Regional Initiatives for Developing Asia’s Bond Markets

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Growth rates in Asia’s local currency bond markets stabilized in the first quarter of 2009 after a decline in the previous quarter.

China continues to dominate growth in the region.
Markets have become less bank focused—increasing share of capital markets

- **Total USD43.3 bn**
  - Equities market: 23.2%
  - Bond market: 32.4%
  - Bank Claims: 44.5%

1995: 20.7% 21.1% 58.2%
2008: 23.2% 32.4% 44.5%

... and local currency bond markets are increasing in size

Bonds Outstanding in % of GDP

- **Indonesia**, **Hong Kong, China**, **Philippines**, **India**, **China, People's Rep. of**, **Tajikistan**, **Korea, Rep. of**, **Japan**
... but emerging Asian local currency bond markets remain underdeveloped

The underdevelopment of financial markets and institutions in East Asian economies is an impediment to financial integration.

- **FX controls**: Capital controls across various local bond markets prevent seamless trading of bonds in different currencies.
- **Different tax regimes**: No standard tax concessions or withholding tax arrangements in the Asian region.
- **No standard legal framework**: Documentation and disclosure requirements vary across markets.
- **Multiple rating agencies**: Different rating methodologies and criteria for various rating agencies e.g., RAM, Pefindo, TRIS etc.
- **Separate Settlements/Clearing Systems**: No comprehensive linkage of Settlements/Clearing systems across all Asian currency markets.
- **Lack of sophistication of markets**: Lack of developed swap, repo and futures markets in certain economies.
- **Differing regulatory frameworks**: Different degrees of approvals required for bond issuances.
  - Not all economies recognise the concept of Bond Issuance Programmes.

ADB promotes initiatives to develop integrated local currency bond markets

1. Provide technical and research assistance to the ASEAN+3 ABMI
2. Stimulate market activities by issuing local currency bonds
3. Capacity building for Bond Market Development in ASEAN+3
4. Conduct research and promote information dissemination through Asia Bond Monitor, Asia Capital Markets Monitor, working papers and AsianBondsOnline website
1. Asian Bond Markets Initiative

- ASEAN+3 Finance Ministers: Meet annually
- ASEAN+3 Deputy Finance Ministers: Meet semi-annually
- ABMI Steering Group: Monitor progress and coordinate future plans

Task Force (TF) 1
- 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 Markets

TACT
- TA Coordination Team

TF1: Focus on supply side
- Credit Guarantee Investment Mechanism (CGIM)
  - Support the issuance of local currency bonds
  - Contribute to developing regional bond markets
  - Effective by the 2010 AFMM+3
  - Business scope, leverage ratio and country limit to be further discussed
  - Established as a trust fund of ADB with an initial capital of USD500 million
- Asian Currency Note Program
  - Multicurrency bond platform
  - Links capital markets in HK, MY, SG, PH and and Taipei, China.
  - Issuers can access Asian financial markets simultaneously: helps reduce legal and transaction costs.
  - Investors can benefit from more frequent issues and greater diversification
  - Supports efforts to harmonize bond documentation and conventions in the region and serves as a model for regional and international issuers interested in tapping regional markets
TF 2: Focus on demand side
• AsianBondsOnline website
  ➢ Hub for local currency bond markets
  ➢ Facilitate information exchanges among member countries on developments
    in the local currency markets

TF 3: Focus on regulation
• Harmonization of Bond Standards
  ➢ Report to ABMI early next year on harmonization developments in (i)
    secondary market for government and corporate bonds, (ii) self regulatory
    agencies

TF 4: Focus on infrastructure
• Regional Settlement Intermediary (RSI)
  ➢ Group of Experts established to conduct feasibility study of RSI options and
    identify barriers for cross-border bond transactions and settlements in the
    region
  ➢ Recommendations to ABMI in April 2010 on (i) cost and benefits of each
    option, (ii) regulatory requirements, and (iii) next steps
  ➢ website http://asean3goe.adb.org

2. ADB Local Currency Bond Issuance
—has increased the supply of high quality domestic currency bonds

<table>
<thead>
<tr>
<th>Country</th>
<th>Coupon %</th>
<th>Amount</th>
<th>Issue Date</th>
<th>Tenor (Yrs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kazakhstan</td>
<td>6.80%</td>
<td>KZT 6.0 B</td>
<td>Aug-07</td>
<td>5</td>
</tr>
<tr>
<td>Philippines</td>
<td>5.23%</td>
<td>PHP 5.0 B</td>
<td>May-07</td>
<td>5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4.00%</td>
<td>MYR 0.5 B</td>
<td>Feb-07</td>
<td>10</td>
</tr>
<tr>
<td>Singapore</td>
<td>3.27%</td>
<td>SGD 0.5 B</td>
<td>Feb-07</td>
<td>5</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>4.00%</td>
<td>HKD 1.5 B</td>
<td>Jan-07</td>
<td>5</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>4.28%</td>
<td>HKD 1.0 B</td>
<td>Sep-06</td>
<td>3</td>
</tr>
<tr>
<td>Singapore</td>
<td>3.935%</td>
<td>SGD 0.5 B</td>
<td>Sep-06</td>
<td>5</td>
</tr>
<tr>
<td>Thailand</td>
<td>5.34%</td>
<td>THB 5.5 B</td>
<td>Sep-06</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: ADB Treasury
3. Capacity Building for Bond Market Development in ASEAN + 3

- Three-week training course on bond market development
- Target participants - middle management officials from the ministry of finance, central bank, financial services authority and securities and exchange commissions in the region
- Training program to run for 3 years (2008-2010)

4. Research and Information Dissemination

- Asia Bond Monitor
  - Quarterly publication
- Asia Capital Markets Monitor
  - Annual publication
- ADB Working Paper Series on Regional Economic Integration
  - See Asia Regional Integration Center http://aric.adb.org
- AsianBondsOnline website http://asianbondsonline.adb.org
Thank You

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