

ABMF-China-Korea-Japan Trilateral Asian Bond Market Law Seminar

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Asian Development Bank
29-30 April 2011

The logo of the Asian Development Bank (ADB), consisting of the letters 'ADB' in white serif font on a dark blue square background.

ADB

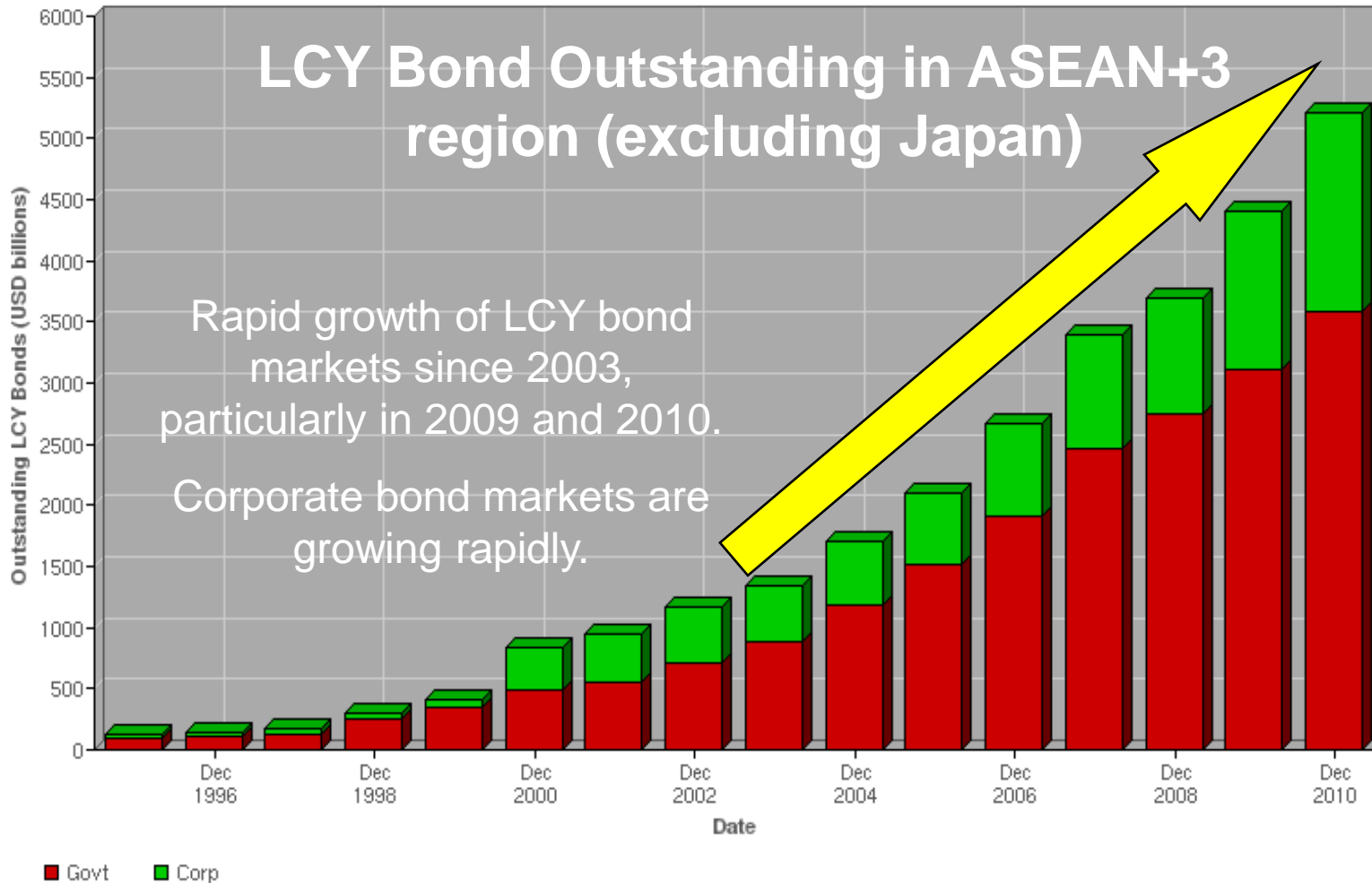
Outline

1. Recent bond market developments
2. Regional cooperation under ASEAN+3
 - ASEAN+3 Bond Market Forum (ABMF)



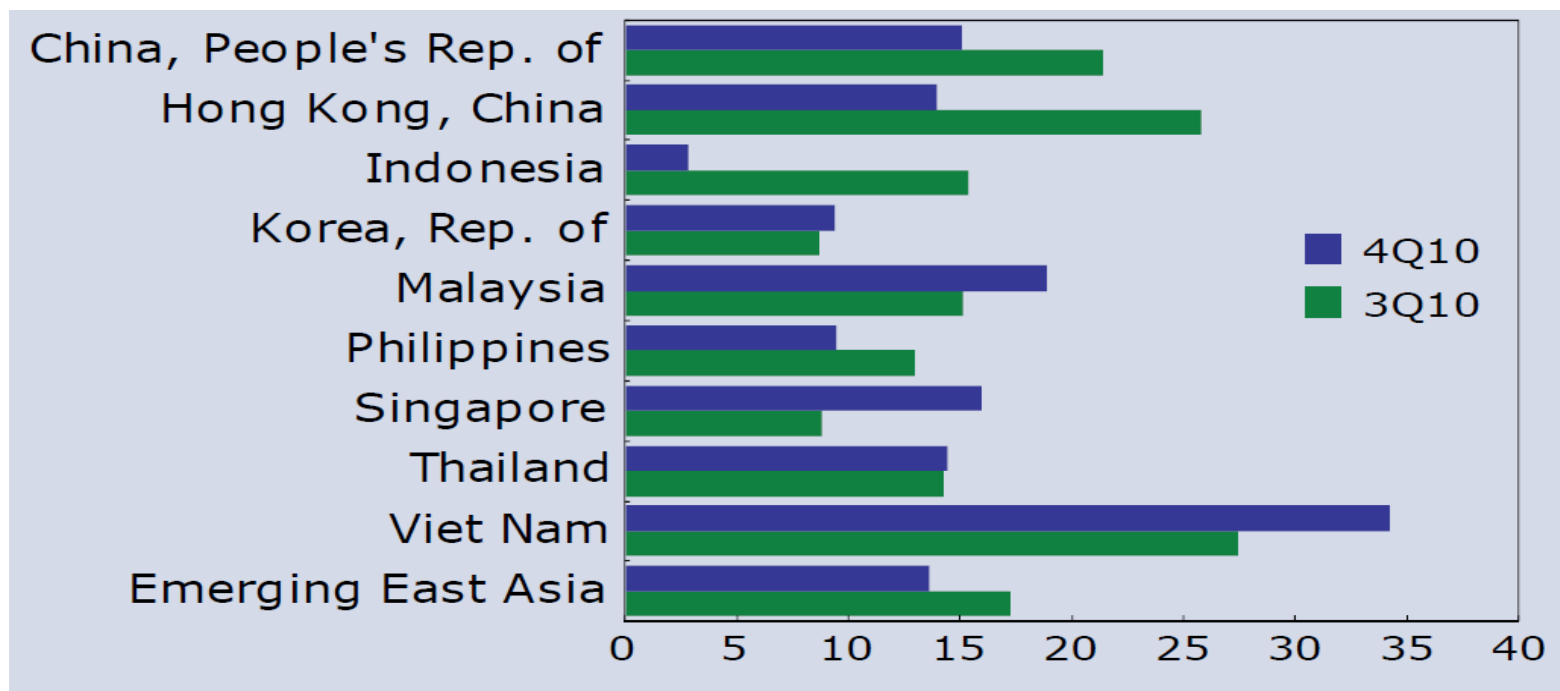
Recent bond market developments in Asia

Historical growth of Asian LCY Bond Market



Source: Asian Bonds online <http://asianbondsonline.adb.org>

Growth of LCY Bond Markets in 3Q10 and 4Q10 (y-o-y %)



LCY = local currency, y-o-y = year-on-year.

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 Bond Market Monitor March 2011

Bond Outstanding in Major Markets (USD billion)

	Sep-10		Dec-96	
	LCY Bonds Outstanding	% of World Total	LCY Bonds Outstanding	% of World Total
United States	25,158	39.0	10,926	42.9
Japan	11,211	17.4	4,456	17.5
France	3,199	5.0	1,261	4.9
Germany	2,689	4.2	1,888	7.4
United Kingdom	1,687	2.6	678	2.7
Emerging East Asia	5,090	7.9	527	2.1
of which: PRC	2,991	4.6	62	0.2
Emerging East Asia excl. PRC	2,099	3.3	465	1.8
of which: Korea, Rep. of	1,122	1.7	283	1.1
of which: ASEAN-6	816	1.3	148	0.6
Indonesia	112	0.2	7	0.0
Malaysia	234	0.4	71	0.3
Philippines	73	0.1	28	0.1
Singapore	166	0.3	25	0.1
Thailand	217	0.3	18	0.1
Viet Nam	15	0.0	—	—
Memo Items:				
Brazil	1,294	2.0	299	1.2
PRC (excl. policy bank bonds)	2,234	3.5	—	—
India	707	1.1	81	0.3
Russia	58	0.1	43	0.2

— = not applicable, 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 Viet Nam.

Source: Bank for International Settlements and AsianBondsOnline

iBoxx Asia Bond Fund Index Family Returns

Market	Modified Duration (years)	2009 Returns (%)		2010 Returns (%)		2011 YTD Returns (%)	
		LCY Total Return Index	USD Unhedged Total Return Index	LCY Total Return Index	USD Unhedged Total Return Index	LCY Total Return Index	USD Unhedged Total Return Index
China, People's Rep. of	5.83	(0.64)	(0.69)	1.55	5.06	0.45	0.68
Hong Kong, China	3.89	(0.76)	(0.82)	2.04	1.79	0.71	0.47
Indonesia	5.58	20.22	35.61	19.30	23.70	(1.60)	0.76
Korea, Rep. of	3.94	1.94	9.73	8.00	10.64	0.77	1.71
Malaysia	4.54	0.48	1.64	5.16	15.64	0.39	1.80
Philippines	5.11	9.00	11.88	14.30	19.67	(2.94)	(2.51)
Singapore	5.48	0.48	3.06	2.51	11.34	1.63	2.27
Thailand	4.91	(3.47)	0.73	5.38	15.41	0.05	(0.90)
Pan-Asian Index	4.84	—	5.00	—	10.21	—	0.85
HSBC ALBI	7.87	—	6.13	—	11.49	—	0.74
US Govt. 1-10 years	3.95	—	(1.38)	—	5.26	—	0.38

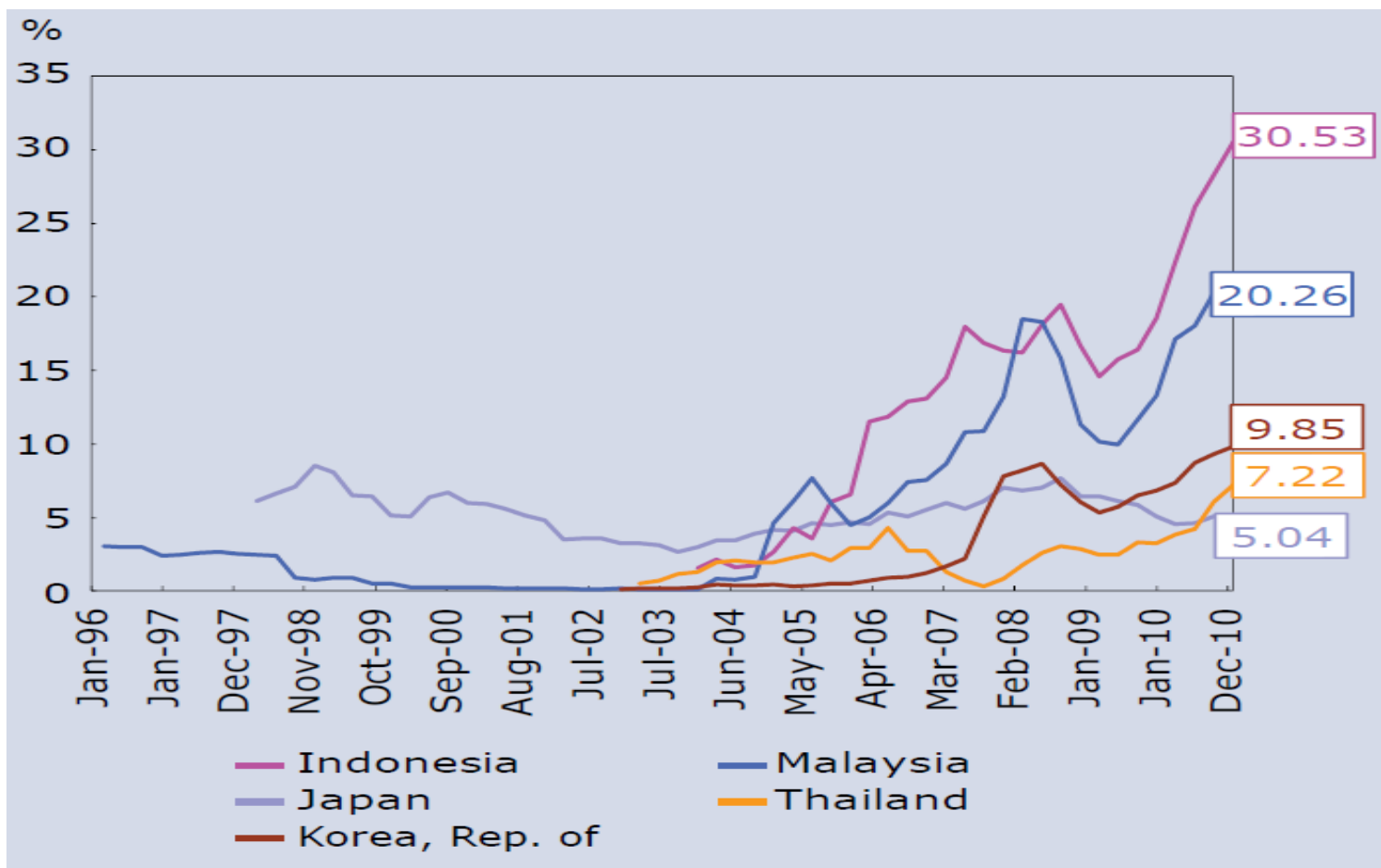
— = not applicable, ALBI = Asian Local Bond Index, LCY = local currency, US = United States, YTD = year-to-date.

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.
4. Duration as of 11 March 2011.

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*.


Resilience of Asian LCY Bonds

- Strong issuance and growth despite difficult global conditions after the financial crisis
 - LCY bonds outstanding reached USD5.1 trillion at the end of 3Q10
 - The growth in the region's LCY corporate bond market in 3Q10 was 5.7% q-o-q, outpacing growth in government bonds. The corporate bond market now comprises 30% of total LCY bonds outstanding.
- National reform and liberalization efforts are paying off.
- Regional efforts, such as ABMI and ABF, complement and support national efforts
- LCY bonds—truly a “spare tire”



However, intra-regional investment is still low..

- Stronger regional cooperation is necessary.
 - We need a policy framework to utilize knowledge and expertise in the region.



**Regional cooperation under
ASEAN+3: ASEAN+3 Bond Market
Forum (ABMF)**

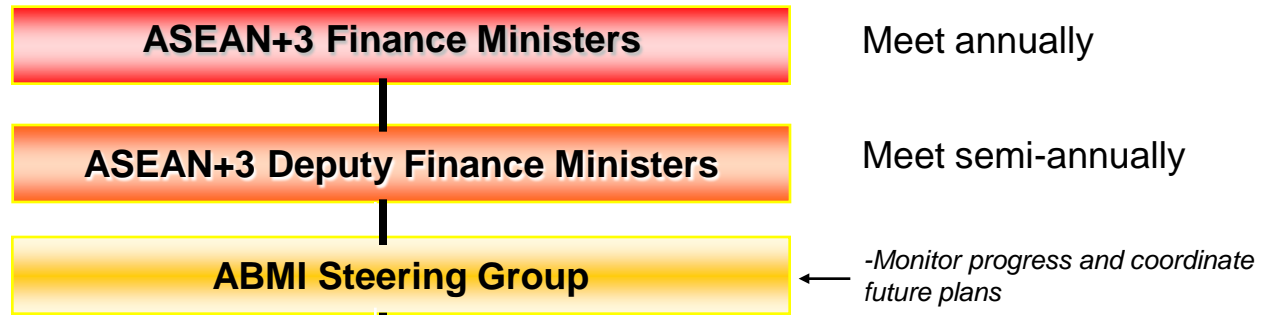
What is Asian Bond Markets Initiative?

- Endorsed by ASEAN+3 Finance Ministers in 2003
 - *ABMI aims to develop efficient and liquid bond markets in Asia, which would enable better utilization of Asian savings for Asian investments. The ABMI would also contribute to the mitigation of currency and maturity mismatches in financing*

(source: Chairman's Press Release on the Asian Bond Markets Initiative, Aug 2003)

- Why bond markets?
 - Lessons from the Asian Currency Crisis
 - Double mismatch of currency and duration
- ➔ One of important symbols of ASEAN+3 regional cooperation

The Organizational structure of ABMI



TASK FORCE (See next slide for details)



TF1

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

TF2

Facilitating the Demand of Local Currency-Denominated Bonds

- Development of investment environment for institutional investors
- Information dissemination
- Asian Bonds Online**

TF3

Improving Regulatory Framework

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

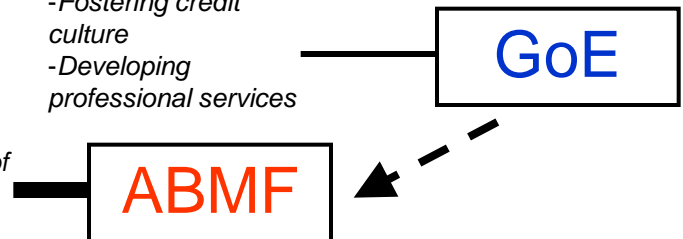
TF4

Improving Related Infrastructure for the Bond Market

- Infrastructure for securities settlement
- Increasing liquidity of bond markets
- Fostering credit culture
- Developing professional services

TACT

Technical Assistance



Establishment of ABMF

13th ASEAN+3 Finance Ministers' Meeting
2 May 2010, Tashkent, Uzbekistan

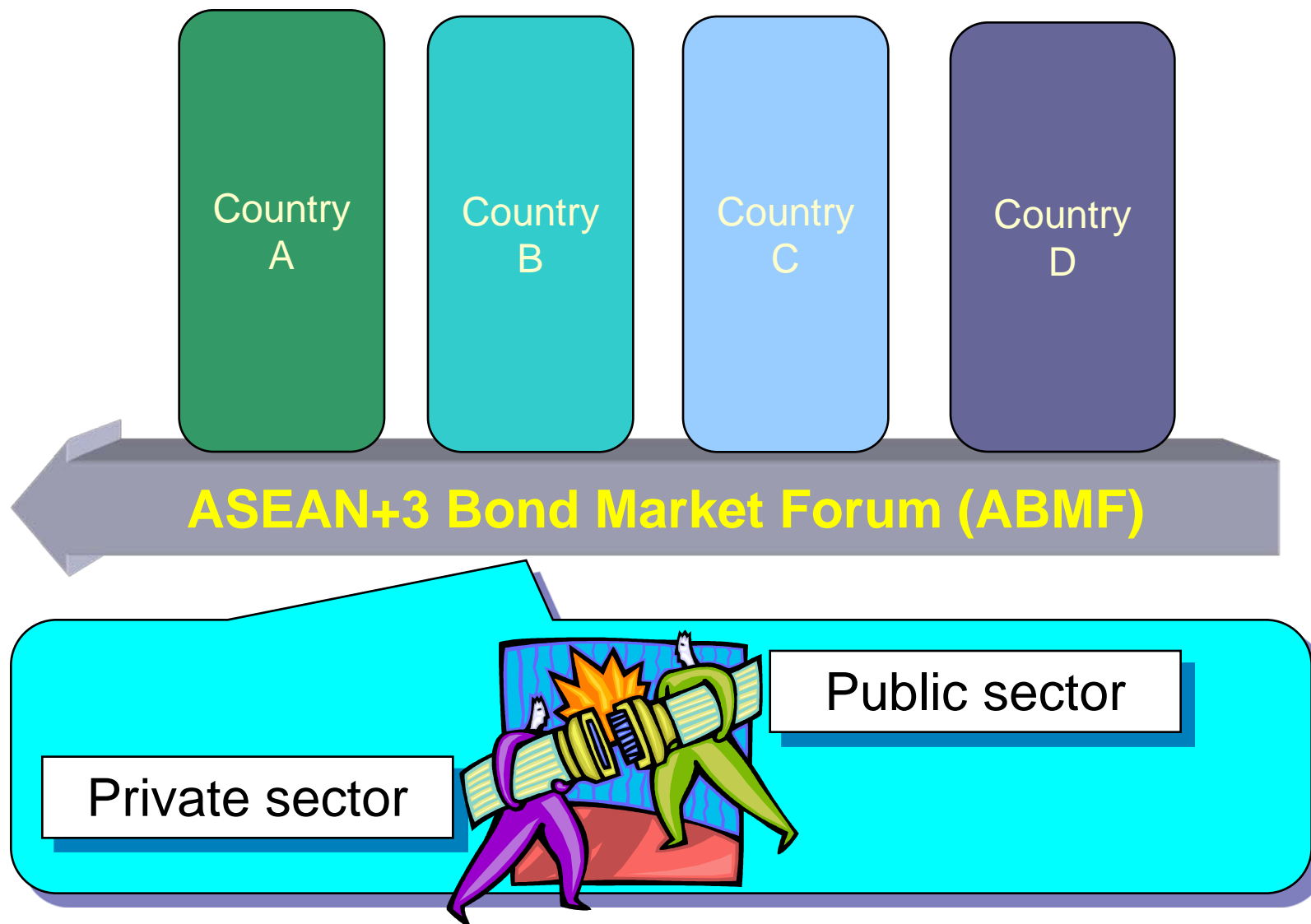
- We endorsed the establishment of ASEAN+3 Bond Market Forum (ABMF) as a common platform to foster standardization of market practices and harmonization of regulations relating to cross-border bond transactions in the region.

Purpose and function of the ABMF

The ABMF aims to:

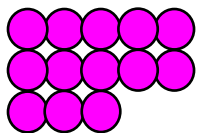
- assess the existing regulatory frameworks and identify recommendations on how to foster harmonization of regulations and market practices that facilitate cross-border bond transactions in the region;
- enhance dialogue between the private sector and ASEAN+3 officials to develop bond markets in the region and promote harmonization, standardization, and integration; and
- provide opportunities to exchange knowledge, expertise, and experience among the private and public sector in the region.

ABMF as a common platform

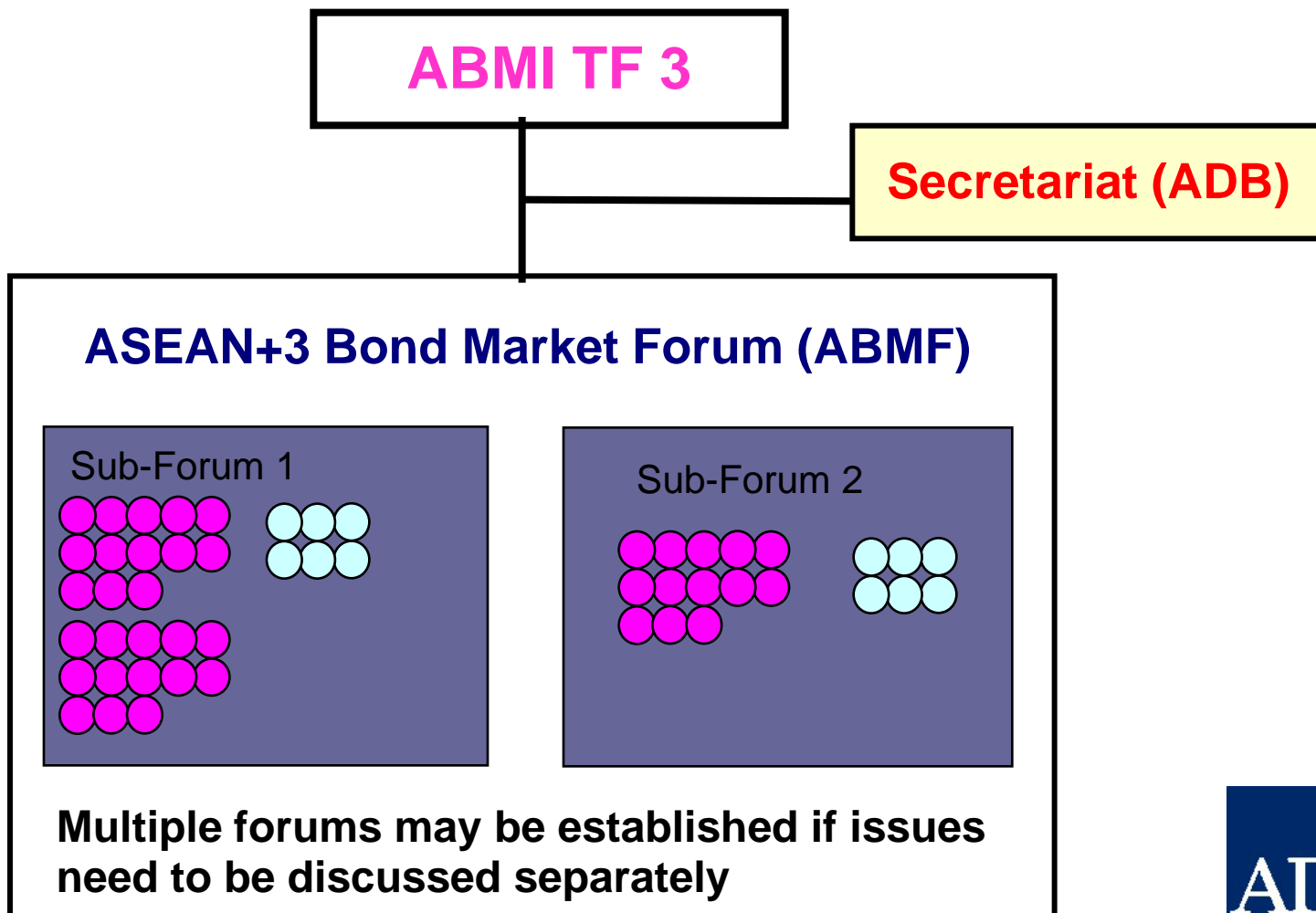
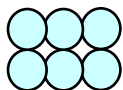


Organizational Structure of ABMF

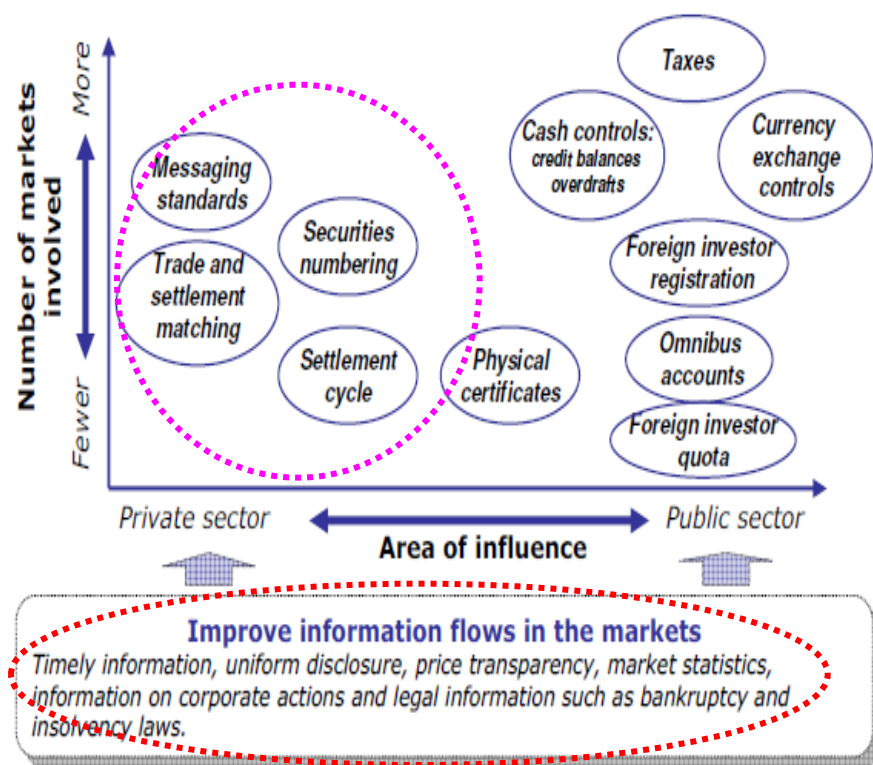
National
Members



National and
International
Experts



Agenda Items for Discussion



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

Sub-Forum 2: Enhancing regional Straight-Through-Processing (STP)

Sub-Forum 1

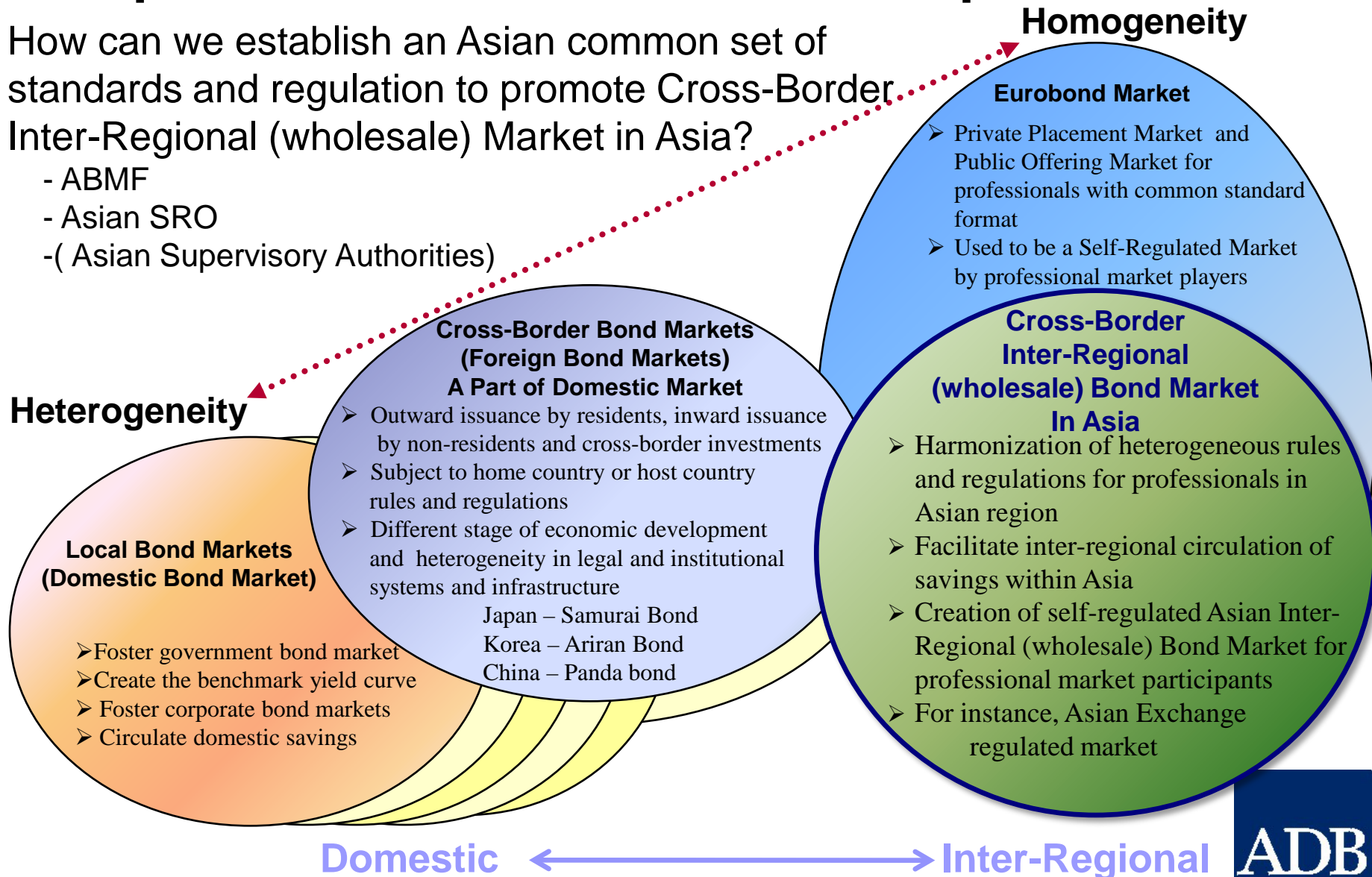
■ Objective: Close the information gap

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.

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?

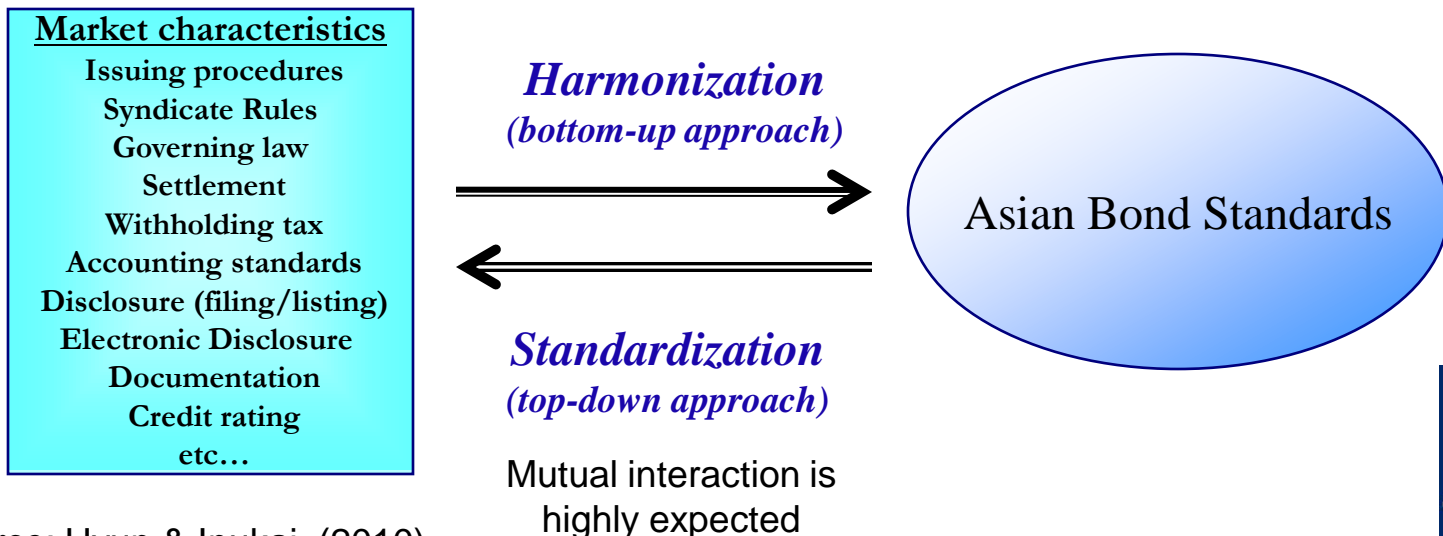
- ABMF
- Asian SRO
- (Asian Supervisory Authorities)



Source: TA report for *Harmonization of Bond Standards in ASEAN+3*

Asian Bond Standards as a Common Platform

- Fragmented financial markets in Asia (each domestic market)
 - different regulatory and legal systems
 - different stages of market development and economic size
 - different taxation, capital control and currency restriction, etc.
 - Asian common set of rules and standards
 - in line with global best practices
 - facilitate **cross-border** capital flows and financial integration
- ex) ASEAN and Plus Standards, Harmonization of Bond Standard in ASEAN+3
(we would like to refer the effort of ASEAN Capital Market Forum, particularly, ASEAN and Plus Standards)



Source: Hyun & Inukai (2010)

Scope of the study

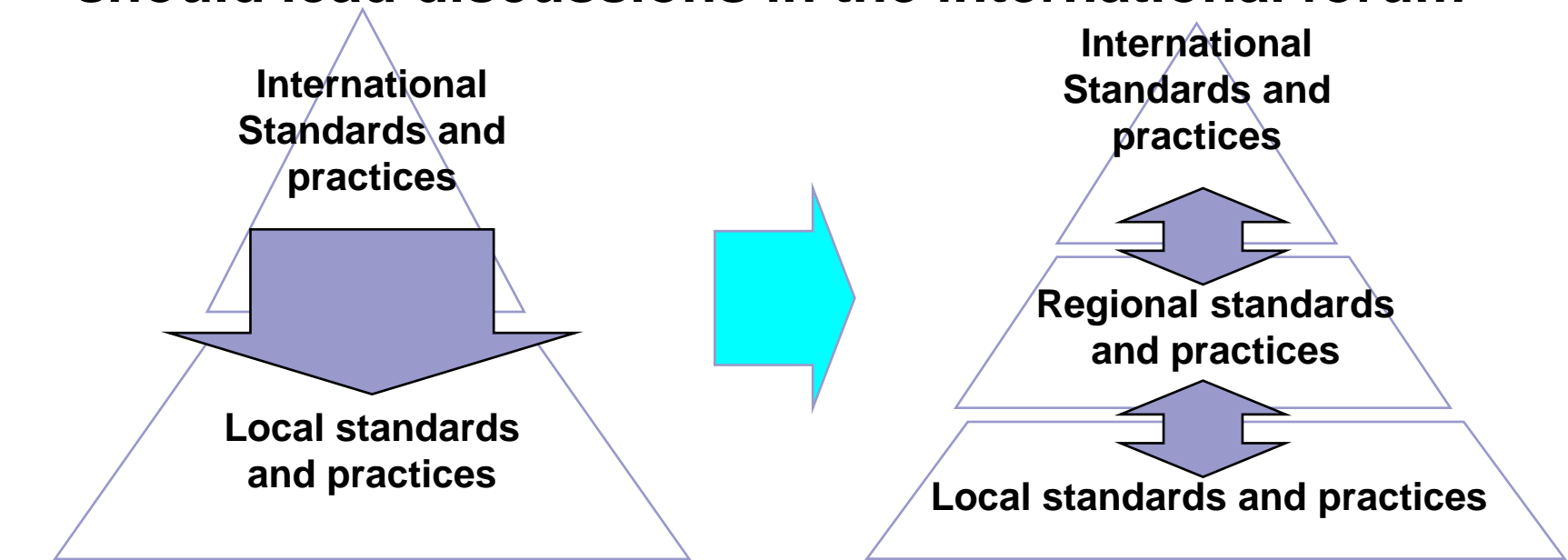
- Disclosure & Investor Protection Rules
- Credit rating System
- Issuance Procedures (Auction, Primary Dealer System, etc)
- Electronic Trading Platform and Mandatory Trading Requirements
- Trading Rules (Repo, etc.)
- Redemption Procedures
- Requirements for Investors (Registration, Documentation, etc) / QIB / Professional Investor
- Taxation & Tax Procedures (Income and Capital Gain tax, WH-tax, Stamp Duty, etc.)
- Investment Rules for Domestic Investors
- Foreign Investor Quota / Foreign Investor Registration / Currency Exchange Controls
- Cash Controls—Credit Balances / Overdrafts
- Utilization of Omnibus Accounts (Security Account Holding Structure)
- Settlement & Clearing Systems / Custody Systems
- Legal Framework / Governing Law
- Bankruptcy Procedures related to Bond Transaction
- Regulatory Framework / Self-Regulatory Framework / Market Practices
- Role of Investment Exchange / Industrial & Market Association / Dealers Association / Regulators

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

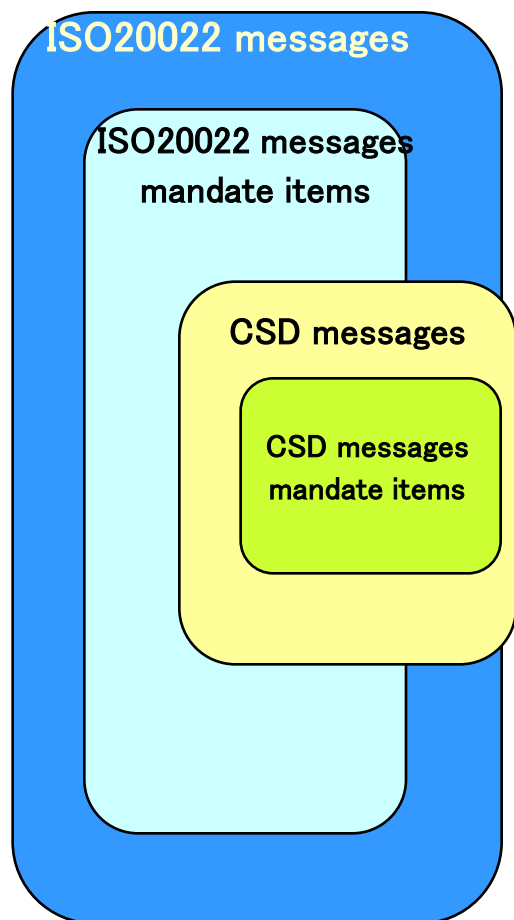
Vision of ABMF SF2

Asia should engage standard setting more closely and should lead discussions in the international forum



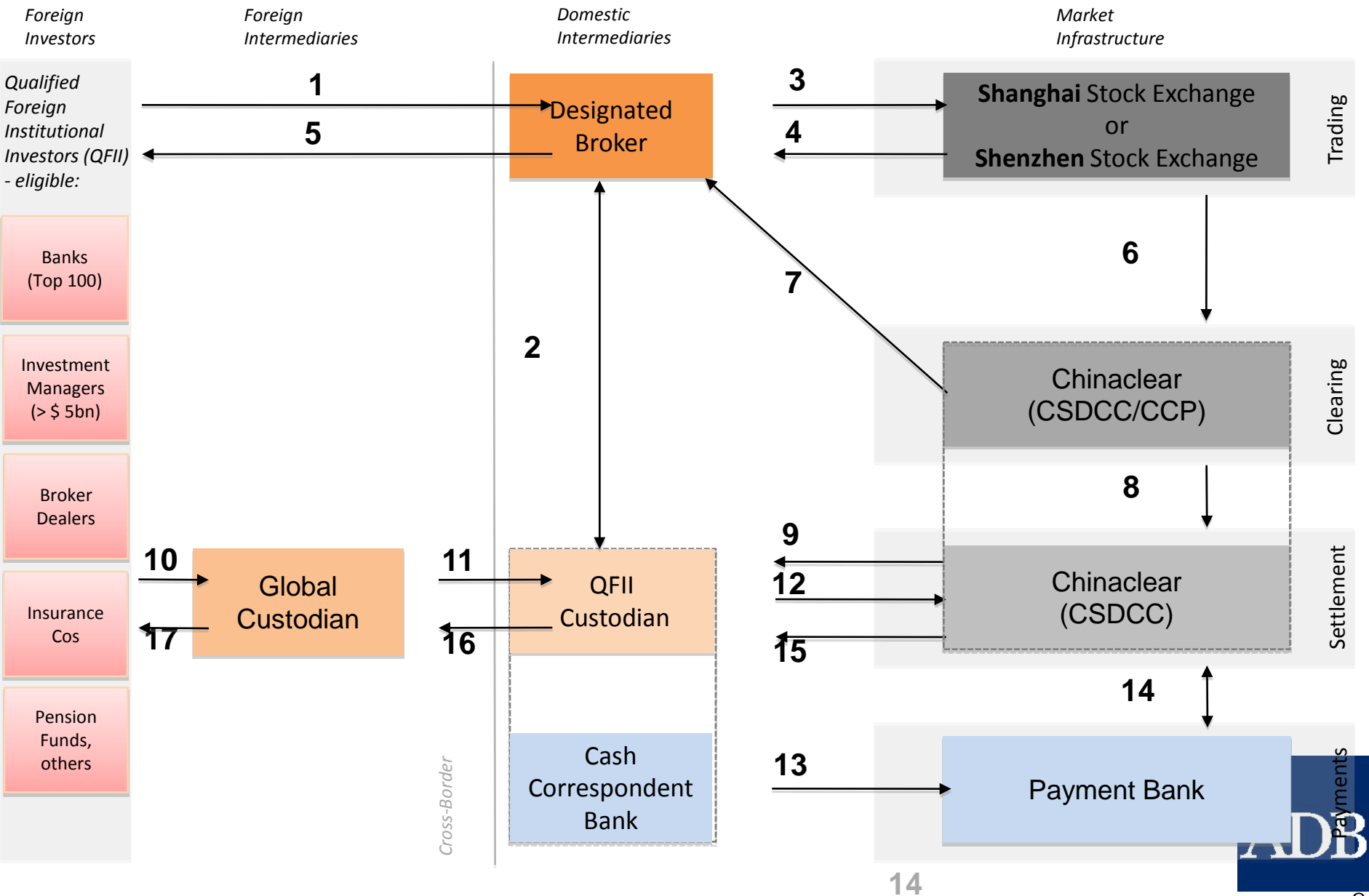
International standards (such as ISO20022) will be the focal point and hub of local standards

Message transactions from the viewpoints of conformity with ISO 20022



1. Not only message formats but also business processes such as message transactions themselves and message flows need to be surveyed
2. Transparency of the message format needs to be considered to implement STP from end-to-end processes though some message items may not be essential for the settlement agency.

CHINA Bond Transaction Flow – QFII (including payment flows)



SF1 members and experts

Brunei International Financial Centre (BIFC)	Japan Securities Dealers Association
National Bank of Cambodia	Japanese Bankers Association
SEC of Cambodia	Nomura Securities Co. Ltd.
People's Bank of China	Daiwa Securities Capital Markets Co. Ltd.
China Security Regulatory Commission	Korea Financial Investment Association
Hong Kong Monetary Authority	Korea Capital Market Institute (KCMI)
China Securities Depository and Clearing Corporation Limited Shanghai	Korea Exchange (KRX)
China Government Securities Depository Trust and Clearing Co. LTD	Securities and Exchange Commission Office, Bank of the Lao PDR
National Association of Financial Market Institutional Investors	Financial Market Association of Malaysia (PPKM)
China Exchange Trading System	Central Bank of Myanmar
Shang Hai Clearing House	Bureau of Treasury of the Philippines
Ministry of Finance of Indonesia	Securities and Exchange Commission of the Philippines
Indonesian Capital Market and Financial Institutions Supervisory Agency	Securities and Exchange Commission of Thailand
. Indonesian Stock Exchange	Thai Bond Market Association (Thai BMA)
Tokyo Stock Exchange, Inc	Vietnam Bond Market Association (VBMA)

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

Working schedule

■ Quarterly meetings

- 1st meeting – 28 Sept. 2010 in Tokyo, Japan
- 2nd meeting – 13-14 Dec. 2010 in Manila, Phils.
- 3rd meeting – 16-17 Feb. 2011 in KL, Malaysia
 - [First reporting to TF3](#)
- 4th meeting – 30 June-1 July 2011 in Jeju Is., Korea
- 5th meeting – 5-6 Sept. 2011 in Manila, Phils.
 - [Second reporting to TF3](#)
- 6th meeting – Dec. 2011 in Indonesia
- Submission of the final reports by the end of 2011.

 **Asia Bond Monitor**
October 2010

Local currency bond markets in emerging East Asia expanded by an annual 18.8% as of the end of June, with \$4.8 trillion in paper outstanding. This large expansion was driven by 24.4% year-on-year growth in the corporate bond market, which has become an increasingly important source of funding for private sector investment. Strong offshore and onshore demand for emerging East Asia's local currency bonds has reduced the premiums paid on corporate debt over government benchmark bonds and contributed to a flattening in government bond yield curves.

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Asia Bond Monitor October 2010


Credit Guarantee and Investment Facility (CGIF) looks for CEO and CRO


Asia Capital Markets Monitor 2010


ABMI ASEAN+3 Bond Market Forum (ABMF)


Weekly Debt Highlights


Asian Bond Markets Initiative: New ABMI Roadmap


Latest Update: October 7, 2010 11:22 (Manila Time)

News | ADB Research | External Research

- (JP) Japan's foreign reserves hit record high in Sept.
- (KR) FDI into Korea sags 9.4%, partly on strong won
- (KR) S. Korea's manufacturing labor productivity rises 13.6 pct in Q2
- (KR) S.Korea may cut 2011 treasury issue volume - source
- (PH) Capital controls not being considered by central bank

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Thank you

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