Recent progress under the ABMI - ABMF and plans for 2011

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THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM
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Asian Development Bank

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Outline

1. Recent Market Trend

2. ASEAN+3 Bond Market Forum (ABMF)
   - First meeting in Tokyo, Japan, on 28 September

3. Plans for 2011

Positive market environment for Asian LCY Bonds continues

- Strong issuance and growth
  - LCY bonds outstanding reached USD4.8 trillion at the end of 2Q10
  - Strong growth of 18.8% y-o-y, 5.1% q-o-q growth in 2Q10
  - Government bonds grew 16.7% y-o-y, corporate bonds 24.4% y-o-y in 2Q10

- Regional efforts are continuously supporting the developments.
Recent bond markets development in Asia

Rapid growth of LCY bond markets since 2003, particularly in 2009 and 2010. Corporate bond markets are growing rapidly.

Note: Emerging East Asia comprises China, People’s Republic of; Hong Kong, China; Indonesia; Korea, Republic of; Malaysia; Philippines; Singapore; Thailand; and Vietnam.

Source: AsianBondsOnline.

Growth of Emerging East Asian LCY Bond Markets in 1Q10 and 2Q10 (y-o-y %)

Source: Asia Bond Market Monitor October 2010
Credit Default Swap Spreads
for Select OECD and Asian Economies

Source: Asia Bond Monitor Oct 2010

Foreign Holdings of LCY Government Bonds
(% of total)

Note: Data for the Republic of Korea and Japan as of March 2010; Data for Malaysia and Thailand as of June 2010; Data for Indonesia as of July 2010.

### iBoxx ABF Index Family Returns

<table>
<thead>
<tr>
<th>Market</th>
<th>Modified Duration (years)</th>
<th>2009 Returns (%)</th>
<th>2010 Returns (%)</th>
<th>2010 YTD Returns (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China, People’s Rep. of China</td>
<td>6.00</td>
<td>(0.64)</td>
<td>(0.69)</td>
<td>3.18</td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>3.75</td>
<td>(0.76)</td>
<td>(0.82)</td>
<td>2.17</td>
</tr>
<tr>
<td>Indonesia</td>
<td>5.40</td>
<td>20.22</td>
<td>35.61</td>
<td>11.80</td>
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<tr>
<td>Korea, Rep. of Korea</td>
<td>3.68</td>
<td>1.04</td>
<td>9.73</td>
<td>4.36</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4.67</td>
<td>0.48</td>
<td>1.64</td>
<td>2.87</td>
</tr>
<tr>
<td>Philippines</td>
<td>4.28</td>
<td>9.00</td>
<td>11.88</td>
<td>4.54</td>
</tr>
<tr>
<td>Singapore</td>
<td>5.57</td>
<td>0.48</td>
<td>3.06</td>
<td>3.52</td>
</tr>
<tr>
<td>Thailand</td>
<td>5.05</td>
<td>(3.47)</td>
<td>0.73</td>
<td>5.85</td>
</tr>
<tr>
<td>Pan-Asian Index</td>
<td>4.81</td>
<td>—</td>
<td>5.00</td>
<td>—</td>
</tr>
<tr>
<td>HSBC ALBI</td>
<td>8.18</td>
<td>—</td>
<td>6.13</td>
<td>—</td>
</tr>
<tr>
<td>US Govt 1-10 years</td>
<td>3.91</td>
<td>—</td>
<td>(1.38)</td>
<td>—</td>
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</tbody>
</table>

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**Notes:**
1. The Asia Bond Fund indices contain only government debt and government-guaranteed debt obligations.
2. Market bond indices are from iBoxx Index Family. 2010 returns are year-to-date as of 31 August 2010.
3. Annual return is computed for each year using natural logarithm of end-of-year index value/beginning-of-year index value.
4. Duration is as of 31 August 2010.
5. Source: Asia Bond Monitor October 2010.

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**Outline of ASEAN+3 Bond Market Forum (ABMF)**
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.

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

Local Bond Markets (Domestic Bond Market)
- Foster government bond market
- Create the benchmark yield curve
- Foster corporate bond markets
- Circulate domestic savings

Cross-Border Bond Markets (Foreign Bond Markets)
- A Part of Domestic Market
  - Outward issuance by residents, inward issuance by non-residents and cross-border investments
  - Subject to home country or host country rules and regulations
  - Different stage of economic development and heterogeneity in legal and institutional systems and infrastructure
- Japan – Samurai Bond
- Korea – Ariran Bond
- China – Panda bond

Cross-Border Inter-Regional (wholesale) Bond Market
- Harmonization of heterogeneous rules and regulations for professionals in Asian region
- Facilitate inter-regional circulation of savings within Asia
- Creation of self-regulated Asian Inter-Regional (wholesale) Bond Market for professional market participants
- For instance, Asian Exchange regulated market

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

Market characteristics
- Issuing procedures
- Syndicate Rules
- Governing law
- Settlement
- Withholding tax
- Accounting standards
- Disclosure (filling/listing)
- Electronic Disclosure
- Documentation
- Credit rating
- etc...

Harmonization (bottom-up approach)

Standardization (top-down approach)

Mutual interaction is highly expected

Source: Hyun & Inukai (2010)
ITEMS for analysis
(Tentative: Subject to discussion)

- 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

Inputs by the Sub-Forum members

Approach to clarify transaction procedures

National Members and Experts are expected to contribute by providing information on transaction procedures in each country

International Experts are expected to contribute by providing information on cross-border transaction procedures and possibly related costs in the region
## SF1 members and experts

<table>
<thead>
<tr>
<th>Institution</th>
<th>Organization/Location</th>
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<tbody>
<tr>
<td>Brunei International Financial Centre (BIFC)</td>
<td>Nomura Securities Co. Ltd.</td>
</tr>
<tr>
<td>National Bank of Cambodia</td>
<td>Daiwa Securities Capital Markets Co. Ltd.</td>
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<tr>
<td>SEC of Cambodia</td>
<td>Korea Financial Investment Association</td>
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<td>People's Bank of China</td>
<td>Korea Capital Market Institute (KCMI)</td>
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<tr>
<td>China Security Regulatory Commission</td>
<td>Korea Exchange (KRX)</td>
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<tr>
<td>Hong Kong Monetary Authority</td>
<td>Securities and Exchange Commission Office, Bank of the Lao PDR</td>
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<td>China Securities Depository and Clearing Corporation Limited</td>
<td>Financial Market Association of Malaysia (PPKM)</td>
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<td>China Government Securities Depository Trust and Clearing Co.</td>
<td>Central Bank of Myanmar</td>
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<td>Ministry of Finance of Indonesia</td>
<td>Bureau of Treasury of the Philippines</td>
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<tr>
<td>Indonesian Capital Market and Financial Institutions Supervisory Agency</td>
<td>Securities and Exchange Commission of the Philippines</td>
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<td>Tokyo Stock Exchange, Inc.</td>
<td>Securities and Exchange Commission of Thailand</td>
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<td>Thai Bond Market Association (Thai BMA)</td>
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<td>Vietnam Bond Market Association (VBMA)</td>
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## SF2 members and experts

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<td>Securities and Exchange Commission Office, Bank of the Lao PDR</td>
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<td>SEC of Cambodia</td>
<td>Central Bank of Myanmar</td>
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<tr>
<td>People's Bank of China</td>
<td>Philippine Dealing System Holdings Corp/PDS Group</td>
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<tr>
<td>China Security Regulatory Commission</td>
<td>Bankers Association of the Philippines (BAP)</td>
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<tr>
<td>Hong Kong Monetary Authority</td>
<td>The Stock Exchange of Thailand (SET)</td>
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<td>China Securities Depository and Clearing Corporation Limited</td>
<td>Vietnam Securities Depository</td>
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<tr>
<td>China Government Securities Depository Trust and Clearing Co.</td>
<td>The Bank of Tokyo Mitsubishi UFJ Ltd</td>
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<tr>
<td>Ministry of Finance of Indonesia</td>
<td>State Street Global Advisors</td>
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<tr>
<td>Indonesian Capital Market and Financial Institutions Supervisory Agency</td>
<td>Citibank</td>
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<tr>
<td>PT Kustodian Sentral Efek Indonesia (KSEI)</td>
<td>JP Morgan</td>
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<tr>
<td>Indonesian Central Securities Depository</td>
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<tr>
<td>Japan Securities Depository Center, Inc.</td>
<td>Deutsche Bank AG</td>
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<tr>
<td>Mizuho Corporate Bank, Ltd.</td>
<td>SWIFT</td>
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<tr>
<td>Korea Securities Depository(KSD)</td>
<td>HSBC</td>
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<tr>
<td>Korea Capital Market Institute(KCMI)</td>
<td>Tata Consultancy Services</td>
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Plans for 2011

ABMF Working schedule

- Quarterly meetings
  - First meeting in Tokyo
  - Second meeting in mid-December (9-10 or 13-14) 2010 in Manila
  - Third meeting in Feb 2011
    - First reporting to TF3
  - Fourth meeting in June or July 2011
  - Fifth meeting in Sept 2011
    - Second reporting to TF3
  - Sixth meeting in Dec 2011
  - Submission of the final reports by the end of 2011.

- Sub-Forum 1 and 2 will be held back to back.
Launch of Credit Guarantee and Investment Facility (CGIF)

- ADB trust fund with initial capital of USD700 million
- Operational in 2011

Possible area of collaboration

- Advisory Group’s recommendation
  - a) development of wholesale securities markets exclusively for professional investors;
  - b) regional public-private sector collaboration mechanisms to reduce barriers to cross-border settlement;
  - c) use of foreign securities as eligible collateral throughout the region;
  - d) ways to accelerate the region-wide convergence of accounting standards, disclosure regimes and corporate governance practices; and
  - e) establishment of a pathfinder initiative to introduce a regional funds passport scheme.

- ABMF
  - ABMI TF3 will discuss next agenda items to be discussed under the ABMF in Feb or March 2011
  - Feedback from ABAC may be discussed.
Thank you

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