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**The Advisory Group on APEC Financial System Capacity-  
Building**

A Public-Private Sector Initiative

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**Third Meeting 2010**

26 August 2010

Ballroom 1, InterContinental Hotel Bangkok  
Bangkok, Thailand

**Meeting Paper 3-D**

**Asian Bond Market Initiative:  
Progress Update and Future Activities**

*Asian Development Bank*

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**Asian Bond Market Initiative:  
Progress Update and Future Activities**

**The Advisory Group on APEC Financial System Capacity Building  
Bangkok, Thailand**

A. Noy Siackhachanh

Advisor

Office of Regional Economic Integration  
Asian Development Bank

26 August 2010



## Outline

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1. **Background**
2. **Remaining Issues and Challenges**
3. **Recent Progress and Future Activities**
  - ❖ Technical Assistance to Support Bond Market Development
  - ❖ Facilitating Cross-border Bond Transactions
  - ❖ ASEAN+3 Bond Market Forum and other future activities
  - ❖ Credit and Guarantee Investment Facility

## Background

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- The Asian Bond Markets Initiative (ABMI) a regional cooperation initiative of ASEAN+3 supported by the Asian Development Bank (ADB).
- ABMI was established to foster the regional financial stability by promoting the development of the long-term local currency bond markets to help reduce the region's dependency on short term bank loans in foreign currencies.

## Background

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ASEAN+3 has two objectives under ABMI:

- facilitating a wide variety of issuers' access to the bond market; and
- removing policy and regulatory impediments to the development of the markets.

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## Background

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To promote the issuance of corporate bonds, ASEAN+3 has undertaken the following actions:

1. issuing of sovereign bonds to establish benchmarks;
2. encouraging state-owned financial institutions to issue bonds;
3. encouraging multilateral financial institutions (MFIs such as ADB and the World Bank), government agencies to issue local currency bonds within the region with local currency bond issuance; and
4. introducing the harmonization of issuance standards across the region through an Asian currency note program by an MFI (ADB).

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## Background

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To promote the demand for Asian currency denominated bonds, ASEAN+3 has worked to:

1. improve credit information on debt issuers to allow better investment decisions;
2. strengthen related market infrastructure;
3. address cross border investment barriers;
4. strengthen market regulations to protect investor and broaden investor base; and
5. conduct market research and technical assistance programs to seek cooperative solutions to issues of common interest.

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## Background

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In addition, ASEAN+3 has worked with ADB to establish the Asian Bond Online Website, a one stop shop information on local currency bond markets

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## Issues and Challenges

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Despite significant progress made under ABMI, there are remaining challenges to be addressed, including:

- ❑ Limited liquidity
- ❑ Diversified investor base
- ❑ Limited access to debt markets by lower rated issuers
- ❑ Barriers to cross-border bond transactions: high costs and policy barriers

## Issues and Challenges (2)

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Limited liquidity and diversified investor base

- ❑ The supply of corporate bonds remains limited
- ❑ Domestic investors tend to buy and hold
- ❑ Investor base remains limited
- ❑ Asian investors have greater affinity for equity markets
- ❑ Domestic insurance industry remains underdeveloped

## Issues and Challenges (3)

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Limited access to debt markets by lower rated issuers

- Significantly large spread between bonds issued by AAA and BBB
- Investment grade can not issue bonds
- Even issuers with AAA can issue bonds with maturity of only up to 5 years

## Progress Update and Future Activities

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To address the challenges, ADB has worked with ASEAN+3 on the following activities:

1. Technical assistance to support bond market development.
2. Facilitating cross-bond bond transactions.
3. Establishment of a regional credit guarantee and investment facility.
4. Establishment of an ASEAN+3 Bond Market Forum.

## Technical Assistance to Support Bond Market Development

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Technical Assistance to:

- Improve regulations to protect investors, in the areas ranging from better disclosure requirements, more effective bankruptcy procedures, and better credit risk assessment;
- Broaden investor base to facilitate both foreign and domestic investors' investment in bonds denominated in local currency bonds;
- Improve liquidity; and
- Develop other related market infrastructure.

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## Facilitating Cross-Border Bond Transactions

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- An independent group of experts (GoE) was established to study key impediments to cross-border bond transactions and settlement issues
- private sector entities or individuals with expertise in cross-border bond or foreign exchange transactions and settlements issues, nominated by each ASEAN+3 member country
  - 17 national member institutions and 9 international member institutions, including central securities depositories (CSDs), local custodians, global custodians, and international central securities depositories (ICSDs)

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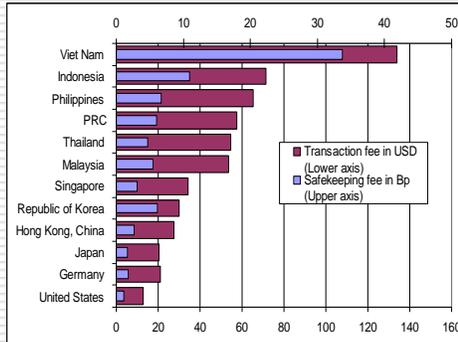


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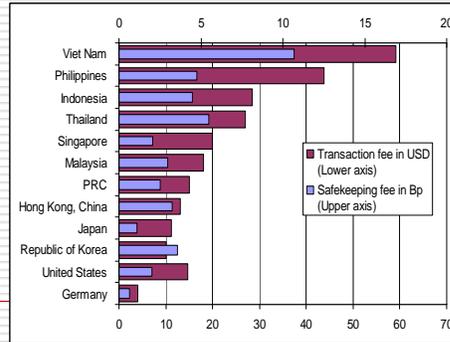
## Outcome of the Study by the GoE: Transaction costs

- Transaction costs are higher than those in the US and EU
- Fee levels tend to vary widely between markets
- Fee levels may vary within individual markets

Average of Global Custodian Fees

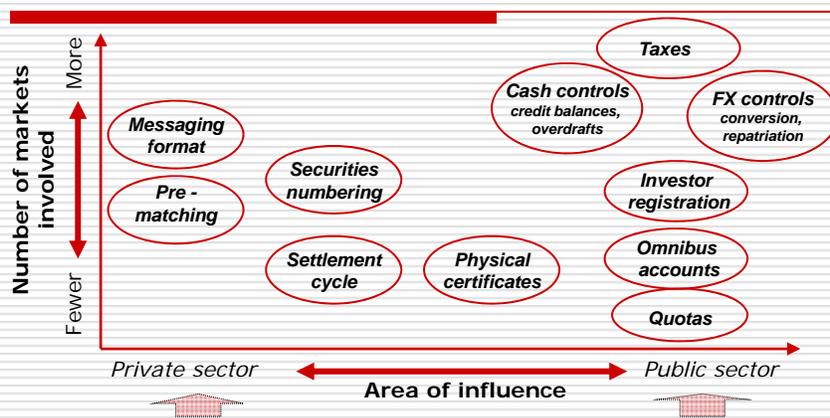


Average of Domestic Custodian Fees



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## Identification of Major Barriers by the GoE



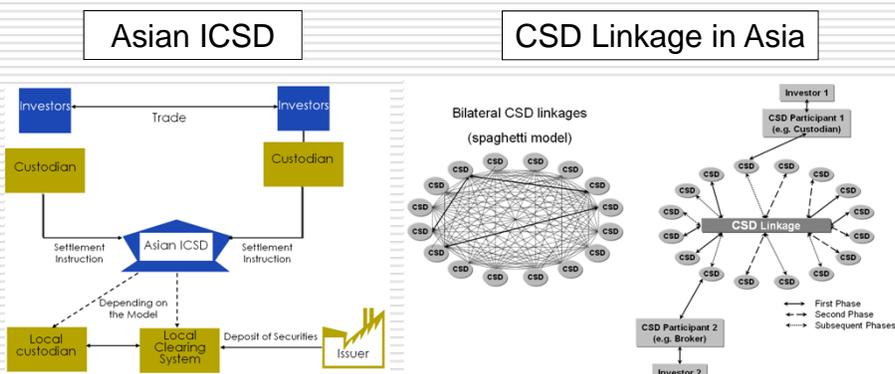
**Improve information flows in the markets**

*Timely information, uniform disclosure, price transparency, market statistics, information on corporate actions, and legal information such as bankruptcy and insolvency laws*



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## Assessment of Possible RSIs by the GoE



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## ASEAN+3 Bond Market Forum

To adopt the recommendations of the GoE, ASEAN+3 recently established Bond Market Forum (ABMF) as a platform to foster standardization of market practices and harmonization of regulations relating to cross-border bond transactions within the region.

ASEAN+3 has also established a working group on a regional settlement intermediary (RSI) to further assess the policy recommendations on options for RSI.

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## Credit Guarantee and Investment Facility (CGIF)

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- ❑ ASEAN+3 and ADB recently established a regional credit guarantee facility for bonds denominated in local currencies to increase access of corporations to local currency bond markets and lengthen their bond maturity with their own domestic markets.
- ❑ CGIF will also provide guarantees for eligible issuers seeking to raise local currency funds across the region, outside their own domestic debt markets.

## Credit Guarantee and Investment Facility (CGIF)

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- ❑ CGIF is a trust fund of ADB, with capital contribution from ASEAN+3 and ADB.
- ❑ Initially, it will have a capital of \$700 million.
- ❑ It is expected that CGIF will be operational by mid 2011.

**Thank you**

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