Harmonization of Bond Standards: ASEAN+3 Bond Market Forum (ABMF)

FSD CoP Seminar
1 September, 2011
Satoru Yamadera, Economist, OREI
Outline of the seminar

• Regional cooperation under ASEAN+3
  – Loose but effective regional cooperation framework

• Recent bond market developments in the region
  – Rapid growth of the markets

• Work under ABMF
  – Developments in market regulations and practices
  – Developments in market infrastructures
  – Next step
What’s ASEAN+3?
Regional forums in Asia

Source: ADB (2010), Institutions for regional integration
ASEAN+3: its size and economic impact

**GDP**
Current prices as of 2010

- ASEAN
- China
- India
- European Union
- NAFTA
- ASEAN+3

**Population**
As of 2010

- ASEAN
- China
- India
- European Union
- NAFTA
- MERCOSUR
- ASEAN+3

Source: IMF
Regional collective re-action to the Asian Currency Crisis in 1997-98

- Macroeconomic surveillance and response to crisis
  - Chiang Mai Initiatives
  - ASEAN+3 Macroeconomic Research Office (AMRO)

- Asian Bond Markets Initiative (ABMI)
  - ABMI Group of Experts (GoE) Report
  - Credit Guarantee and Investment Facility (CGIF)
  - ASEAN+3 Bond Market Forum (ABMF)
Promoting Issuance of Local Currency Denominated Bonds
- Credit guarantee and investment facility (CGIF)
- Promotion of Asian Currency Note Programme
- Promoting issuance of structured finance instruments

Facilitating the Demand of Local Currency-Denominated Bonds
- Development of investment environment for institutional investors
- Information dissemination Asian Bonds Online

Improving Regulatory Framework
- Strengthening regulatory and supervisory framework for securities
- Facilitating collaboration among SROs in the region
- Improving bankruptcy procedures related to bond transactions
- Promoting application of international accounting and auditing standards

Improving Related Infrastructure for the Bond Market
- Infrastructure for securities settlement
- Increasing liquidity of bond markets
- Fostering credit culture
- Developing professional services

The Organizational structure of ABMI

ABMF

TF1
Promoting Issuance of Local Currency Denominated Bonds

TF2
Facilitating the Demand of Local Currency-Denominated Bonds

TF3
Improving Regulatory Framework

TF4
Improving Related Infrastructure for the Bond Market

TACT
Technical Assistance

ASEAN+3 Finance Ministers
Meet annually

ASEAN+3 Deputy Finance Ministers
Meet semi-annually

ABMI Steering Group

Task Force (See next slide for details)

TF1
Promoting Issuance of Local Currency Denominated Bonds

TF2
Facilitating the Demand of Local Currency-Denominated Bonds

TF3
Improving Regulatory Framework

TF4
Improving Related Infrastructure for the Bond Market

TACT
Technical Assistance

GoE
Why ASEAN+3?

Active regional forum in Asia
Recent bond market developments in ASEAN+3
Rapid growth of LCY bond markets since 2003, particularly since 2009.

Corporate bond markets are growing rapidly.

Source: Asian Bonds online http://asianbondsonline.adb.org
Growth of LCY Bond Markets in 2009, 2010 and 1Q11 (y-o-y %)

Notes:
1. Calculated using data from national sources.
2. Growth rates are calculated from local currency base and do not include currency effects.
3. Emerging East Asia growth figure is based on end-December 2010 currency exchange rates and do not include currency effects.
4. For Singapore, corporate bonds outstanding quarterly figures are based on AsianBondsOnline estimates.

Source: People’s Republic of China (ChinaBond); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia and Indonesia Stock Exchange); Republic of Korea (Bank of Korea and KoreaBondWeb); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

Source: Asia Capital Markets Monitor August 2011
## Bond Outstanding in Major Markets (USD billion)

<table>
<thead>
<tr>
<th>Economies</th>
<th>1996</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LCY Bonds Outstanding</td>
<td>% of World Total</td>
</tr>
<tr>
<td>United States</td>
<td>10,926</td>
<td>42.9</td>
</tr>
<tr>
<td>Japan</td>
<td>4,456</td>
<td>17.5</td>
</tr>
<tr>
<td>France</td>
<td>1,261</td>
<td>4.9</td>
</tr>
<tr>
<td>Germany</td>
<td>1,888</td>
<td>7.4</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>678</td>
<td>2.7</td>
</tr>
<tr>
<td>Emerging Asia of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>China, People’s Rep. of</td>
<td>62</td>
<td>0.2</td>
</tr>
<tr>
<td>Korea, Rep. of</td>
<td>283</td>
<td>1.1</td>
</tr>
<tr>
<td>India</td>
<td>81</td>
<td>0.3</td>
</tr>
<tr>
<td>ASEAN-6 of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>7</td>
<td>0.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>71</td>
<td>0.3</td>
</tr>
<tr>
<td>Philippines</td>
<td>28</td>
<td>0.1</td>
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<tr>
<td>Singapore</td>
<td>25</td>
<td>0.1</td>
</tr>
<tr>
<td>Thailand</td>
<td>19</td>
<td>0.1</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Brazil</td>
<td>299</td>
<td>1.2</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>43</td>
<td>0.2</td>
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<tr>
<td>South Africa</td>
<td>82</td>
<td>0.3</td>
</tr>
<tr>
<td>Turkey</td>
<td>27</td>
<td>0.1</td>
</tr>
</tbody>
</table>

— = not available, ASEAN = Association of Southeast Asian Nations, LCY = local currency, PRC = People’s Republic of China.

Note: Emerging East Asia comprises the People’s Republic of China; Hong Kong, China; Indonesia: Republic of Korea; Malaysia; Philippines; Singapore; Thailand; and Vietnam.

Source: Bank for International Settlements and AsianBondsOnline
### iBoxx Asia Bond Fund Index Family Returns

<table>
<thead>
<tr>
<th>Market</th>
<th>Modified Duration (years)</th>
<th>2009 Returns (%)</th>
<th>2010 Returns (%)</th>
<th>Q1 2011 Returns (%)</th>
<th>2011 YTD Returns (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LCY Total Return Index</td>
<td>US$ Unhedged Total Return Index</td>
<td>LCY Total Return Index</td>
<td>US$ Unhedged Total Return Index</td>
<td>LCY Total Return Index</td>
</tr>
<tr>
<td>China, People's Republic of</td>
<td>5.8</td>
<td>(0.6)</td>
<td>(0.7)</td>
<td>1.6</td>
<td>5.1</td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>3.9</td>
<td>(0.8)</td>
<td>(0.8)</td>
<td>2.0</td>
<td>1.8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>5.8</td>
<td>20.2</td>
<td>35.6</td>
<td>19.3</td>
<td>23.7</td>
</tr>
<tr>
<td>Korea, Republic of</td>
<td>4.0</td>
<td>1.9</td>
<td>9.7</td>
<td>8.0</td>
<td>10.6</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4.4</td>
<td>0.5</td>
<td>1.6</td>
<td>5.2</td>
<td>15.6</td>
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<tr>
<td>Philippines</td>
<td>5.1</td>
<td>9.0</td>
<td>11.8</td>
<td>14.3</td>
<td>19.7</td>
</tr>
<tr>
<td>Singapore</td>
<td>5.6</td>
<td>0.5</td>
<td>3.1</td>
<td>2.5</td>
<td>11.3</td>
</tr>
<tr>
<td>Thailand</td>
<td>4.8</td>
<td>(3.5)</td>
<td>0.7</td>
<td>5.4</td>
<td>15.4</td>
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<tr>
<td>Pan Asia</td>
<td>4.9</td>
<td>n.a.</td>
<td>5.0</td>
<td>n.a.</td>
<td>10.2</td>
</tr>
<tr>
<td>HSBC ALBI</td>
<td>7.7</td>
<td>n.a.</td>
<td>6.1</td>
<td>n.a.</td>
<td>11.5</td>
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<tr>
<td>US Govt. 1–10 years</td>
<td>3.9</td>
<td>n.a.</td>
<td>(1.4)</td>
<td>n.a.</td>
<td>5.3</td>
</tr>
</tbody>
</table>

--- = not applicable, ALBI = Asian Local Bond Index, LCY = local currency, US = United States, YTD = year-to-date.

Notes:
1. The Asian Bond Fund (ABF) indices contain only government debt and government-guaranteed debt obligations.
2. Market bond indices are from iBoxx Index Family. Returns for 2011 are year-to-date as of 11 March 2011.
3. Annual returns are computed for each year using natural logarithm of end-of-year index value/beginning year index value.

Source: AsianBondsOnline and Bloomberg LP.
Foreign Holdings of LCY Government Bonds in Select Asian Countries

LCY = local currency.
Note: Data for Japan and Malaysia as of September 2010; Indonesia, Republic of Korea, and Thailand as of December 2010.
Source: AsianBondsOnline.
Standard Transaction Fees of Global Custodians

USD/transaction

number of samples

Viet Nam 132
Viet Nam 225

United States
Germany
Viet Nam
Indonesia
Thailand
Philippines
Singapore
Malaysia
Republic of Korea
Japan
Hong Kong, China
PRC

ADB
<table>
<thead>
<tr>
<th>Market: CN</th>
<th>HK</th>
<th>ID</th>
<th>JP</th>
<th>KR</th>
<th>MY</th>
<th>PH</th>
<th>SG</th>
<th>TH</th>
<th>VN</th>
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<tbody>
<tr>
<td><strong>A: Quotas</strong></td>
<td>HI</td>
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<tr>
<td><strong>B: Investor registration</strong></td>
<td>HI</td>
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<tr>
<td><strong>C: FX controls - conversion</strong></td>
<td>HI</td>
<td>LO</td>
<td></td>
<td></td>
<td>LO</td>
<td></td>
<td></td>
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<tr>
<td><strong>D: FX controls - repatriation</strong></td>
<td>HI</td>
<td>LO</td>
<td>HI</td>
<td></td>
<td>LO</td>
<td>HI</td>
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<tr>
<td><strong>E: Cash controls - credit balances</strong></td>
<td>LO</td>
<td>HI</td>
<td></td>
<td></td>
<td>LO</td>
<td>HI</td>
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<tr>
<td><strong>F: Cash controls - overdrafts</strong></td>
<td>HI</td>
<td>HI</td>
<td>LO</td>
<td>HI</td>
<td>LO</td>
<td>HI</td>
<td></td>
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<tr>
<td><strong>G: Taxes</strong></td>
<td>LO</td>
<td>HI</td>
<td>LO</td>
<td>HI</td>
<td>LO</td>
<td>HI</td>
<td></td>
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<tr>
<td><strong>H: Omnibus accounts</strong></td>
<td>HI</td>
<td></td>
<td></td>
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<tr>
<td><strong>I: Settlement cycle</strong></td>
<td>LO</td>
<td></td>
<td></td>
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<tr>
<td><strong>J: Message formats</strong></td>
<td>LO</td>
<td></td>
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<tr>
<td><strong>K: Securities numbering</strong></td>
<td>LO</td>
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<tr>
<td><strong>L: Matching</strong></td>
<td>LO</td>
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</tr>
<tr>
<td><strong>M: Dematerialisation</strong></td>
<td>LO</td>
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<tr>
<td><strong>Regulatory framework</strong></td>
<td>LO</td>
<td>HI</td>
<td></td>
<td></td>
<td>LO</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**HIGH barriers:**
- CN: 6
- HK: 0
- ID: 4
- JP: 0
- KR: 2
- MY: 0
- PH: 3
- SG: 0
- TH: 2
- VN: 4

**LOW barriers:**
- CN: 5
- HK: 2
- ID: 4
- JP: 1
- KR: 3
- MY: 2
- PH: 5
- SG: 1
- TH: 7
- VN: 6

**Total barriers:**
- CN: 11
- HK: 2
- ID: 8
- JP: 1
- KR: 5
- MY: 2
- PH: 8
- SG: 1
- TH: 9
- VN: 10
Regional cooperation under ASEAN+3 Bond Market Forum (ABMF)
Establishment of ABMF
13th ASEAN+3 Finance Ministers’ Meeting
2 May 2010, Tashkent, Uzbekistan

- We endorsed the establishment of ASEAN+3 Bond Market Forum (ABMF) as a common platform to foster standardization of market practices and harmonization of regulations relating to cross-border bond transactions in the region.
ABMF as a common platform

Country A
Country B
Country C
Country D

ASEAN+3 Bond Market Forum (ABMF)

Public sector
Private sector
Harmonization in Asia

Asian Standards

Country A

Harmonization of Standards

Country B

Country C

Asian Value
Asian Vision

Bottom Up
Top Down
Top Down

Mutual recognition
Mutual recognition

Mutual recognition
Agenda Items for Discussion

Sub-Forum 1: Collecting information on regulations and market practices

Sub-Forum 2: Enhancing regional Straight-Through-Processing (STP)
Organizational Structure of ABMF

National Members nominated by the governments

ABMI TF 3

Secretariat (ADB)

ASEAN+3 Bond Market Forum (ABMF)

Sub-Forum 1

Sub-Forum 2

Multiple forums may be established if issues need to be discussed separately
## SF1 members and experts

<table>
<thead>
<tr>
<th>Organization</th>
<th>Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei International Financial Centre (BIFC)</td>
<td>Japan Securities Dealers Association</td>
</tr>
<tr>
<td>National Bank of Cambodia</td>
<td>Japanese Bankers Association</td>
</tr>
<tr>
<td>SEC of Cambodia</td>
<td>Nomura Securities Co. Ltd.</td>
</tr>
<tr>
<td>People’s Bank of China</td>
<td>Daiwa Securities Capital Markets Co. Ltd.</td>
</tr>
<tr>
<td>China Security Regulatory Commission</td>
<td>Korea Financial Investment Association</td>
</tr>
<tr>
<td>Hong Kong Monetary Authority</td>
<td>Korea Capital Market Institute (KCMI)</td>
</tr>
<tr>
<td>China Securities Depository and Clearing Corporation Limited Shanghai</td>
<td>Korea Exchange (KRX)</td>
</tr>
<tr>
<td>China Exchange Trading System</td>
<td>Central Bank of Myanmar</td>
</tr>
<tr>
<td>Shang Hai Clearing House</td>
<td>Bureau of Treasury of the Philippines</td>
</tr>
<tr>
<td>Ministry of Finance of Indonesia</td>
<td>Securities and Exchange Commission of the Philippines</td>
</tr>
<tr>
<td>Indonesian Capital Market and Financial Institutions Supervisory Agency</td>
<td>Securities and Exchange Commission of Thailand</td>
</tr>
<tr>
<td>Indonesian Stock Exchange</td>
<td>Thai Bond Market Association (Thai BMA)</td>
</tr>
<tr>
<td>Tokyo Stock Exchange, Inc</td>
<td>Vietnam Bond Market Association (VBMA)</td>
</tr>
</tbody>
</table>
## SF2 members and experts

| Brunei Currency and Monetary Board (BCMB) | Securities and Exchange Commission Office, Bank of the Lao PDR |
| SEC of Cambodia | Central Bank of Myanmar |
| People's Bank of China | Philippine Dealing System Holdings Corp/PDS Group |
| China Security Regulatory Commission | Bankers Association of the Philippines (BAP) |
| Hong Kong Monetary Authority | The Stock Exchange of Thailand (SET) |
| China Securities Depository and Clearing Corporation Limited Shanghai | Vietnam Securities Depository |
| China Government Securities Depository Trust and Clearing Co., LTD | Hanoi Stock Exchange |
| Ministry of Finance of Indonesia | State Street Global Advisors |
| Indonesian Capital Market and Financial Institutions Supervisory Agency | Citibank |
| PT Kustodian Sentral Efek Indonesia (KSEI) Indonesian Central Securities Depository | JP Morgan |
| Japan Securities Depository Center, Inc. | Deutsche Bank AG |
| Mizuho Corporate Bank, Ltd. | SWIFT |
| Korea Securities Depository (KSD) | HSBC |
| Korea Capital Market Institute (KCMI) | The Bank of Tokyo Mitsubishi UFJ Ltd |
Sub-Forum 1

• Objective: Close the information gap
  
1. Collect all relevant information on regulations as well as market structures and practices in the region
   • Issuance procedures (auction, primary dealer system, etc)
   • Requirements for investors (registration, documentation, etc)
   • Trading rules (Repo, etc.)
   • Tax procedures (income and capital gain tax, etc)
   • Redemption procedures
   • Investment rules for domestic investors

2. Once all of the relevant information has been collected, a compendium of regulations and market structures and practices in the region will be published through the ADB-sponsored Asian Bonds Online website.
List of information included in the market guides (1/4)

1. Governing Law for Corporate Bonds Issuance
2. Definition of Securities (Bonds)
3. Competent Authority (Regulator)
4. Issuing Approval Method
5. Role of the SROs
6. Purpose of the Listing of Bonds (e.g. profiling or real listing)
7. Obligation for the Listing of Bond
8. Main Trading Places (OTC / Exchange)
9. Necessity of the Credit Rating
List of information included in the market guides (2/4)

10. Method of Registration of Bonds
11. Status of the Bonds (Bearer / Registered)
12. Form of the Bonds (Scripless / Physical)
13. Status of the Scripless Bonds (Complete Dematerialised or Immobilised)
14. Existence of the exchangeability of the Scripless Bond to the Physical Bonds
15. Method of Transfer of Interest in Bonds
16. Finality of Settlement
17. Legal Basis and Definition of “Settlement and Clearing”
List of information included in the market guides (3/4)

18. Existence of the Omnibus Accounts
19. Existence of the Nominee Concept
20. Regulators’ Policy related to the necessity of Disclosure of Real Beneficially Owner
21. Documentation Language
22. Definition of the Payment Default
23. Bankruptcy Procedures
24. Existence of the Meeting of Bondholders
25. Trustee (Bond Representative / Commissioned Persons) System
List of information included in the market guides (4/4)

26. The definition of Professional / Institutional investors
27. Public Offering (Full disclosure) Rules and Regulation
28. Private Placement (Market of Exemption of full disclosure of information) Rules, and the related matters
29. Definition of Professional (institutional) Investor and HNWIs (High Net worth Individuals)
Sequence of Bond Markets Development in Asia

How can we establish an Asian common set of standards and regulation to promote Cross-Border Inter-Regional (wholesale) Market in Asia?
- ABMF
- Asian SRO
- (Asian Supervisory Authorities)

Local Bond Markets (Domestic Bond Market)
- Foster government bond market
- Create the benchmark yield curve
- Foster corporate bond markets
- Circulate domestic savings

Cross-Border Bond Markets (Foreign Bond Markets)
- A Part of Domestic Market
- Outward issuance by residents, inward issuance by non-residents and cross-border investments
- Subject to home country or host country rules and regulations
- Different stage of economic development and heterogeneity in legal and institutional systems and infrastructure
  - Japan – Samurai Bond
  - Korea – Ariran Bond
  - China – Panda bond

Inter-Regional International Bond Market in Asia
- Harmonization of heterogeneous rules and regulations for professionals in Asian region
- Facilitate inter-regional circulation of savings within Asia
- Creation of self-regulated Asian Inter-Regional (wholesale) Bond Market for professional market participants
- For instance, Asian Exchange regulated market

Inter-Regional
Domestic

Eurobond Market
- Private Placement Market and Public Offering Market for professionals with common standard format
- Used to be a Self-Regulated Market by professional market players

Source: TA report for Harmonization of Bond Standards in ASEAN+3
Sub-Forum 2

- **Objective:** Reduce cross-border transaction costs by enhancing STP

1. Identify custodians’ procedures which lead to higher costs
2. Clarify all transaction procedures involved in cross-border transactions from one end-user to the other end-user
3. Ideally, all transactions should be operated straight-through by using common standards and the same messaging
Asia should engage standard setting more closely and should lead discussions in the international forum.

International standards (such as ISO20022) will be the focal point and hub of local standards.
Working schedule

Phase 1 of ABMF (2010-2011)
- 1st meeting – 28 Sept. 2010 in Tokyo, Japan
- 3rd meeting – 16-17 Feb. 2011 in KL, Malaysia
  First reporting to TF3
- 4th meeting – 30 June-1 July 2011 in Korea
  Second reporting to TF3
- 6th meeting – Dec. 2011 in People’s Republic of China

Submission of the final reports by the end of 2011

Phase 2 of ABMF (2012-2013)
- Proposal of a common bond issue scheme
- Roadmap to standardize messaging and transactions
Thank you

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http://asean3abmf.adb.org