturities of 3-, 5-, and 10-years. By 2006 it had extended the maturity of its government bonds to 20 years to minimize refinancing risks.[5] To smooth the issuance of government bonds, the government has maintained an equal volume of monthly issuance. The conversion of government bonds was also introduced to increase the liquidity of government bonds.

In establishing the benchmark yield curve, Thailand initially issued benchmark bonds with maturities ranging from 1 to 20 years. Based on consultations with market participants, Thailand has recently announced that it will focus on medium- and long-term bonds with maturities of 5, 7, 10, 15, and 30 years. In line with the preference of corporate issuers (Figure 3)[6] and investors, the government is planning to extend the benchmark issues down to 3 years. In addition, over the past few years Thailand has held to its objective of maintaining designated benchmark issues of at least THB500 billion ($15.8 billion) to build and maintain secondary market liquidity. Even under varying fiscal needs, the benchmark issuance has been maintained. Apart from the benchmark bonds, in 2011 Thailand also issued 50-year government promissory notes—becoming the fourth country to issue 50-year bonds after the United Kingdom, France, and the People's Republic of China (PRC)—and inflation-linked bonds.[7]

In the PRC, like other ASEAN+3 member countries, the government has been working to develop the bond market. As its fiscal position has improved over the past several years, the PRC has limited the issuance of its treasury bonds to a range of CNY600 billion–CNY700 billion ($90–$110 billion) per year.[8] Treasury bonds are now issued with maturities of 1-, 5-, 10-, 15-, 20-, and 50 years. Faced with increasing capital inflows, the central bank issued more of its own notes to conduct open market operations and sterilize large capital inflows.

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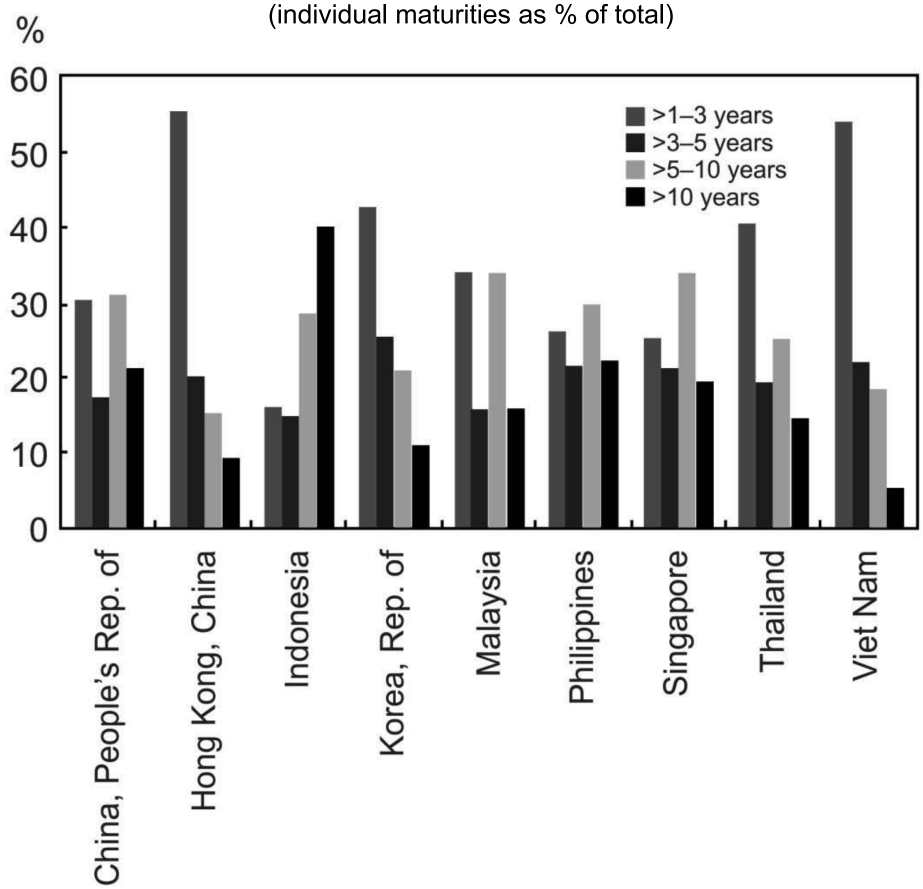
[5] Ministry of Strategy and Finance 2011.
[6] ADB 2011b.
[7] ADB 2011b.
[8] Huang and Zhu 2007.

Figure 3: Government Bonds Maturity Profiles
(individual maturities as % of total)



Source: *Asia Bond Monitor.* September 2011.

2.2 Promoting a Diverse Range of Bonds

The governments in the region have not only facilitated government-owned financial institutions but also revenue generating state-owned enterprises such as utilities and air lines to issue local currency bonds to meet some of their funding needs. In the PRC, in particular, policy banks have been allowed to issue bonds as subordinated debt to strengthen their capital base. As of 2011, local currency bonds had become the major source of funding for policy banks in the PRC. The share of the policy bank bonds of the total outstanding local currency bonds reached nearly 31%, amounting to $997 billion by September 2011.[9] Starting in the fourth quarter of 2011, authorities in the PRC have began allowing four local authorities in the eastern and southern PRC to directly issue bonds in their own name on a pilot basis.

[9] ADB 2011b.

Restrictions have been removed in ASEAN+3 economies to allow not just government agencies but also foreign joint ventures and wholly foreign-owned companies to raise local currency funding for the financing of foreign direct investment. As a result, significant issuance of local-currency-denominated bonds was made by the multilateral development banks (MDBs), including ADB and the World Bank Group (WBG), as well as multinational corporations (MNCs). Local currency bond issuance by MDBs and MNCs is particularly important because it has helped increase the supply of high quality local currency bonds and allowed MDBs and MNCs to bring issue standards and role model disclosure and documentation based on international best practices to domestic markets, thereby setting a precedent for other issuers to follow.

In Malaysia a total of seven MDB bonds amounting to MYR3.7 billion ($1.2 billion) had been issued through 2011. Since 2004, ADB has issued local currency bonds denominated in pesos, baht, ringgit, renminbi, and Singapore dollars totaling $1.37 billion. Thailand has permitted nine foreign banks to issue THB-denominated bonds in the range of THB6 billion to THB8 billion ($190 million–$254 million). Foreign companies and banks have also been permitted to issue bonds in Malaysia. To promote a diverse range of bonds, the PRC deregulated the issuance of commercial paper and asset-backed securities. Moreover, in 2008 the PRC first allowed private enterprises to issue medium-term notes (MTNs)—under the self-regulatory rules set by the PRC's Inter-bank Market Dealers Association—with maturities of 3 to 5 years.[10] The PRC has already allowed two MDBs, ADB and IFC, to issue bonds denominated in renminbi in its domestic market, and two foreign financial institutions to underwrite corporate bonds in the interbank bond market, which marks the first time that foreign institutions have been allowed access to the country's primary bond market. Foreign banks, on the other hand, can issue RMB denominated bonds in Hong Kong, China.

As mentioned above, the Government of Thailand has allowed MDBs and foreign governments to issue THB-denominated bonds in Thailand since 2004, with the intention of widening investment choices and attracting more foreign investors. By 2006 the issuer base was broadened to include foreign companies, banks, and MDBs including ADB, the WBG, and the Japan Bank for International Cooperation (JBIC).[11] Restrictions on non-resident companies issuing bonds in local currency have also been liberalized.

As a continuation of ASEAN+3 policymakers' move to promote the participation of MDBs in their local currency bond markets, regulators from Hong Kong, China; the PRC; Malaysia; and Singapore have also worked with ADB to establish a $10 billion MTN program as Asia's first multi-currency bond platform linking domestic debt markets in the region. Under the scheme, ADB issued and will issue Asian currency bonds in ASEAN+3 member countries under a single unified framework with a common set of documents governed by English common law. This program is being implemented to help identify and address the challenges of using common standards for bond issuance within ASEAN+3 as a means to facilitate cross-border bond issuance. To date the issuance of these notes has been approved in Singapore and Hong Kong, China, while

[10] The 21st Century Public Policy Institute 2011.
[11] Ruengvirayudh 2006.

the approval processes in Malaysia and Thailand are underway. As of March 2011, ADB has issued $673.2 million in Singapore and Hong Kong, China under this program. Other member countries—including the Republic of Korea, the Philippines, and Indonesia—are also expected to participate in the program in the future.

To provide access for small and medium-sized enterprises (SMEs) to bond markets for long-term local currency funding, ASEAN+3 policymakers sought to develop asset-backed securities consisting of packages of loans extended to companies and debentures issued by corporations. It was also believed that structured finance securities could be sufficiently developed to give rise to a secondary market and become a new asset class for investors seeking to effectively diversify their investment portfolios.[12]

Moreover, as the 1997/98 Asian financial crisis generated large stocks of nonperforming loans (NPLs), policymakers in the region sought to dispose of NPLs through securitization. The Republic of Korea, Malaysia, the Philippines, and Thailand revised their securitization frameworks after the crisis. The authorities in the PRC published regulations in 2005 to enable asset management companies to take over NPLs from banks and public financial institutions. As a result, the securitization of domestic assets grew rapidly in emerging East Asia from 2005 and peaked in 2008, particularly in Malaysia, the Republic of Korea, and the Philippines. This growth, however, was largely due to the repackaging of mortgages and consumer finance rather than corporate debt (Gyntelberg and Remolona 2006).

However, since 2008 securitization in the region has been subdued as the subprime credit crisis in the US contributed to the loss of confidence in securitization. As the result, many deals in the pipeline have been cancelled. Prior to the subprime crisis, there were four securitization transactions in the Philippines, with transaction sizes ranging from about $100 million to $1.8 billion. Thailand had its first securitization transaction in 2005 and is planning a second transaction, albeit at a significantly smaller size, in 2012. In Malaysia securitization began in 2003 and grew rapidly in 2006–2007, with the transaction size ranging from MYR435 million to MYR2,410 million ($130 million to $730 million). However, since the subprime crisis, securitization activities have been scaled down, with the transaction size drastically reduced to a range of MYR151 million to MYR340 million ($50 million to $113 million). In the PRC issuance of asset-backed securities peaked in 2008 at CNY30.2 billion ($4.3 billion). However, there has not been any new issuance in the PRC since then.[13]

To attract international investors (for portfolio and foreign direct investment) to the bond market in the region, ASEAN+3 policymakers believed that it would be essential to help minimize foreign exchange risks. One of the areas for policymakers to explore was issuing bonds backed by a basket of government bonds denominated in local currencies. In 2005, ADB provided a technical assistance project—ASEAN+3 Regional Multicurrency Bond (RMCB), Phase I—to conduct a feasibility study and assess market acceptability of multicurrency bonds denominated in Asian currencies.

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[12] Taniguchi 2003.
[13] ADB 2011a.

For Phase II of the RMCB technical assistance, a more elaborate conceptual framework was proposed to (i) identify relevant lessons from the experiences of Europe, (ii) identify the potential for RMCB development in the region, (iii) examine the experience of European-Currency-Unit-denominated basket currency bonds in terms of market development, and (iv) identify conditions necessary for the functioning of the RMCB market. The study suggested that the overall response to RMCBs was positive. Nevertheless, as there were concerns with the lack of liquidity, capital controls, withholding taxes, structuring costs, and information gap between the private and public sectors, ASEAN+3 agreed not to immediately follow through with RMCBs.

2.3 Enhancing Market Infrastructure to Foster Bond Markets in Asia

The activities under this framework were designed to be implemented over the medium- to long-term. As such, some of the measures that started in 2003 were carried over to the 2005 and 2008 roadmaps, while others have been modified to reflect the outcomes of the studies undertaken to provide inputs for policymakers on the areas under consideration. In addition to areas of focus highlighted in paragraph 3, ASEAN+3 economies also included policies to support the development of derivatives, swap, and repo markets; improve bankruptcy procedures for bond transactions; promote the adoption of international accounting standards to improve transparency; increase liquidity in bond markets; and develop a pool of professionals required to support bond market development. While some of these policy actions are still in an early stage of implementation, and others have yet to be implemented, there has been significant progress in the implementation of key policy actions.

The most notable market infrastructure recently established is the Credit Guarantee and Investment Facility (CGIF). As part of policy actions to facilitate issuers' access to local currency bond markets in their own domestic market and across the region, ASEAN+3 policymakers, with ADB contribution, established CGIF as an ADB trust fund in 2010 to provide credit enhancement for investment grade companies seeking to issue local currency bonds. Credit enhancement is deemed essential for issuers and domestic institutional investors as the prudential standards for such investors (particularly contractual savings institutions) restrict their investments to debt securities with a minimum credit rating of AA, while commercial banks are restricted to debt securities with a minimum credit rating of A-. Moreover, credit enhancement by CGIF can be used to support the tranches of payment rights under securitization to meet investors' particular risk appetite. Credit protection from CGIF could also attract foreign investors to corporate bond markets in the region.

As designed, the credit enhancement to be provided by CGIF will enable companies with investment grade ratings below AAA to lengthen the maturity of their local currency bonds, particularly for infrastructure development, in their own domestic markets. With its AAA international credit rating CGIF guarantees will also be enable issuers with an investment grade rating in a country with a sovereign rating below investment grade to issue bonds across the region. For its pilot phase, CGIF has paid-in capital of $700 million with contributions from all member countries of ASEAN+3 and ADB. CGIF is expected to begin its guarantee operations in 2012.

As credit ratings are a vital component of the infrastructure required for well-functioning bond markets, ASEAN+3 policymakers have worked closely with ADB and the members of the Association of Credit Rating Agencies in Asia (ACRAA) since 2002 to enhance their role in providing reliable information on issuers of debt instruments in the region. From 2005 to 2010, ADB provided training and held best practice dialogues for 23 domestic credit rating agencies (DCRAs) in ASEAN+3 countries, and in South and Central Asia.[14] In addition, a study was undertaken to access the gap between the systems of domestic rating agencies and those of global rating agencies to explore the possibility of harmonizing common standards and enhancing comparability among domestic credit rating agencies. Based on the findings of the study, a Handbook on International Best Rating Practices was prepared as a guide for DCRAs to help promote the adoption of the best practices and common standards by ACRAA members. Recommendations by the International Organization of Securities Commissions (IOSCO) on measures to address conflict of interest, based on lessons learned from the subprime crisis, have been included in the handbook.

A study was also undertaken to assess the feasibility of establishing an Asian Credit Rating Board; however, it was agreed among ASEAN+3 that the establishment of an Asian Credit Rating Board could not be considered at that stage as it was not likely to be viable in light of market conditions and without financial support from ASEAN+3.

To raise awareness of bond markets in the region, ASEAN+3 has also worked with ADB to establish the *AsianBondsOnline* website to disseminate information on (i) bond market development in the region and leading indicators comparable across ASEAN+3 economies; (ii) current market activities, legal and regulatory frameworks, and government policies and initiatives affecting bond market development; (iii) how to buy and trade government and corporate bonds in ASEAN+3; and (iv) terms and acronyms unique to the region, or specific emerging East Asian bond markets, through an Asian Bond Glossary.

In building market infrastructure for local currency bond markets ASEAN+3 authorities studied issues relating to cross-border transactions within the region to identify and address impediments to greater market participation. The Group of Experts (GoE) on Cross-Border Bond Transactions and Settlement Issues was established in 2008 to (i) evaluate the feasibility, particularly the financial viability of selected regional settlement intermediary (RSI) options; and (ii) identify the barriers to cross-border bond transactions and settlement in ASEAN+3. The GoE comprises 17 national member institutions and 9 international member institutions, including central securities depositories (CSDs), local custodians, and global custodians. The group's report is the first comprehensive study on cross-border transactions and settlement in the region.

According to the study, cross-border bond transaction costs in the ASEAN+3 region are on average three times higher than those in the US or the European Union (EU) as the markets remain relatively thin and barriers to cross-border transactions are not well

[14] ACRAA members are domestic credit rating agencies from Bangladesh; the People's Republic of China; India; Indonesia; Japan; the Republic of Korea; Malaysia; Pakistan; the Philippines; Taipei,China; and Thailand.

understood by market participants. The cross-border transaction costs within ASEAN+3 are high and vary significantly among countries in the region mainly due to low transaction volumes and country-specific regulations and restrictions. By reducing barriers and harmonizing market regulations and practices, transaction costs volumes could be significantly reduced. As such, the GoE recommended the establishment of a co-ordinating body, under ABMI, with a mandate to set realistic goals and timetables for the reduction of barriers to cross-border bond investment across the region.

For settlement of cross-border bond transactions, the study proposed two options for RSI: (i) an Asian International Central Securities Depository (ICSD), and (ii) CSD linkages in East Asia. The study provides the necessary legal and financial conditions for the possible establishment of a regional settlement intermediary. It also identifies major barriers to cross-border bond investment and settlement, and provides a set of recommendations on measures to address them. The study finds perception gaps as a significant impediment since market participants may not always be aware of the progress made by regulators in reforming or removing some of the impediments.

Based on the outcome of the GoE report, ASEAN+3 Finance Ministers endorsed the establishment of the Asian Bond Market Forum (ABMF) in May 2010 as a common platform to foster standardization of market practices and harmonization of regulations relating to cross-border bond transactions in the region. The ABMF is envisaged not only to lead the region toward more harmonized and integrated markets, but also to act as the link between ASEAN+3 and the rest of the world in international standard-setting and rule-making. Currently, the ABMF is working on compiling a comprehensive market guide on key aspects of 11 individual bond markets and identifying cross-border transaction procedures to reduce costs by enhancing a straight-through process.[15] The market guide will include information on (i) level of development, structure, and characteristics of individual markets in ASEAN+3—including credit rating systems; (ii) primary and secondary market regulatory frameworks; (iii) bond trading market infrastructure; (iv) bond trading impediments and restrictions; (v) a detailed description of the securities settlement system; (vi) bond trading costs and charging methods; (vii) bond market sizes and related statistics; (viii) the role of Islamic finance; (ix) the history of debt market development; and (x) the forecast of the future bond market development. (See Appendix 2 for more detailed information.)

2.4 Strengthening the Regulatory Framework and Other Measures to Improve Liquidity and Efficiency in Bond Markets

ASEAN+3 policymakers have been working since the 1997/98 Asian financial crisis to strengthen their respective regulatory and supervisory frameworks for securities, adopting accounting and auditing standards in line with international standards, and improving bankruptcy laws. ABMF members are in the process of assessing the existing regulatory frameworks, disclosure standards, and bankruptcy procedures, in addition to other key factors required for bond market development and streamlined cross-border transactions, across the 11 member countries of ASEAN+3. Where there are

[15] Inputs on the GoE report were provided by Shinji Kawai, Senior Financial Economist, Office of Regional Integration, Asian Development Bank.

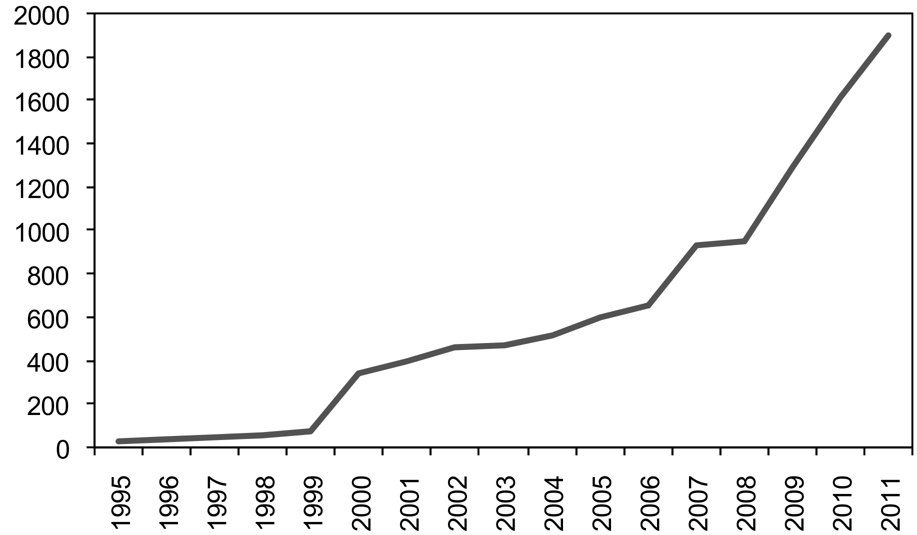
weaknesses, ABMF will encourage member countries to strengthen relevant regulations and harmonize them with other ASEAN+3 member countries in line with international best practices. ABMF is also seeking to facilitate collaboration among securities dealers associations and self-regulatory organizations (SROs) in the region, including facilitating the establishment of such organizations when necessary.

The business feasibility of establishing the RSI, on the other hand, will also be revisited in 2012. In addition, ASEAN+3 and ADB are working together to implement two ongoing technical assistance projects to help improve liquidity in the bond markets within the region and to broaden the investor base for local currency bonds in order to mitigate against the impact of capital outflows from the region. The technical assistance projects are expected to be completed in 2012 and their recommendations will be presented to policymakers for consideration upon completion. Activities to develop repurchase agreement, swap, and derivative markets, and developing associated professional services such as financial analysts to support the growing bond markets are expected to be carried out under ABMI in the medium or long term.

2.5 Promoting Corporate Bond Market Development

ASEAN+3 corporate bond markets have been developing in response to more conducive policy environments in several member countries, including the establishment of the yield curve for the pricing of corporate bonds, improved legal and regulatory frameworks, and less restrictive market entry. ASEAN+3 corporate bond markets have been developing in response to more conducive policy environments in several member countries (Figure 4). The share of corporate bonds to GDP in most ASEAN+3 countries is growing, albeit from a small base in some markets (Figure 5). Large corporates in the Philippines and Thailand, which saw significant losses due to the currency devaluations as the result of the Asian financial crisis, have raised most of their funding in the local currency bond markets. It is only very recently that companies in the Philippines have again begun issuing USD-denominated bonds to take advantage of low interest rates.

Figure 4: LCY Corporate Bonds Outstanding in Emerging East Asia
($ billion)



LCY = local currency.
Source: *AsianBondsOnline*.

Figure 5: Size of LCY Corporate Bond Markets
(% of GDP)

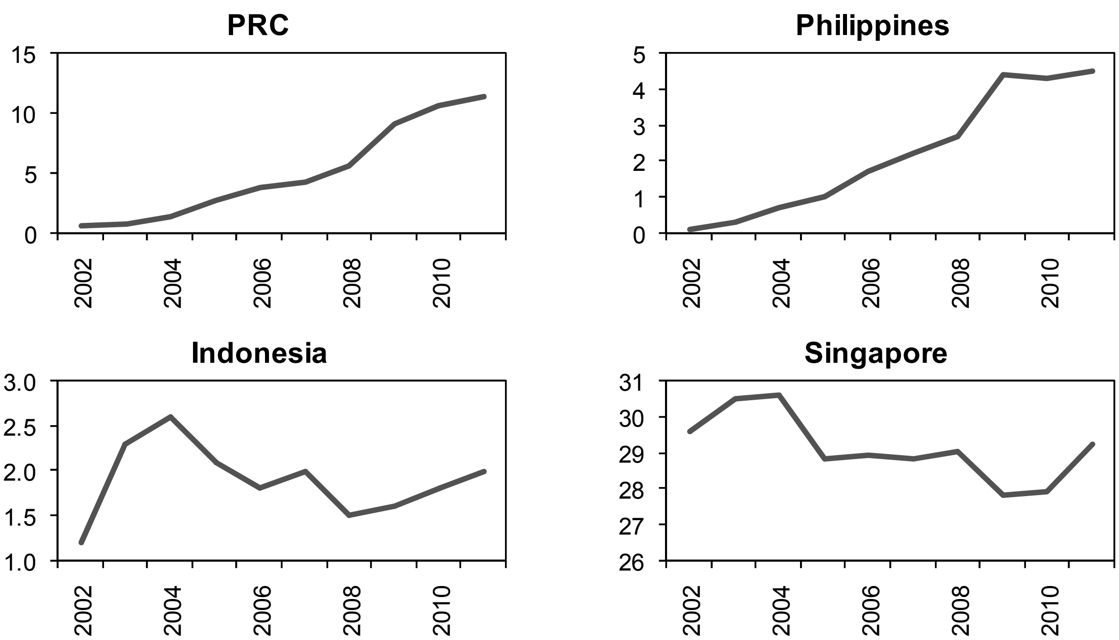
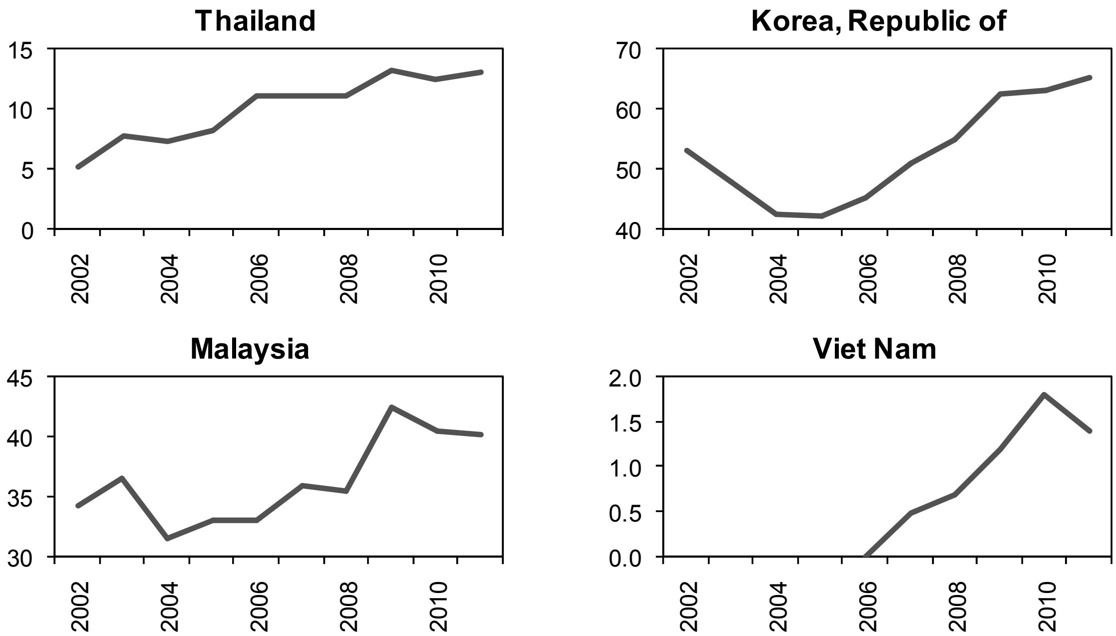


Figure 5: *Continued.*

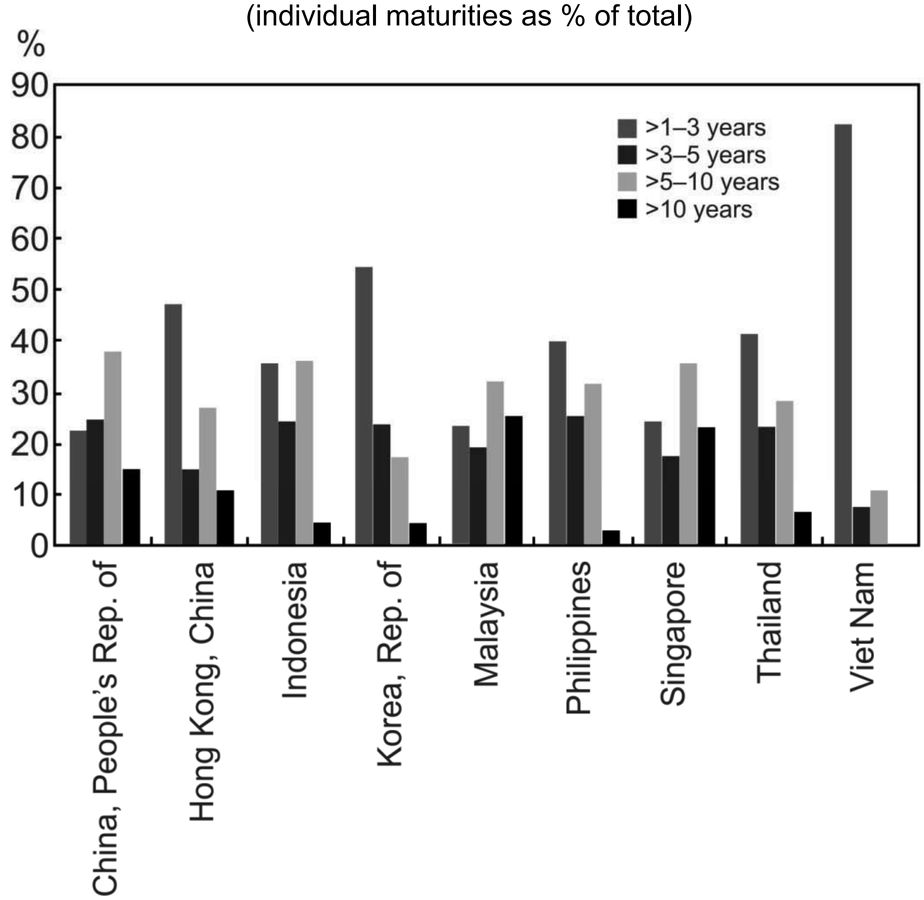


GDP = gross domestic product, LCY = local currency, PRC = People's Republic of China.
Source: *AsianBondsOnline*.

The region's most rapidly growing corporate debt market has been in the PRC as a result of the 2008 reform to allow the issuance of MTNs by private enterprises. MTN debt securities outstanding amounted to CNY1.7 trillion ($272 billion) in September 2011, more than doubling the amount of state-owned corporate bonds outstanding. Nevertheless, the corporate debt market in the PRC remains small compared with the government debt market. This is also true for all corporate debt markets in emerging Asia, except in the Republic of Korea, where total outstanding corporate bonds amounted to $677.9 billion in September 2011 compared with $501.2 billion outstanding in the government debt market.[16] Nevertheless, the collapse of Daewoo Group in 1999 and the misreporting of the SK Group in 2003 have had a negative impact on the corporate bond market of the Republic of Korea and have limited the maturities of corporate debt securities.[17] As shown in Figure 6, which highlights the maturity profiles of corporate bond markets in emerging East Asia, in the Republic of Korea the maturities of corporate bonds tend to concentrate in the 1–3 year range despite the market's relatively large size. The maturities of corporate bonds in other parts of the region, however, are in the 1–5 year range.

[16] AsianBondsOnline.
[17] The 21st Century Public Policy Institute 2011.

Figure 6: Corporate Bonds Maturity Profiles
(individual maturities as % of total)



Source*: Asia Bond Monitor.* September 2011.

Access to corporate bond markets remains limited across the region. Corporate bonds are generally issued by companies with a AAA credit rating. In Viet Nam, where the corporate bond market is still in a nascent stage, about 80% of corporate bonds have maturities of 3 years or less. Moreover, over 90% of corporate bonds were issued by only 15 companies in Viet Nam (Table 1). The market infrastructure required for a well-functioning market, such as a credit ratings system and disclosure standards, need further time to develop. In the Philippines and Thailand, where corporate bond markets are more developed, 93.3% and 70.2% of total corporate bonds outstanding, respectively, were issued by 30 companies. In Indonesia, 93% of corporate bonds were issued by 50 companies. In Singapore, the Republic of Korea, and Malaysia, where the corporate bond markets are relatively advanced, more issuers can access the markets. However, only in Singapore where less than 50% of total local currency bonds outstanding were issued by 40 companies. Finally, a large number of corporate issuers in the region are state-owned enterprises.[18]

[18] Thailand has recently announced that state-owned enterprises seeking to issue bonds are now required to have their own credit rating and approval from the Securities and Exchange Commission.

Table 1: 50 Corporate Issuers as % of Total LCY Corporate Bonds

PRC	Singapore**	Rep. of Korea	Malaysia *
65.0%	49.0%	74.4%	51.0%
Philippines *	**Indonesia**	**Thailand ***	**Viet Nam *****
93.3%	94.1%	70.2%	93.5%

* = Issuance by 30 companies as % of total LCY corporate bonds

** = Issuance by 40 companies as % of total LCY corporate bonds

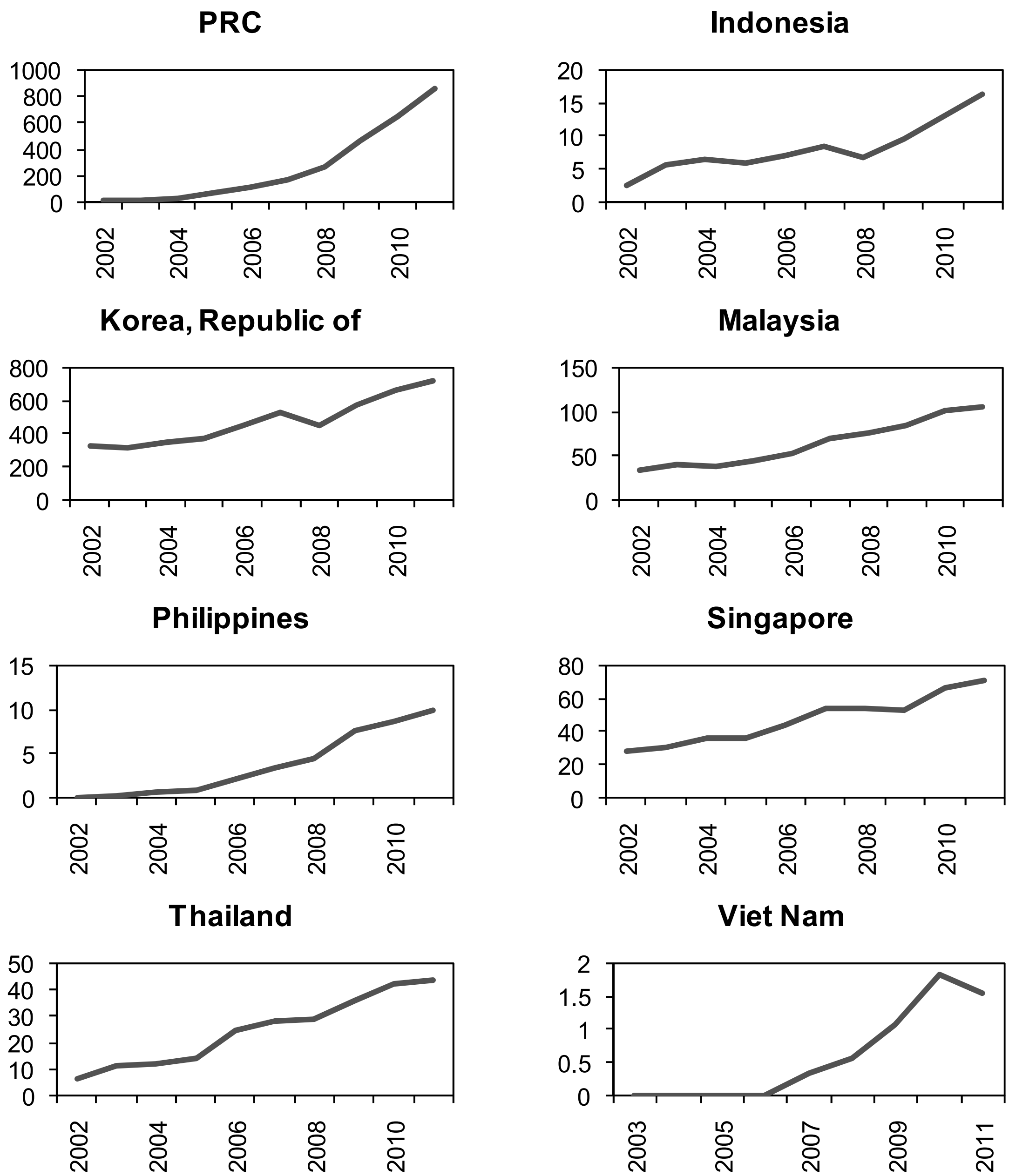
*** = Issuance by 15 companies as % of total LCY corporate bonds

LCY = local currency, PRC = People's Republic of China.
Source: *Asia Bond Monitor*. September and November 2011.

Only the corporate bond markets in the PRC, the Republic of Korea, and Malaysia have exceeded $100–200 billion (Figure 7), the threshold estimated by McCauley and Remolona (2000) as the size required for a deep and liquid market.[19] In addition, it is not only access to local currency bond markets that remains limited across the region, liquidity in markets like Thailand is further constrained by market practices. For example, a number of corporates with a AAA credit rating in Thailand have their own investors' club with members who purchases bonds directly from the corporate. These investors tend to hold the bonds until maturity.

[19] Based on success of government bond futures markets as well as by bid-ask spreads in G10 markets.

Figure 7: Size of LCY Corporate Bond Markets
($ billion)



LCY = local currency, PRC = People's Republic of China.
Source: *AsianBondsOnline*.

3. Proposed Measures to More Effectively Channel Savings for Long-Term Investment and Rebalancing Growth in the Region

While policy environments fostering the development of the region's local currency bond markets have gradually been put in place, a great deal of targeted policy actions have yet to be fully implemented. CGIF has been established but will not be operationalized until the second half of 2012. Nevertheless, more domestic savings are gradually being channeled through local currency debt markets to fund investment in the region. Local currency debt markets have emerged as an alternative source of funding for both the governments and the corporate sector in the region to finance fiscal stimulus programs and meet their financing needs as witnessed during the recent global financial market turmoil. Undoubtedly, corporate bond markets in the region will further develop. To support more balanced growth and address savings–investment imbalances in the region, there is still more room for policymakers to sharpen policy measures to more effectively channel domestic savings to finance investment and stimulate domestic demand.

The region's growth pattern has been dependent on external trade for growth. This model has resulted in limited employment growth and made the region more vulnerable to external shocks. In the PRC, despite growth of an average of about 10% per year for the past several years, the economy has generated only 1% annual employment growth. Growth in employment in other countries in the region has also been relatively modest (Prasad, 2009).

In the PRC, where savings are the highest in the region, Chamon and Prasad (2008) argued that despite rapid rises in income, Chinese households increased their savings due to the burden of expenditures for housing, education, and healthcare. This behavior may be further amplified by financial market underdevelopment that has constrained households' ability to borrow against future income and led them to save to self-finance durable consumption (housing) and social safety net services (education and health care). Household saving rates in the PRC grew from 14.8% in 2000 to 22.9% in 2008. Based on the rough estimate of Chamon and Prasad, housing-related motives could account for a nearly 3 percentage point increase in savings. Corporations also save to finance their own investment needs as the corporate bond [market has yet to provide the needed long-term funding (Prasad 2009). From 2000 to 2008, the corporate (non-financial) savings rate rose from 13.5% to 19.8% in the PRC. The household savings rate in other ASEAN+3 economies is, however, significantly lower.

Rebalancing growth from export dependence toward one that is driven by domestic demand requires a comprehensive package of policy reforms, ranging from labor to fiscal measures. The measures proposed below aim to develop financial markets—particularly local currency bond markets—to more effectively mobilize savings to a greater variety of borrowers including households and business enterprises both at the country and regional levels under the ABMI framework.

At the country level, countries like the PRC, Indonesia, the Republic of Korea, Malaysia, Philippines, and Thailand all have successfully undertaken reforms to create and maintain designated benchmark issues as steps to develop their respective corporate bond markets. These countries could be encouraged to undertake additional reforms to further develop their financial markets, particularly to improve the liquidity and efficiency of corporate bond markets, swap and derivative markets, and insurance industries and private pension systems as emphasized in the 2008 ABMI road map. While these reforms have to be in line with international best practice, they also have to be tailored to the specifics of an individual country. Countries with nascent bond markets that have the potential to grow in a similar manner as some ASEAN countries, such as Viet Nam, could be encouraged to learn from the lessons of other ASEAN+3 countries on steps and key building blocks to put in place to develop financial markets.

In individual countries, ASEAN+3 policymakers could also promote financial literacy—both through formal educational systems and training programs for adults. Financial literacy would help give savers and investors a better understanding of financial products and services and their associated risks to allow them to make informed financial decisions. Financial literacy, as such, would give savers and investors tools to actively participate in financial markets and better manage the associated risks. Moreover, as policymakers in the region are moving to promote domestic demand to rebalance growth, it is essential that citizens understand financial products and services and make well-informed decisions on consumer finance.

At the regional level—especially under the framework of ABMI–ASEAN+3 policymakers could re-establish the securitization market to promote home ownership and stimulate other household consumption, and to provide funding for infrastructure development and SME lending. Asset securitization is the process by which assets with similar characteristics are pooled in a special purpose vehicle (SPV) and issued to investors with a right to payments supported by the cash flow from a pool of financial assets held by the SPV. The tranches of payment rights paid in a specific order could be enhanced by third-party guarantees to meet the investor's particular risk appetite. The assets in the pool can be residential and commercial mortgages that generate monthly payments of principal and interest, account receivables from households or businesses, or revenues from infrastructure projects such as toll roads and bridges.[20] For lenders that have successful loan programs but face capital constraints, securitization can help remove assets from the lenders' balance sheet and open up room for more lending for infrastructure projects, SMEs, and household consumption of durable goods.

To re-establish a sound and responsible securitization market, ASEAN+3 policymakers will have to work closely together to address weaknesses in regulations highlighted during the collapse of securitization markets in developed economies. As acknowledged by the Joint Forum of the Basel Committee on Banking Supervision[21] reforms are necessary to address incentive conflicts and misalignments that distorted risk transfer, increased structure complexity and opacity, and lead to extreme leverage in the financial

[20] Giddy 2000.
[21] The Joint Forum, Basel Committee on Banking Supervision, Report on Asset Securitization Incentives, Bank for International Settlements, July 2011.

system. Recommendations proposed by the same Joint Forum to re-establish the securitization markets should be incorporated in measures to develop securitization markets in the region. These recommendations include (i) employing a broad tool kit to address misaligned incentives—including measures requiring originators or securitizers to retain an appropriate amount of risk in the securitized transaction ("skin in the game"); (ii) improving transparency regarding the assets' origination and securitization, and establishing additional disclosure requirements; and (iii) adopting a greater degree of document standardization and reducing product complexity.

As recommended by the Joint Forum, while ASEAN+3 policymakers should take into account consideration of local market circumstances, they should strive for consistency with global markets and other sectors to limit opportunities for cross-border and cross-sector arbitrage. Moreover, the committee recommends that information disclosure standards be adopted based on international standards, including basic legal documentation and pooling of service agreements, among others. Lastly, as standard setters, the activities of banking, insurance, and securities regulators and SROs should be coordinated and consistent.[22]

Although the coordination of standard setting to re-establish securitization markets should be done at the regional level, individual securitization deals will have to be made at a country level based on an individual country's domestic policies. Policymakers from several ASEAN+3 economies have expressed their interest in providing support for SMEs to meet their financing needs through the local currency bond markets with the securitization of their bank loans. As loans to SMEs tend to be small and have high transaction costs, and SMEs are considered high-risk borrowers, the securitization of SME loans is not likely to be feasible at this stage of market development unless the deals are supported by the authorities. In the experience of Singapore under its SME CreditAssist, structured floating notes were issued and backed by a pool of loans to SMEs. While the senior tranche of the deal had a high credit rating and therefore could be sold to investors, the remaining tranches had low ratings and were held by the Government of Singapore (Gyntelberg and Remolona 2006) as this tranche did not attract investors. Similar support has been provided by the Government of the Republic of Korea for the securitization of SME debt.

To attract regional savings for intra-regional investment, it is essential that policymakers in ASEAN+3 continue to reduce transactions costs and market participants' information gap with regard to regulations and practices under cross-border transactions. In particular, policymakers should fully establish the ABMF, in line with the recommendations of the GoE, not only to lead the region toward more harmonized and integrated markets, but also to act as the link between ASEAN+3 and the rest of the world in international standard-setting and rule-making. This is particularly crucial since, unlike in Europe, there is no super-national body in Asia comparable to the European Commission and able to coordinate among member countries and enact rules and

[22] For economies with nascent financial market, Chami, Fullenkamp, and Sharma (2011) recommends that a related instrument known as covered bond may be more feasible and desirable as the covered bonds would have less legal and technical hurdles to overcome. Moreover, covered bonds would have to remain on the balance sheet of the originator lender and would not have to be sold to an SPV.

regulations uniformly applicable in the region. Unlike in mature markets, the role of the private sector to set standards and common practices is still limited; moreover, national market practice groups have not yet prevailing in many markets in the region. As such, there is a need for ASEAN+3 policymakers to institutionalize a mechanism to harmonize and integrate their markets. ASEAN+3 should ensure that ABMF, in its capacity as the link to the rest of the world in international standard-setting and rule-making for the region, avoid increased fragmentation in financial markets and facilitate the flow of capital to where investment and return opportunities are greatest.

Lastly, ASEAN+3 policymakers should significantly increase the capital of CGIF to enable it to meaningfully improve the access of issuers to local currency bond markets and leverage more savings for investment in the region. With capital of $700 million and a leverage ratio of 1 to 1, CGIF can provide guarantees up to a maximum of $700 million. Even with the current market size of $1.8 trillion, CGIF is not able to leverage domestic savings to finance investment where it is needed, especially as corporate bond markets can only be accessed by a small number of companies. Should the securitization markets be re-established and cross-border bond issuance expanded to finance increasing intraregional trade and investment, the demand for credit enhancement for local currency bonds is expected to grow exponentially. Unless CGIF's capital is increased, and the leverage ratio for guarantee operations be gradually raised from 1 to 1 to at least 1 to 4, which would be in line with that of MDBs such as ADB and the WBG, CGIF will not be able to meaningfully fulfill its intended role.

4. Conclusion

Based on the assessment of the progress made under ABMI over the past 10 years, policymakers in the region have successfully developed local currency bond markets to better channel a large pool of domestic savings into long-term investment. Nevertheless, more work is required to improve the efficiency and liquidity of the markets, and to enable them to more effectively provide domestic savings for investment and finance domestic consumption in order to help modify growth patterns and improve savings–investment imbalances. Under the ABMI framework, policymakers could consider re-establishing securitization markets to stimulate domestic demand, promote financial literacy, enhance cross-border bond transactions to attract regional savings for regional investment, and increase the capital base and leverage ratio of CGIF to make it possible for CGIF to provide more companies—large and small—greater access to savings for the funding of investment through local currency bond markets.

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Appendixes

Appendix 1

The Framework for the Asian Bond Market Initiative (ABMI)

The framework for ABMI could be summarized as follows:

- The objective of ABMI: Attaining sustainable growth led by the private sector.
- Approach: A comprehensive approach to fostering bond markets in Asia focusing on three area:

1. Facilitating Access to Bond Markets by a Wider Variety of Issuers
   (i) Role of Governments and Government agencies
   (ii) Bond issuance for financing foreign direct investments by enterprises operating across borders
   (iii) Fostering Markets for Asset-Backed Securities

2. Promoting a Diverse Range of Bonds
   (i) Promotion of issuance of bonds denominated in local currencies
   (ii) Introduction of bonds denominated in currency baskets

3. Creation of an Environment to Develop Bond Markets
   (i) Effective use of Credit Guarantees
   (ii) Establishment of an Asian Regional Guarantee Facility
   (iii) Development of Bond Market Infrastructure (accounting standards, disclosure rules, settlement systems, rating agencies, and rules and regulations concerning transactions)
   (iv) Regional Mechanisms for Disseminating Information

The First ABMI Road Map contains the following measures:

1. Creating new securitized debt instruments
   (i) Bonds withholding tax exemption
   (ii) Issuance of securitized debt instruments
   (iii) Study on multi-currency bonds

2. Credit Guarantee and Investment mechanisms
   (i) Research on the regional guarantee and investment mechanism

3. Foreign Exchange Transactions and Settlement Issues
   (i) Research on the regional Clearing and Settlement Mechanisms (Asia Link)
   (ii) Research on the impediments on Cross-Border Bond Investment and Issuance

4. Issuance of Bonds Denominated in Local Currency by Multilateral Development Corporations
   (i) Country case study on Local Currency Bond Issuance by Foreign Issuers
   (ii) Seminars

5. Rating System and information Dissemination
   (i) Asian Bond Online Website (ABO)
   (ii) Collaboration with a Caucus of Local CRAs

6. Technical Assistance Coordination
   (i) TA through JAFTA to develop regional bond markets
   (ii) Assessment on actual TA needs

The 2005 ABMI Roadmap

1. Creating New Securitized Debt Instruments
   (i) Induce more issuances of local-currency denominated bonds including securitized debt instruments
   (ii) Study on multi-currency bonds with possible expansion to study on the future issuance of currency-basket bonds

2. Credit Guarantee and Investment Mechanisms
   (i) Regional guarantee instruments

3. Foreign Exchange Transactions and Settlement Issues
   (i) Research on the regional clearing and settlement mechanism (Asia Link)

4. Rating System
   (i) Collaboration with caucus of local CRAs

The 2008 ABMI Roadmap

A. Objective

1. The objective of this new comprehensive ABMI Roadmap is for member countries to; (i) make a voluntary effort on pursuing the development of local currency-denominated bond markets, and through such effort of each member country and a concerted effort of all member countries, (ii) seek to develop more accessible regional bond market both for issuers and investors in a concerted manner.

2. The 2008 ABMI road map has the following measures:

   a. Promoting the issuance of Local Currency-Denominated Bonds (supply-side)

      (i) Credit Guarantee and Investment Mechanism

(ii) Promotion of Asian Currency Note Program
(iii) Promoting issuance of structured finance instruments (a. Debt instruments for infrastructure financing; b. Securitized instruments; c. Regional basket currency bonds)
(iv) Developing derivatives and swap markets
(v) Promotion of underwriters in the region

b. Facilitating the demand for local currency-denominated bonds (demand-side)

(i) Development for investment environment for institutional investors including private pension systems, mutual funds, collective investment scheme and insurance companies
(ii) Development of repo markets and securities borrowing and lending
(iii) Enhancing cross-border transactions (a. Regulations on capital movement and foreign exchange transactions and b. Withholding tax and tax on capital gain)
(iv) Disseminating the efforts under the ABMI to institutional investors in the ASEAN+3 countries (e.g. through road show, conference, update of bond market situation of each country and Asian Bond Online website)et

c. Improving Regulatory Framework

(i) Strengthening regulatory and supervisory framework for securities
(ii) Facilitating collaboration among securities dealers associations and self-regulatory organizations in the region, including facilitating establishment of such organizations, if necessary.
(iii) Improving bankruptcy procedures related to bond transactions
(iv) Promoting application of accounting and auditing standards broadly consistent with international standards

d. Improving the Related Infrastructure for the Bond Markets

(i) Infrastructure for securities settlement
(ii) Increasing liquidity of bond markets
(iii) Fostering credit culture
(iv) Developing professional services such as financial analysts

Appendix 2

The Market Guide Produced under the Asian Bond Market Forum

The ten key factors that the market guide will cover include the following:

I. High Level Structure, Type and Characteristics of the Market

A. Overview
B. Types of Bonds
C. Money Market Instruments
D. Segmentation of the Market (Market outstanding by Market Type)
E. Listing of Debt securities
F. Methods of Issuing Bonds (Primary Market)
G. Public Offering Market / Private Placement Market
H. Wholesale / Retail
I. Definition of Professionals / Professional Investors
J. Definition of Qualified Institutional Investors
K. Credit Rating System (CRS)
L. Bond Related Systems for Investor Protections (Trustee System, etc.)
M. Governing laws of bond issuance
N. Transfers of interests in bonds
O. Definition of Securities
P. Self-governing rules behind the market
Q. Bankruptcy procedures
R. Meetings of bondholders (bond representative)
S. Event of default
T. Major Players in the Market
U. Degree of Opening of Domestic Bond Markets to Foreign Investors/ Issuers

II. Primary and secondary market regulatory frameworks

A. Rules and Regulations - Market Regulatory Structure
B. Securities Issuance Rules in Brief
C. Filing and Approval criteria
D. BEX's rules related to bond listing, disclosure, trading
E. Bond Market Association's rules related to trading, reporting, and registration
F. BOT's Regulations on Non-resident
G. Credit rating requirements
H. Exemptions for private issues (private placement)
I. Minimum lead time (number of business days) for registration approval
J. Availability of shelf registration and associated documentation requirements
K. Regulated suspension period (this may relates to investor protection)
L. Other requirements
M. Continuous disclosure rules or requirements

N. Restrictions for investors (investment grade, etc.)
O. Non-resident requirements / restrictions
P. Taxation Framework and Tax requirements

III. Trading of Bonds and Trading Market Infrastructure

A. Trading of Bonds
B. Trading Platforms
C. Bond Information Centre
D. Government Bond Yield Curve and Bond Indices
E. Bond (Interest Rate) futures
F. Repo transactions

IV. Possible item of Impediments / Restrictions

A. Impediments to the individual bond market
B. Significant factors

V. High level description of the securities settlement system

A. Securities settlement infrastructure
B. Bond settlement infrastructure diagram
C. Brief history of the development of the Securities settlement infrastructure
D. Business Process (OTC Market)/ DVP
E. Role of TCH
F. Definition of clearing and settlement and assessment
G. Challenge / Future direction

VI. Cost and charging methods

A. Average issuing and trading costs for Corporate Bonds and CPs
B. Average on-going costs for Corporate Bonds and CPs

VII. Market size / statistics

A. Nature and Size of Bond market
B. Size of LCY Bond Market in USD
C. Size of LCY Bond Market in % of GDP
D. Issuance Volume of LCY Bond Market in USD

VIII. Presence of an Islamic Finance (Islamic bond (Sukuk)) market

A. The current development of Islamic bond market in the market
B. Regulations for plain vanilla Sukuk
C. Specific regulation for Sukuk
D. Infrastructure for Sukuk

IX. History of Debt Market development

A. Bond market development measures

X. Next Step →Future Direction

A. Capital Market Master Plan (2002)
B. Capital Market Master Plan II (2006)
C. Capital Market Master Plan (2009)
D. Future Direction
E. G-30 Compliance
F. GOE final report: Summary of barriers Market assessment (April/2010)

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Strengthening the Financial System and Mobilizing Savings to Support More Balanced Growth in ASEAN+3

To improve the resilience of the region's financial system in the wake of the 1997/98 Asian financial crisis, the Association of Southeast Asian Nations (ASEAN) partnered with the People's Republic of China, Japan, and the Republic of Korea under the umbrella of ASEAN+3 and launched the Asian Bond Market Initiative (ABMI). ABMI seeks to develop local currency bond markets in order to mobilize domestic savings for long-term investments. This paper reviews the progress that has been made under ABMI to date, and proposes additional measures to further improve the region's savings-investment imbalances.

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