Asian Bond Market Initiative:
Progress Update and Future Activities

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Outline

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   - Credit and Guarantee Investment Facility

Background

☐ 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.
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.

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 (MFI s 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).
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.

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.
Issues and Challenges

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)

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)**

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**

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.
Technical Assistance to Support Bond Market Development

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.

Facilitating Cross-Border Bond Transactions

- 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)
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

Identification of Major Barriers by the GoE

- Messaging format
- Pre-matching
- Securities numbering
- Settlement cycle
- Physical certificates
- Cash controls
- Credit balances, overdrafts
- FX controls
- Conversion, repatriation
- Investor registration
- Omnibus accounts
- Quotas
- Taxes
- Number of markets involved
- More
- Fewer

Area of influence
Private sector
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
Assessment of Possible RSIs by the GoE

Asian ICSD  CSD Linkage in Asia

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.
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.

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