Third Meeting 2010
26 August 2010
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Bangkok, Thailand

Meeting Paper 3-B
The 4th APEC Public-Private Sector Forum on Bond Market Development

Office of the Advisory Group Chair

Sapporo Forum

- 31 May 2010
- Convened by Advisory Group and ABAC, in collaboration with Japan Ministry of Finance and APEC Senior Finance Officials
- 80 participants – government, international organizations, private sector, academe
Sapporo Forum

- Part I: 4th APEC Public-Private Sector Forum on Bond Market Development
- Part II: APEC Financial Inclusion Forum

Bond Market Development: Overview

Outstanding Local Currency Bonds (US$B) (East Asia excluding Japan)

Source: ADB, Asian Bonds Online
Bond Market Development: Overview

- Bond market development in Asia-Pacific has reached a significant stage
- Support from public/private sector
  - Asian Bond Market Initiative (ABMI)
  - Asian Bond Fund (ABF) I and II
  - APEC Public-Private Sector Forum
  - Domestic reform initiatives in Asia and Latin America

Bond Market Development: Key Challenges

- Market depth and liquidity
- Market infrastructure and architecture
- Legal and regulatory frameworks
- Collaboration among:
  - Government/regulatory agencies
  - Investors
  - Issuers
  - CRAs
  - Experts
  - International agencies
Bond Market Development: China, Korea and Japan

- Different levels of development
- Different sets of challenges
- Continued progress over the past few years demonstrates impact of reforms on market development

Bond Market Development: Issues for China

- Optimizing financing structure
- Improving product diversity
- Improving diversity of issuer base
- Promoting globalization
  - Increasing foreign issuer participation
  - Increasing overseas issuance of domestic entities
- Integration of bond with banking market
- Developing derivatives market
Bond Market Development: Issues for Korea

- Ensuring regulatory reforms are in line with market development objectives
  - Impact on liquidity
  - Impact on demand for bond and other safe assets

Bond Market Development: Issues for Japan

- Efficiency, transparency and liquidity of primary and secondary markets
- Robust market infrastructure
- Diversification of investor and issuer base
  - Especially through participation of foreign investors and issuers in the market
Bond Market Development: Toward the Next Stage

**Innovative policy solutions:**
- Professional securities markets
- Reducing barriers to cross-border settlement
- Cross-border securities collateral management
- Healthy environment for credit ratings
- Funds passport scheme

Bond Market Development: Professional Securities Markets

- Wholesale securities markets open only to professional investors
- Exempt from stringent disclosure rules originally designed to protect retail investors
- To encourage the expansion of the issuer base
- Individual economies to establish such arrangements, then collaborate to develop regional arrangement
Bond Market Development: Barriers to Cross-Border Settlement

Number of markets involved

More

Fewer

Pre-matching

Securities numbering

Settlement cycle

Physical certificates

Omnibus accounts

FX controls conversion, repatriation

Taxes

Cash controls credit balances, overdrafts

Investor registration

Quotas

Private sector

Area of influence

Public sector

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.

Source: JASDEC

Bond Market Development: Cross-Border Securities Collateral

Financial authority A

Cash/loan

Call for disbursement

Bank C’s Branch/subsidiary

Notice

Custodian B

Custody a/c with B

Collateral bonds

Bank C

Host economy

Home economy

Source: JASDEC
Bond Market Development:
Cross-Border Securities Collateral

- Central banks accepting foreign securities as collateral: Fed, BoE, SNB, BOJ
- Most emerging markets: preference for cash
- Roadmap:
  - Central banks to collaborate
  - Develop bilateral arrangements based on existing models
  - Region-wide system: to lead to cross-border securities collateral markets, expanded use of bonds as collateral, trading – improved liquidity

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Bond Market Development:
Healthy Environment for Credit Ratings

Collaboration among governments, regulators, CRAs, market players to improve and promote region-wide convergence of:

- Accounting standards
- Disclosure regimes
- Corporate governance practices
Bond Market Development: Funds Passport Scheme

Based on successful UCITS model

Continued efforts to address basic issues:
- Market depth and liquidity
- Market infrastructure and architecture
- Legal and regulatory frameworks

New package of measures:
- Professional securities markets
- Reducing barriers to cross-border settlement
- Cross-border securities collateral management
- Healthy environment for credit ratings
- Funds passport scheme