



**DEVELOPING BOND MARKETS IN APEC:
*MOVING FORWARD THROUGH PUBLIC-
PRIVATE SECTOR PARTNERSHIP***

CONFERENCE REPORT

A CONFERENCE JOINTLY ORGANIZED BY:
THE APEC BUSINESS ADVISORY COUNCIL
THE PACIFIC ECONOMIC COOPERATION COUNCIL

In Partnership with:
The Asian Bankers' Association
The Association of Credit Rating Agencies in Asia

May 10-11, 2004
Grand Formosa Regent Hotel
Taipei



A CONFERENCE JOINTLY ORGANIZED BY:
THE APEC BUSINESS ADVISORY COUNCIL
THE PACIFIC ECONOMIC COOPERATION COUNCIL
In Partnership with:
The Asian Bankers' Association
The Association of Credit Rating Agencies in Asia



DEVELOPING BOND MARKETS IN APEC MOVING FORWARD THROUGH PUBLIC-PRIVATE SECTOR PARTNERSHIP

CONFERENCE REPORT

Table of Contents

INTRODUCTION	1
KEY INGREDIENTS FOR THE DEVELOPMENT OF ASIA-PACIFIC BOND MARKETS	2
The rationale for bond markets	2
Initiatives to develop an Asian regional bond market	3
Lessons from APEC economies' experiences in the development of bond markets	4
Comparisons between markets in Asia and between Asia and other regional markets	5
CAPACITY-BUILDING IN KEY AREAS	6
A. Expanding the region's institutional investor base	6
Improving the policy framework for the effective operation of markets	6
Commercial assessment of emerging regional arrangements	7
B. Developing a strong regional credit rating industry	8
C. Promoting effective domestic and region-wide insolvency and creditor rights systems	10
Importance of insolvency law and protection of creditor rights	10
Developing effective insolvency and creditor rights systems	11
Strengthening economic legal infrastructure	14
D. Promoting region-wide convergence toward robust global accounting standards	14
CONCLUSION AND RECOMMENDATIONS	17
Key ingredients for domestic bond market development	18
Key ingredients for regional bond market development	18
Capacity-building in key areas	19
APPENDIX: ABOUT THE CONFERENCE	22



A CONFERENCE JOINTLY ORGANIZED BY:
THE APEC BUSINESS ADVISORY COUNCIL
THE PACIFIC ECONOMIC COOPERATION COUNCIL
In Partnership with:
The Asian Bankers' Association
The Association of Credit Rating Agencies in Asia



DEVELOPING BOND MARKETS IN APEC MOVING FORWARD THROUGH PUBLIC-PRIVATE SECTOR PARTNERSHIP

CONFERENCE REPORT

INTRODUCTION

During their dialogue with the APEC Business Advisory Council (ABAC) and the Pacific Economic Cooperation Council (PECC) Finance Forum in Phuket, Thailand on September 5, 2003, the APEC Finance Ministers expressed the need for in-depth business sector inputs into their ongoing work on bond market development within the region. In response, ABAC and PECC jointly held a conference with experts and practitioners from a wide range of firms and institutions that are actively involved in the region's bond markets.

This conference was held on May 10-11, 2004 in conjunction with a meeting of ABAC in Taipei. In organizing this conference, ABAC and PECC pursued the following objectives:

- To gather private sector inputs on how best to develop domestic and regional bond market infrastructure and attendant policies to support bond markets.
- To identify capacity-building requirements and measures to accelerate the growth of private sector investment and issuance in domestic and regional bond markets.
- To catalyze the formation of a private sector network involving institutions and market players with interest in capital markets that can work closely with the public sector in APEC to develop domestic and regional bond markets.
- To generate wider awareness in the private sector of current efforts to develop bond markets in the region, prospects for their success, opportunities arising from them, and challenges for enhanced public-private sector partnership in their pursuit.

ABAC and PECC enlisted the cooperation of two organizations that have been major advocates of regional bond market development, the Asian Bankers' Association (ABA) and the Association of Credit Rating Agencies in Asia (ACRAA). The event attracted over 140 high-level participants representing investment and commercial banks; securities, insurance, law and accounting firms; credit rating agencies; domestic regulatory bodies; industry and services; academe and the Asian Development Bank (ADB) and the ADB Institute.

Expert presentations and discussions provided insights into the development of markets and policy measures being pursued in the region. These focused on fundamental operational aspects of bond markets, the legal infrastructure, the role of credit rating agencies and accounting standards that are necessary to support markets. The conference highlighted capacity-building initiatives that would assist in

**This report was prepared on behalf of the APEC Business Advisory Council and the PECC Finance Forum and under the authority of the Conference Chairman, Dr. Jeffrey L.S. Koo, by Dr. Julius Caesar Parreñas (d10261@tier.org.tw) and Mr. Kenneth Waller (wallerk@cba.com.au). It reflects the views expressed by participants at the conference, and not necessarily those of ABAC and PECC unless properly endorsed by them. All conference papers, as well as other related information are available at the conference website (<http://www.tier.org.tw/pecc/conference/bondmarket2004.htm>).*

the development of these markets. This conference report contains the essential elements of these presentations and discussions.

Reflecting the structure of the conference, this report is divided into two major parts:

- *Key Ingredients for the Development of Asia-Pacific Bond Markets:* This part focuses on the current situation of domestic bond markets and of regional bond market initiatives, including policy frameworks. It also touches on key areas for public-private sector cooperation to address problems and accelerate bond market development.
- *Capacity-building in key areas:* This part focuses on progress of capacity-building efforts in four particular areas that are of key importance to bond market development. It also discusses how public-private sector partnership in these areas could be promoted to produce tangible results in the foreseeable future.

KEY INGREDIENTS FOR THE DEVELOPMENT OF ASIA-PACIFIC BOND MARKETS

The conference addressed a range of complex and interlocking issues relevant to the operation of bond markets. In examining ingredients that create efficient markets – as seen essentially from a commercial perspective – the conference reviewed the arguments for promoting domestic and regional markets. It considered underlying processes that had contributed to the growth of markets in the APEC region. It also considered issues brought out by comparing markets, both within and outside the region.

The rationale for bond markets

Strong economic growth cannot be sustained without well-functioning capital markets, including bond markets. In the absence of long-term bond issues, local borrowers turn to foreign (including short-term) savings, creating a potential mismatch between lenders and borrowers. This mismatch, and associated currency mismatches, contributed in part to the Asian financial crisis. For these reasons APEC economies are placing priority on the development of bond markets as an integral element of financial system reform.

The development of a regional market or markets in Asia (where bonds issued in Asian currencies or a basket of currencies can be freely invested in and traded by both domestic and foreign participants) is a desirable objective. Some existing markets in the region do have characteristics that define them as regional markets. Some have developed offshore markets. In a number of economies, however, major policy changes— such as capital account liberalization and greater flexibility in exchange rate regimes – would be required for a market for bonds denominated in Asian currencies or a basket of currencies to emerge.

Steps being taken toward a regional bond market may therefore be best seen in terms of preparing the way for regional liberalization to facilitate the operation of a regional bond market at some time in the future, with its ultimate realization being primarily dependent on capital market liberalization. It is worth noting, however, that the process of improving the operation of domestic bond markets and regional coordination should help strengthen domestic financial systems and pave the way to greater regional and global integration.

Another factor underscoring the need to develop bond markets is that, where capital markets are underdeveloped, the capacity of financial systems to facilitate prudential protection through the reinsurance sector is likely to be diminished. In the absence of

bond issues, the buffer against risks borne by the insurance sector will be confined to a limited range of assets, leading to a compartmentalization of underwriting capacity and a concentration of risk. An efficient bond market facilitates judgement about risk pricing and the spread of risk between various asset classes.

In times of crisis, efficient bond markets can facilitate access to liquidity and broaden the risk transfer possibilities to a larger group of players. Arbitrageurs can provide a buffer and new investors may be induced into markets through attractive trades visible in bond markets. A greater number of risk transfer investments can reduce pressure across products, markets, borders, sectors and investors.

The proposition that Asian savings should desirably be used for long-term Asian development financing needs is central to the thinking behind the development of bond markets in the region. Currently, Asian savings are often converted into domestic reserves held in the form of low yield US Treasury paper, and subject to exchange rate and interest rate movements.

The development of regional bond markets reflects the growing integration between economies in the region. The recent issue of Thai baht denominated bonds by a Japanese company in Thailand, guaranteed by Japanese banks, involved links by the issuer to the local community and was useful in deepening the local market.

Initiatives to develop an Asian regional bond market

The Asian Bond Market Initiative (ABMI) by the ASEAN Plus Three grouping is a useful contribution to regional financial cooperation. Under the ABMI and other initiatives, work is proceeding to develop credit guarantee schemes, the harmonization of bond market rules and regulations, the convergence of credit rating practices, regional settlement linkages and ways to improve data flows and dissemination. These measures are crucial in creating a conducive environment for the growth of a commercially driven regional bond market.

The recent launch of the first Asian Bond Fund (ABF), designed for investment in US dollar-denominated sovereign and quasi-sovereign Asian bond issues, is also a part of efforts to deepen regional financial cooperation. Further initiatives toward a regional market that is not limited to sovereign paper and US dollar-denominated securities are expected to also focus on creating an environment that will promote confidence in such a market. Major challenges remain however, as governments, supported by the ADB and regional groupings, seek to progress developments across a complex array of issues.

To ensure effective cooperation throughout the region, activities under the framework of the ABMI should be closely coordinated with efforts being undertaken by APEC, international financial institutions and the private sector. There is scope for increasing the level of funding to support capacity-building initiatives and wider participation by all interested APEC economies in these initiatives, including the ABF and the ABMI.

Ultimately, successful markets need to function on a commercial basis. In practical terms, a number of Asian economies do not have the scale required for a deep and efficient domestic market. Smaller economies could benefit from the development of regional markets, where the pooling of borrowing needs might be securitized and reflected in bond issues denominated in a basket of currencies. However, this would involve significant complexities, especially with respect to risk management and risk pricing. For the near term, it would be more useful to improve intermediation through domestic banking systems, including the use of credit guarantee arrangements.

Lessons from APEC economies' experiences in the development of bond markets

There has been significant growth of bond markets in the region over the last four decades, notably in Japan, Australia, Hong Kong, Singapore, Korea and Chinese Taipei. A common thread has been the steady development of market infrastructure, with sovereign issues as the central focus of the market continuing as a major but diminishing component with the growth of commercial debt issues. The US has a long established bond market that, unlike in Asia, originated from long-term private debt issues to finance railroad development. It was only later that government issues became prominent.

In **Hong Kong**, the market developed following a series of important government-sponsored initiatives. These involved fixed debt issues, interest rate swaps, the launch of exchange fund bills and the establishment of a money market unit for clearing and settlement. Three key ingredients in the growth process are the depth (a robust investor base) and width (the variety of product types for investors) of the market, as well as a supportive infrastructure.

These ingredients have combined to provide a highly liquid market through strong public and private sector involvement in its development. The issue of Hong Kong Mortgage Corporation debt, with placing bank arrangements to facilitate on-selling to retail investors, is a major example of this partnership. More recently, large commercial issues have been made for the retail market, leading to a buoyant secondary market. These experiences point to the importance of public sector entities issuing paper of interest to retail investors.

Market width developed in Hong Kong through issues of asset-backed securities. Underlying securities include revenues from toll-roads. Assets of different maturities and tranches are being made available to match retail and institutional investor interests. Public sector involvement in bond issuance based on the securitization of prospective revenues has supported market development on a non-subsidized basis. This provides flexibility in government financing and has led to strong commercial involvement in the market.

A similar process of government bond issues followed by corporate issues and securitization occurred in **Chinese Taipei**. The market has grown steadily under a policy to develop a sound and liquid market. The creation of the Financial Reform Task Force in 2002 was followed by the pre-announcement of government issues, a primary dealer system for those issues, the establishment of a benchmark yield curve and a bond futures market.

A number of laws providing for asset securitization were introduced, as were measures to improve liquidity, including the promotion of cross-border transactions and the introduction of know-how from foreign firms. Public and private sector interests have cooperated in developing market infrastructure and the regulatory system as well as in supporting regional cooperation to promote legal harmonization.

Major reforms in **Chile**, particularly in the area of financial supervision and the capital account liberalization, led to an open capital market, which in turn has contributed to a sustained period of economic growth. Major changes to retirement income policies and the consequent growth of long-term savings have been a driver in the growth of the bond market.

Banks have also been issuing subordinated debt to satisfy capital adequacy rules. Notwithstanding domestic interests in the market, a deeper and liquid market has been supported by foreign investor participation. This required adjustment to the tax

system. A challenge remains as to how small and medium enterprises (SMEs) may more effectively obtain financing through the bond market.

In **Japan**, a deep and open bond market developed through a series of steps over a relatively long period. The market was opened to overseas issuers in the early 1970's when the ADB issued its first yen-denominated bond, the samurai bond. This was followed by foreign sovereign issues and later by international corporate issues. Improvements have been made at each step of the way in the evolution of the market. This was supported by the creation of an appropriate environment and infrastructure, without causing moral hazard and without harming market structures.

In **Australia**, major economic and financial reforms over the last three decades have had a profound impact on deepening and broadening financial markets. More recently, factors affecting the flow of funds into markets have become highly relevant. The introduction of the compulsory superannuation scheme in the mid-1980's changed the direction of the flow of funds away from bank deposits and toward managed funds.

Banks have increased their borrowings in debt markets, as have non-finance entities, both in domestic and foreign markets. In a sense, the bond market may be seen as a complement to bank lending rather than a substitute for it. The role of banks in mortgage and in other forms of securitization is particularly prominent and the compulsory superannuation system has led to a decoupling of long-term savings from the life insurance sector to the funds management sector. Convertible equity issues linking debt and equity issues are growing. These instruments, together with asset securitization have become more relevant, as agents of change in the financial system, than are straight bond issues.

Comparisons between markets in Asia and between Asia and other regional markets

Bond issuance outstanding in eight markets in the region (Korea, Thailand, Philippines, Chinese Taipei, Indonesia, Malaysia, Singapore and Hong Kong) amounted to US\$1.037 trillion in 2003, with Korea accounting for nearly 50% of the total. Maturities across these markets ranged from one month to 20 years. However, relatively high transaction costs and insufficient liquidity in certain markets make trading unattractive. While the number of issues within Asia is growing, improvements are needed in some of these markets with respect to maturity profile, the development of securitization, increased market turnover and market pricing, and risk premium valuation.

A broader comparison across markets of the contribution made by capital markets, equity markets and banking to total financing, shows quite varied compositional differences. Bond market financing in the eight regional Asian economies is the equivalent of 44% of their combined GDP. This compares to bond market financing in Germany and the US of 78% and 157% of GDP, respectively.

A lower proportion of financing to GDP is provided through equity markets in Germany compared to that provided in the same eight Asian economies, while significantly more is financed in the US through equities. The proportion provided by banks in the US (88%) is considerably lower than that in the Asian markets (134%) and in Germany (143%). It may be concluded that on a regional basis, there is still much scope for expanding the contribution of bond markets to total financing in Asia.

CAPACITY-BUILDING IN KEY AREAS

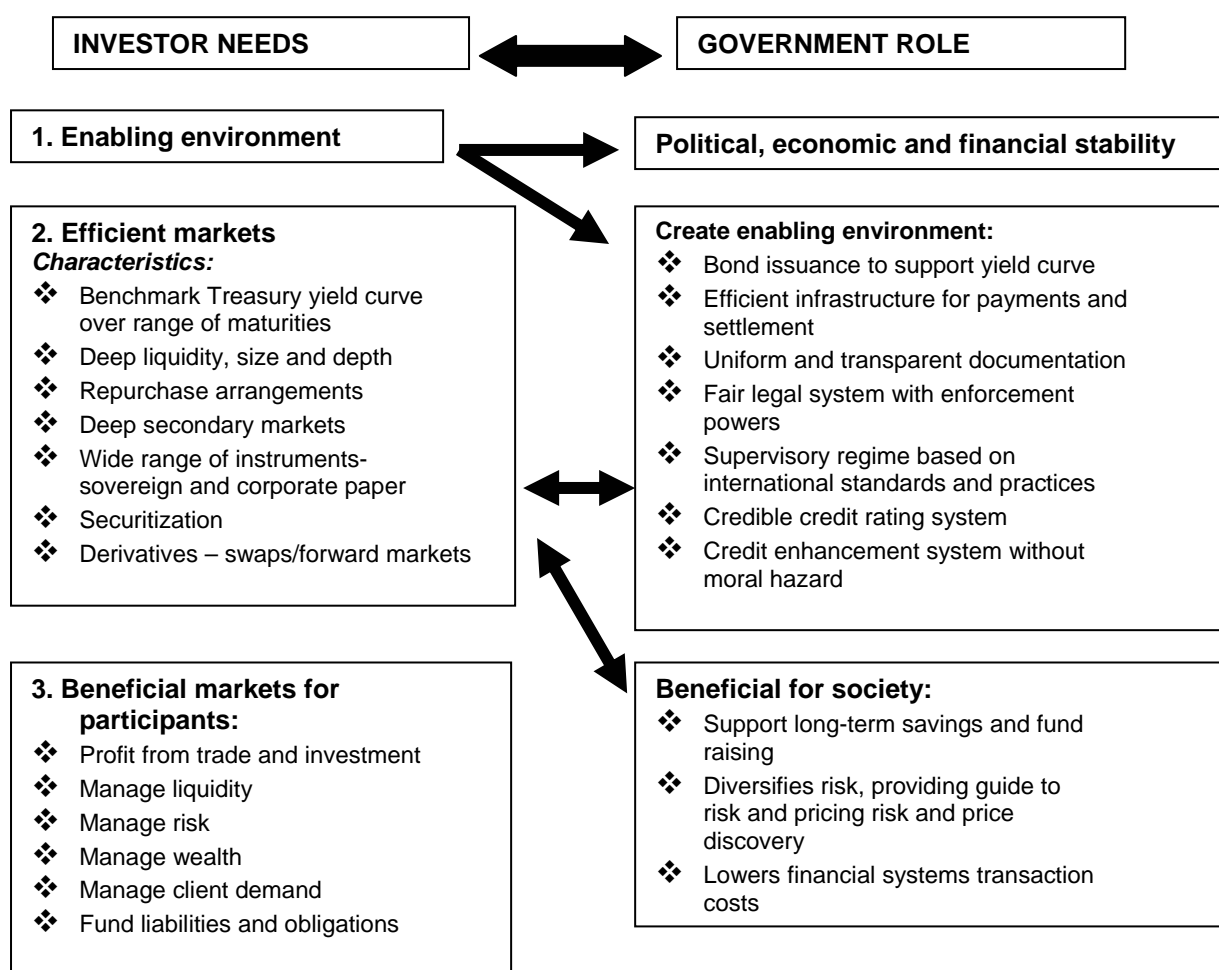
A. EXPANDING THE REGION'S INSTITUTIONAL INVESTOR BASE

Improving the policy framework for the effective operation of markets

Private sector investors and analysts both in and outside the region strongly agree that the time is opportune to further develop Asia-Pacific bond markets. Investors note an increasing correlation of returns in established markets and shrinking investment opportunities as European markets merge. More liquid markets in Asia offer the prospect of greater diversification and higher returns to investors. Conversely, Asian issuers would have greater access to a larger pool of savings and funds at potentially lower cost.

Investors outlined the central factors guiding their decisions to place funds under their responsibility in bond markets, thereby contributing to an expansion of the institutional investor base. The conference highlighted the interlocking relationships between the interests of private sector market participants and of governments, and the policy and environmental framework necessary for the efficient operations of markets. These relationships are shown in the diagram below.

Policy and Environmental Framework Necessary for the Efficient Operation of Markets



The government's role in supporting the yield curve as a bond issuer and in providing the enabling environment is crucial in expanding the investor base. Investors highlighted the following additional key elements that are of particular relevance to investment decision-making:

- creditor and shareholder rights, workouts and insolvency processes, which are essential elements of the legal framework;
- the harmonization of supervisory arrangements across the region;
- non-political credit rating standards and independent agencies;
- uniform and transparent reporting standards for financial and non-financial institutions;
- enhanced corporate governance, financial controls and integrity through clear rules and penalties;
- the absence of capital controls, avoidance of double taxation on interest and profits, and active domestic investor participation to encourage foreign investor participation in the market;
- reliable, consistent and continuous information flows;
- avoidance of moral hazard and the corruption of markets by carefully designing credit enhancement schemes and allowing lenders to bear some risk; and
- reflecting in a balanced way the interests of all participants, especially lead players (issuers, investors, intermediaries, principals and regulators).

Investors noted that if interests are not balanced in the operation of the market, trade is unlikely for some or all of the following reasons:

- no value in perceived investment;
- insufficient investor demand for debt on issue;
- excessive transaction costs;
- lower-cost alternatives to raise finance;
- regulatory impediments;
- disincentives arising from taxes and charges; and
- inadequate reward for risk.

Emphasizing the importance of the relationship between market participants and governments, investors proposed some useful steps that governments and potential market participants should jointly consider in the process of developing markets:

- Develop a government bond issuance program, and in so doing communicate with investors to understand their needs.
- Develop the supportive infrastructure – repurchase market, securities laws, documentation standards and pricing methodology.
- Utilize international standards for documentation and avoid reinventing the wheel.
- Develop a capital adequacy risk/return culture in the investor base and the banking system.
- Meet the needs of investors and intermediaries for transparency and integrity in economic statistics and public accounting standards.

An effective market involving corporate issues may also run parallel with bonds that contain some form of credit enhancement. Whether or not credit enhancement is used, the capacity to assess and manage credit risk becomes highly relevant.

Commercial assessment of emerging regional arrangements

While the ABF may facilitate the flow of funds from surplus to deficit economies, market forces do not dictate the movement of capital under this facility. For a regional market to have significance to commercial participants and to facilitate genuine risk assessment and capital allocation functions, it should reflect commercial pricing. Otherwise, the market would involve a degree of moral hazard and detract from, rather than contribute to, regional financial stability.

In considering the concept of bond issues based on a basket of currencies, investors noted that while these might help ameliorate the problem of mismatches between local and foreign currencies, the infrastructure required to transform the concept into commercial reality is a significant and long-term challenge. Similarly, regional securitization would involve complex and time-consuming challenges. In implementing these concepts, economies are advised to avoid using subsidies that could distort market pricing signals.

Multi-currency bonds could also add to volatility, and would be too complex for market participants to assess with respect to the risk profile of their various components. It is imperative that markets be allowed to exert their natural price searching function. Schemes that deviate from this principle could create moral hazard and lay the foundation for future crisis.

While there are efforts to promote the development of credit ratings for regional issues, it is important that work is focused on ensuring best international standards and practices. It is unlikely that new agencies would be preferred over established ones in rating regional issues, until sufficient track records are established. At least over the near-term, focus on stimulating the supply of and demand for bonds and on improving existing infrastructure are likely to yield better results.

Banks as primary financiers in the region should play an important role in the development of bond markets. One way is for banks to provide first-tier credit enhancement to corporate bond issuers. In Korea, companies pooled their financing needs into combined issues known as primary collateralized bond obligations (CBOs), with credit enhancement provided by the Korea Credit Guarantee Fund. These arrangements have supported issues by SMEs and venture capital companies.

A second-tier credit enhancement system might alleviate the problem for investors of differing country risk within the region through the establishment of a regional guarantee body, such as an "Asian Credit Guarantee Fund," financed by contributions from reserve rich economies in the region. The fund could provide around 95% guarantee for the principal and for a certain portion of interest payment for credit enhanced corporate bond issues or asset-backed securities. However, to ensure commercial price signals and the proper costing of debt – and thus avoiding moral hazard – any regional concept of this type ought to be developed on a commercial basis.

Within economies, strong political support will be needed to develop domestic markets. Governments will need to be primary issuers on a regular basis, taking into account the interests of long-term savers and investors. They would need to consult closely with potential market participants. The development of an enabling environment and infrastructure is an imperative.

Given the fact that the range of issues involved spans a number of public sector agencies, domestic bond market coordinating bodies could be very useful. Support on technical work could be sought from international and regional agencies. To maintain focus and commitment in the region, a coordinating function under the APEC framework could be considered to oversee development and progress in member economies, reporting directly to APEC Finance Ministers.

B. DEVELOPING A STRONG REGIONAL CREDIT RATING INDUSTRY

A strong credit rating industry is crucial for the development of bond markets. Credit ratings facilitate the efficient allocation of savings and investment. They reduce information asymmetry and the consequent risk premiums demanded by investors. They promote deeper and more liquid financial markets and provide means for debtors to assure creditors of their intention to be open and transparent.

Recent episodes of financial crises in emerging markets and major corporate failures in advanced economies underscore the need to ensure robust rating practices among global credit rating agencies (GCRAs), which rate bonds denominated in major international currencies. Domestic credit rating agencies (DCRAs), which serve most of the region's domestic (local-currency) bond markets, face even greater challenges.

Capacity-building measures are currently being undertaken, particularly by the Association of Credit Rating Agencies in Asia (ACRAA), with support from the ADB and the Government of Japan, to address two important areas – training to upgrade analytical skills and the development of best practices in DCRAs.

- *Training.* To date, several training programs have been completed since 2002 in the areas of securitization, infrastructure project finance, financial analysis of banks and ratings for insurance companies. Several more training programs are being planned.
- *Best practices.* ACRAA has developed a concept paper identifying best practices and containing a transparent disclosure of practices being followed by its member CRAs with respect to these best practices.

However, other key areas need to be addressed to significantly improve the performance of CRAs in a number of emerging markets. These include the following:

- *High standards of corporate governance.* This is especially crucial with respect to timely and meaningful disclosure of financial information, board and management process and company ownership structures, with an emphasis on identifying conflicts of interest involving managers and directors.
- *Robust accounting standards and practices.* Previous studies have identified accounting standards as a major impediment to the development of credit ratings in emerging markets within the region, as the quality of ratings given by DCRAs depends on the quality of accounting information they receive.
- *Effective regulatory oversight.* Effective regulation is crucial to ensure the quality of financial information and disclosure and to ensure high standards for the accreditation and operation of CRAs.
- *Open markets.* An open market that is conducive to unbiased financial reporting is an important prerequisite to the development of a robust credit rating industry. Market discipline is needed to encourage issuers to practice good corporate governance and CRAs to maintain their credibility and independence.

The role of credit ratings in the development of a regional bond market is another major issue. While global ratings issued by GCRAs are useful to international fund managers looking at different economies worldwide, their value to domestic investors, especially in economies where they are not allowed to invest overseas, is limited.

Domestic (local currency) ratings differ from global ratings in that the latter considers foreign currency repatriation risk, and hence global ratings for corporate bonds are limited by a sovereign rating ceiling, i.e., could not be higher than the sovereign rating of the particular economy. While sovereign rating ceilings result in a compression of ratings in economies with low sovereign ratings – as in most emerging markets in the region – domestic rating scales for local currency bonds allow greater differentiation of credit risks, and thus have higher information value for investors primarily focused on such markets.

The development of a regional bond market would require sufficiently comparable meaningful information on probabilities of default across economies within the region, which are not at present adequately provided by either DCRAs or GCRAs. To

address this issue, discussions have focused on (a) harmonizing rating standards and practices among DCRA in the region; and (b) the development of a regional credit rating agency (RCRA) that can issue regional ratings.

A number of challenges make it difficult to harmonize rating standards among DCRA in the region. First, there are significant differences in stages of market development, accounting standards and regulatory frameworks among economies in the region. Second, DCRA are at different stages of maturity. Third, a number of DCRA are affiliated to GCRA and have adopted their practices and methodologies, which are different from each other. Fourth, there is some reluctance to harmonize in markets where there are several competing DCRA.

Nevertheless, efforts to harmonize rating practices in the region have been started. The ADB has commissioned a study on the feasibility and desirability of harmonizing rating practices of DCRA. It is also meant to provide guidance to APEC on the development of a regional capital market and encouragement of cross-border capital flows. ACRAA is preparing a glossary of rating terminology to develop standard definitions that would lead to consistency in rating processes across the region.

The establishment of an RCRA, which could add considerable value to investors and issuers in the region's emerging markets, faces difficult problems. These include the lack of harmonized regimes in financial reporting, insolvency law and taxation within the region. There is a lack of regional default studies.

No clear idea has yet emerged on ownership structure, management control and area of operation, which involve contentious issues. There is also the question of the commercial viability of an RCRA at this point in time. There is agreement, however, that an RCRA should be independent and credible in order to perform its function effectively and be commercially viable. Private ownership is important for these conditions to be satisfied.

For the present time, efforts should focus on supporting the work of harmonizing rating practices of DCRA in the region to make their credit ratings more comparable and easier for regional and global investors to understand, thus laying the groundwork for the commercial and technical viability of regional ratings. The latter would include the undertaking of regional default studies and cooperation among CRA in making cross-border rating exercises and dual domestic and regional ratings. These should be supported by efforts to harmonize financial reporting, insolvency law and taxation regimes within the region.

With their expertise and resources, GCRA have a role to play, along with ACRAA, in deepening the understanding of policy makers and regulators, as well as domestic and regional investors, about credit culture and the role of credit ratings in capital markets. Efforts by APEC and ASEAN Plus Three to develop regional bond markets should involve GCRA and DCRA (especially through ACRAA).

C. PROMOTING EFFECTIVE DOMESTIC AND REGION-WIDE INSOLVENCY AND CREDITOR RIGHTS SYSTEMS

Importance of insolvency law and protection of creditor rights

Effective insolvency and creditor rights systems are necessary for bond markets to develop. Given the global and fast-moving nature of capital flows, markets where protection of creditor rights is weak are vulnerable to instability, tend to have longer and deeper recessions, and suffer from higher costs of capital.

Systemic risk is an issue that must be addressed in developing bond markets, especially given that modern financial markets are characterized by fast-moving capital flows, technological innovation and globalization. The liquidity of a bond

market when the issuer becomes bankrupt or insolvent depends on the ability of other bondholders to settle or net out their rights and obligations.¹

Effective insolvency systems provide for the expectations and interests of creditors, debtors and governments. From the standpoint of creditors (whether domestic or international), they must provide a credible threat to discourage recalcitrant debtors; a remedy of last resort or rescue; convenient and efficient access to the law; and relative certainty, predictability and transparency in its application.

For debtors, they must provide a strong incentive for achieving viability, a protective environment to negotiate toward realistic survival, convenient and efficient access to the law; and a fair and transparent process. For government and regulatory agencies, an effective insolvency system enables the exercise of ultimate control over financial and other important institutions and ultimate guardianship of governance standards.

Effective insolvency systems provide the following: (a) a backbone for the creditor rights system; (b) incentives for debtors to initiate the formal rescue process; (c) incentives to engage in informal workout processes' and (d) an environment where cross-border insolvency laws can be applied and promoted. An effective insolvency system is an essential part of the underlying infrastructure to facilitate a bond market irrespective of whether the bond market is domestic or regional. Effective cross-border insolvency laws are however of particular importance to a regional bond market given the need for a regional bond market to effectively respond to insolvencies in more than one jurisdiction within the region.

While all economies in the region have become closely linked to the global economy, insolvency laws in many emerging markets still need to be adjusted to this reality and do not provide adequate protection to interests of both domestic and international creditors. This is related to the inadequacy of the much wider economic legal infrastructure in a number of markets, where businesses find laws and legal institutions not yet widely accessible and their operations lacking in fairness, speed and transparency. Strengthening insolvency laws and institutional capacity on both a domestic and regional basis would enhance stability thus reducing the cost of borrowing in a bond market and the risk of investment.

Developing effective insolvency and creditor rights systems

There are three areas that are important to developing effective insolvency and creditor rights systems within the region – cross-border insolvency, the intersection between secured transactions and insolvency law regimes, and informal workouts. Approaches to addressing these issues have been developed under the ADB's regional technical assistance to promote regional cooperation in the development of insolvency law. APEC now needs to undertake measures to facilitate the adoption of these approaches.

Cross-border insolvency regimes. Cross-border insolvency regimes are concerned with mechanisms for courts and institutions in one jurisdiction to recognize and support the conduct of an insolvency administration in another. This is relevant to the region, where a large number of businesses operate across borders. Within Asia, however, only Japan currently has a cross-border insolvency law. Korea and the Philippines have started the process of introducing laws to facilitate recognition of cross-border insolvency regimes.

Difficulties in adopting cross-border insolvency regimes appear to largely stem from concerns related to sovereignty and reciprocity.² There is a concern in many

¹ See submissions made by the American Bond Market Association to the United States Senate in 1999 concerning issues relevant to bond markets in the context of bankruptcy law reform.

economies about subordination of domestic interests and institutions to foreign influence. Reciprocity is also often demanded for recognition of foreign insolvency regimes, in which case the need arises to first build confidence between economies regarding their respective judicial, legislative and administrative procedures.

These challenges, while posing difficulties, are not insurmountable, as indicated by the steps being taken in Korea and the Philippines, as well as by the growing cooperation within APEC and ASEAN that affect domestic affairs of member economies.

There are a number of approaches to cross-border insolvency laws.³ The Philippines is considering unilateral discretionary legislation, while laws adopted in Japan and being proposed in Korea are based on the Model Law approach. Regional cooperation can facilitate (a) promotion of mutual confidence in judicial, legislative and administrative procedures and (b) establishment of arrangements for cross-border recognition of insolvency administrations.

One option for facilitating regional arrangements is an expression of intention by economies to cooperate with each other. This could be a non-binding declaration whereby parties adopt the arrangement with a right opt-in later on a voluntary basis, after appropriate legislation has been put in place.

Another option is an agreed statement on the minimum legislative provisions or principles that participating economies need to adopt for cross-border insolvency administrations to be recognized among themselves.⁴

The following are issues that need to be addressed by a regional arrangement based on either option:

- formalities required for commencement of application for recognition;
- the need to secure recognition for both “in-bound” and “out-bound” insolvency administrations;
- possible approaches to accommodating different types of insolvency administrations;
- relevant courts which should be involved;
- ease of access to the courts;
- evidence required by commencement of insolvency administrations;
- effect of recognition;
- cooperation between courts; and
- issues particular to the operation of branches.

The success of a regional arrangement depends very much on the quality of insolvency regimes in all participating economies. A weak and ineffectual insolvency regime in one economy would present difficulties with respect to recognition, relief and cooperation in cross-border cases. Regional cooperation should address the continued strengthening of insolvency regimes.

Intersection between secured transactions and insolvency law regimes. Balance and consistency between laws and supporting legal and government infrastructure

² It should also be noted that insolvency administrations may also come about not through court orders, but through resolutions of directors, shareholders or creditors, which are normally recognized across borders without concern.

³ These include unilateral discretionary legislation, unilateral mandatory legislation, bilateral legislation, multilateral or regional treaty legislation, economic union legislation or global “Model Law” legislation.

⁴ Illustrative drafts have been drawn by insolvency experts as part of the ADB technical assistance project, that can be applied for four possibilities: (a) a regional non-treaty using a Model Law approach; (b) a regional non-treaty using a “basic principles” approach; (c) a regional treaty using a Model Law approach; and (d) a regional treaty using a “basic principles” approach.

relating to secured transactions and those relating to insolvency are essential for creditors to be able to assess their risks with a high level of predictability and confidence, and for facilitating reorganizations of financially troubled debtors. In most cases, they are formulated separately by different government agencies and are influenced by different policy considerations.

Adoption by APEC economies of a set of principles, developed under the ADB's regional technical assistance to promote regional cooperation in the development of insolvency law, would help ensure balance and consistency between these two regimes. These principles touch on the following:

- adequate regulation to ensure the protection of interests of creditors and third parties when secured transactions are created after the opening of an insolvency case;
- clear rules regarding the creation of secured property interest;
- clarity of the insolvency law with respect to the property and rights forming part of the estate of the insolvent debtor, restraints on enforcement and exercise of power of sale and the manner for treating proceeds from the sale;
- application of avoidance provisions of insolvency law to secured transactions;
- provision for participation of secured creditors in insolvency cases;
- provision for requirement of post-commencement finance for insolvent debtors in cases of reorganization and for the preservation and protection of interests of secured creditors in such cases;
- conditions to ensure protection of secured creditors' rights when bound by a plan of reorganization;
- maintenance of a registration system for secured transactions;
- efficient, centralized and computerized registration systems;
- sanctions for non-registration of secured transactions;
- rules protecting the interests of a secured creditor when the insolvency law provides for a stay or suspension against enforcement action by the creditor with respect to the secured property of a debtor;
- clear rules governing possession, use and dealings with secured property during a stay; and
- minimizing the number and amounts of claims given priority over claims of secured creditors.

Informal workouts. An informal workout process provides a quick, less costly, more flexible and non-litigious alternative to a formal rehabilitation proceeding. Given its voluntary nature, it requires effective incentives for debtors and creditors to participate and abide by its results. Such incentives are provided by a strong formal insolvency process that can be conveniently and efficiently accessed, and other enforcement processes (including debt enforcement and enforcement of secured transactions).

Government agencies may also play a role in encouraging informal workouts. In such cases, however, care must be taken to ensure that parties are able to negotiate according to commercial realities and that reorganizations result in sustainable operations.

A set of principles, based on the work of the International Federation of Insolvency Professionals (INSOL International), have been developed as part of the above-mentioned ADB technical assistance program for possible adoption by relevant authorities. These principles concern the following:

- participation of all significant finance creditors in the informal workout process;
- eligibility for informal workouts limited to debtors with realistic prospects of achieving long-term viability;
- achievable business plan based on documented and reasonable assumptions and clearly addressing operational and financial issues;

- sufficient, reasonable and limited standstill period;
- avoidance by all relevant creditors of any steps to enforce their claims and protection of relative positions of creditors during the standstill period;
- avoidance by the debtor of any action adversely affecting prospective return to relevant creditors during the standstill period;
- establishment by creditors of a coordinating committee and appointment of professional advisers to facilitate the workout process;
- appointment of an experienced chairperson for the coordinating committee;
- appointment by creditors of competent and experienced representatives;
- provision of relevant and reliable information by the debtor during the standstill period;
- payment by the debtor to meet all reasonable costs of creditors in considering restructuring proposals;
- consistency of arrangements for resolving financial difficulties of debtor and arrangements between creditors relating to any standstill with applicable law;
- confidential treatment by creditors of information provided by the debtor and use of such information exclusively for determining and ascertaining a workout proposal; and
- accordance of priority status for repayment of additional funding provided during the standstill period and under rescue or restructuring proposals.

Strengthening economic legal infrastructure

The development of effective insolvency and creditor rights systems also depends on progress in strengthening the wider economic legal infrastructure within the region. This includes – aside from insolvency – such areas as judiciary systems, civil procedure, competition policy, corporate governance and corporate restructuring, among others. The work on debt collection litigation and arbitration by the APEC Strengthening Economic Legal Infrastructure (SELI) Coordinating Group has generated valuable recommendations for endorsement and action by APEC.

APEC economies are at different stages of development in moving toward a credit-based economy, which involves (a) the formation of domestic laws and legislation; (b) building trust in domestic enforcement; (c) fair and transparent execution with respect to foreign firms; and (d) wide accessibility of relevant information for the entire business sector. Continued progress requires the following:

- Voluntary efforts by each economy in response to its specific needs as a basic precondition for the effective implementation of measures to accelerate economic legislation.
- Regional cooperation in (a) capacity-building projects involving education and training; (b) promotion of access to information, especially through the implementation of an IT-based system of disclosing information on legal systems and legal precedents; and (c) best practice guidelines, especially through sharing of experiences.
- Public-private sector partnership, particularly through seminars and workshops for government and legal personnel to gain a deeper understanding of private firms' perspectives and through publication of analyses, business manuals and reports on legal systems.

D. PROMOTING REGION-WIDE CONVERGENCE TOWARD ROBUST GLOBAL ACCOUNTING STANDARDS

Recent developments have underlined the importance of financial reporting standards in the stability and growth of financial markets. Major financial and corporate failures in the past few years have prompted governments in the region to

move toward international accounting standards. Convergence with international standards has been progressing in a number of economies – in Japan as an element of financial market reforms since the late 1990s, in the US with the Sarbanes-Oxley Act and the Norwalk Agreement,⁵ and in emerging Asia, where there has been marked improvement in disclosure levels and compliance with international standards since the 1997-98 financial crisis.

There is growing demand on the part of business for a common international accounting framework as a consequence of globalization. The use of varying accounting standards makes it difficult and costly to compare investment opportunities and make informed financial decisions. They also impose additional costs for firms in preparing financial information based on multiple reporting models to raise capital. The importance of convergence toward robust global accounting standards for the development of domestic and regional bond markets is therefore fundamental.

There is an ongoing global effort toward convergence. In April 2001, the International Accounting Standards Board (IASB) began efforts to develop a single set of global accounting standards. Major accounting firms supported this effort and conducted surveys of accounting practices worldwide, resulting in the summary report *GAAP Convergence 2002*.⁶ The European Union, the USA and many other economies are now working toward this goal.⁷

Within the Asia-Pacific region, however, a number of key issues still need to be addressed. One of the biggest remaining hurdles for convergence toward IFRS is the convergence of US and Japanese accounting standards. Another is the lack of capacity within a number of developing economies to undertake key measures toward implementation and to generate greater domestic support for convergence.

There are, in addition, views within Asia that the current IASB framework could still be improved to more fully take into account the situation of economies in the region and the concerns of the private sector, most especially the preparers and users of financial statements. One particular issue of concern to investors and analysts in the region is the elimination of the concept of net income in income statements in their

⁵ At their September 18, 2002 meeting in Norwalk, Connecticut, USA, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) committed themselves to the development of high-quality, compatible accounting standards for both domestic and cross-border financial reporting. They also pledged to make their existing financial reporting standards fully compatible as soon as is practicable and to coordinate their future work programs.

⁶ BDO, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton, KPMG, and PricewaterhouseCoopers, ***GAAP Convergence 2002: A Survey of National Efforts to Promote and Achieve Convergence with International Financial Reporting Standards*** (available at <http://www.iasplus.com/resource/gaap2002.pdf>).

⁷ The European Union has required all EU-listed firms to adopt the IFRS by 2005. The US Financial Accounting Standards Board (FASB) has agreed to making the convergence of IFRS and US GAAP a primary objective and to begin resolving differences where it is achievable. Australia and New Zealand have already decided to adopt the IFRS. Canada has fully completed the process of convergence. A survey of economies around the world has elicited very positive responses, with 92% of economies indicating that they plan to adopt or converge with IFRS. See ***Report on the Status of the Convergence of Domestic Accounting Standards to International Financial Reporting Standards (IFRS) among APEC Economies***. Prepared for the Asian Bankers' Association by Ernst & Young - SGV & Co. (Ms. Amelia B. Cabal, Senior Partner, Financial Services Industry; Mr. Dominador Gregorio, Jr., Partner and Head, Corporate Finance), Grant Thornton International - Punongbayan & Araullo (Mr. Benjamin R. Punongbayan, Managing Partner); KPMG - Laya Mananghaya & Co. (Mr. Camilo C. Tierro, Partner, Assurance; Ms. Charito M. Farnacio, Partner, Assurance; Mr. Bill G. Debuque, Manager, Assurance), PricewaterhouseCoopers/Joaquin Cunanan & Co. (Mr. Jerry Isla, Chairman and Senior Partner; Ms. Judith V. Lopez, Managing Partner, Assurance & Business Advisory Services). The report is available at <http://www.aba.org.tw/doc/abaposition03convergence.pdf>.

present form under the IFRS. Another is the use of full fair value accounting for financial instruments.

Certain key issues related to the implementation of the IFRS also need to be addressed. These include timely interpretation of global standards, how to implement the IFRS as a continuously evolving framework, and the need to improve accounting expertise and knowledge among users and makers of financial statements, as well as auditors and regulators, especially with respect to complicated accounting standards.

Studies have already identified the technical impediments to convergence within APEC related to clarification, cost-benefit and theoretical issues. The major ones are (a) the complicated nature of particular IFRSs; (b) disagreement with certain significant IFRSs; (c) insufficient guidance on first-time application of IFRS; (d) satisfaction with domestic accounting standards among investors and users; (e) limited capital markets; (f) translation difficulties; and (g) tax-driven nature of the domestic accounting regime.⁸

In addition, there are impediments arising from the legal framework and the level of capital market development. An example is the treatment of bonus shares, which are treated as expenses under international standards but are treated as earnings distributions in Chinese Taipei in accordance with the Company Accounting Law. Where capital markets are less developed, there is less familiarity with rules and standards, less demand for comparability of financial reporting, and less openness to the use of internationally accepted accounting standards.

APEC can play an important role in addressing these issues and accelerating the process of convergence within the region. APEC includes the largest and most important economies in the world. Most APEC economies have expressed their intention to converge with IFRS; Canada has fully completed this process while Australia and New Zealand have already announced their convergence strategies. In addition, a majority of the seven liaison standard-setters of the IASB are APEC member economies: Australia/New Zealand, Canada, Japan and the USA. The most significant hurdles facing global convergence involve the two largest economies in APEC – Japan and the USA.

Convergence toward robust global accounting standards is a two-way process. It involves reflecting international views in the development of local accounting standards. It also involves reflecting local views in the development of global standards. Domestic accounting standard-setting bodies collaborating closely with the private sector locally and among each other at the international level would play a central role in this process.

Regional coordination to develop common approaches to the development and adoption of global accounting standards is currently at a very early stage. There is an annual meeting among domestic accounting standard-setting bodies from China, Japan and Korea, held for the purpose of sharing concerns on accounting issues. This could serve as the model and basis for a wider regional forum of accounting standard-setting bodies from within the region.

APEC can play a more direct role in accelerating region-wide convergence by actively pursuing this objective. This could be accomplished first, through a common policy statement on convergence with a target year for attainment of full convergence within the region, and then, through capacity-building measures within the framework

⁸ These are detailed in the previously mentioned ABA report on the status of convergence among APEC economies, as well as in the GAAP Convergence 2002 survey.

of a policy initiative. Areas where regional cooperation could play a useful role are as follows:

- *Documenting domestic convergence plans of member economies.* This involves the development and submission of updated plans with specific timetables, using GAAP Convergence 2002, a survey of domestic accounting rules benchmarked against IAS, as a starting point.
- *Developing a Regional Convergence Plan.* This involves the setting of timetables for full convergence throughout the region, aligned with domestic convergence timetables, as well as for key milestones of the plan.
- *Identifying available resources within the region to support convergence.* This would include efforts to identify and facilitate sharing of domestic experiences on convergence, as well as of technical expertise and literature and of financial resources among member economies.
- *Facilitating convergence efforts of developing member economies.* This could focus on the dissemination of information on all adopted IFRS to relevant domestic organizations and individuals, improving accounting curricula and developing regulatory infrastructure.
- *Promoting funding mechanisms to support convergence efforts, especially by developing member economies.* Assistance could concentrate on the publication of IFRS literature in domestic languages; dissemination of guidance on adoption of IFRS; research toward local clarification of complex aspects; and studies to resolve concerns on the theoretical strength of certain provisions and realignment of taxation policies toward convergence. Efforts should be coordinated, whenever appropriate, with the Standards Interpretation Committee of the IASB and the International Federation of Accountants (IFAC).

The ongoing globalization of financial markets is a powerful force that is driving forward the international convergence of accounting standards. While the current mechanism and process of setting global standards and the IFRS may need further improvement, it is imperative that the public and private sectors within and across economies cooperate to ensure the robustness of these standards and to accelerate convergence. There is an important role that APEC can play in this process, through its active support for convergence and the implementation of effective capacity-building measures.

CONCLUSION AND RECOMMENDATIONS

The private sector recognizes that the development of domestic bond markets in many developing economies is still at an early stage, and that in others, the market may be too small for effective bond issuance. It was also acknowledged that a commercially driven regional bond market within APEC is a long way off and dependent ultimately on open capital accounts and flexible exchange rate arrangements. Regional initiatives to develop bond market infrastructure and to improve access to long-term funding in smaller economies will, however, greatly contribute to the realization of this longer-term goal, and should be vigorously pursued. Broader participation within APEC in these initiatives, including the Asian Bond Fund and the Asian Bond Market Initiative, should be welcomed.

There is a very keen interest on the part of the private sector in the development of domestic and regional bond markets in APEC, and in working together with the public sector to more quickly and effectively achieve this goal. Bond market development, however, is a complex issue, involving a broad range of policy areas and sectors and

a large number of institutions and market players. Properly sequenced concomitant reforms and capacity-building measures, undertaken in partnership with the private sector, are therefore needed in these areas.

KEY INGREDIENTS FOR DOMESTIC BOND MARKET DEVELOPMENT

Any effort to stimulate the emergence of a regional bond market needs to start with reforms to develop and strengthen domestic bond markets. The following are the key ingredients for the development of these markets:

1. Bond market development requires *effective coordination among government agencies* as well as close *public-private sector partnership*. In many emerging markets, banks are the major sources of finance and the most significant players in bond markets, and should be involved in the early stages of bond market development. Current efforts to strengthen banks' prudential qualities should therefore also be sustained.
2. The experiences of economies where bond markets have rapidly developed in recent years underscore the importance of *simultaneously developing* three fundamental elements: the *width* of the market (the variety of product types), the *depth* of the market (the robustness of the investor base, including development of pension funds and the retail investor base), and *market infrastructure* (which include complete systems for bond trading, clearing and settlement, as well as hedging and credit rating systems).
3. Regulation should focus on maintaining and enhancing *transparency and market integrity*, which are important for the soundness of market-based structures with multiple participants such as bond markets, as well as for investor confidence. This involves maintaining a robust system of clear, complete, timely and meaningful disclosure; promoting good corporate governance; as well as formulating and strictly enforcing clear and sound market rules and regulations.
4. Markets will attract investors if there is *competition* among market participants and if they are *open* to many players, both domestic and foreign. Such conditions ensure that market prices for risk are properly reflected and provide fair returns. Ideally, jurisdictions should have a competition regulator with full authority to intervene against anti-competitive market activity.
5. *Taxation* treatment is highly influential in market players' decisions, and should be reviewed to determine whether tax regimes are conducive to the holding and trading of bonds. It is an important factor in the growth of repo markets and in market liquidity.
6. Where economies are unlikely to generate the scale needed to provide liquidity and depth, *special measures to support long-term financing* should be considered. An example is the model followed by Korea in pooling bonds issued by firms into CBOs, which were credit enhanced, with senior tranches sold to investors in the market and subordinate tranches repurchased by the issuers.

KEY INGREDIENTS FOR REGIONAL BOND MARKET DEVELOPMENT

A regional bond market would enable companies and public entities to more directly tap the huge savings within the region. It could also attract more international investors with wider choice, diversification opportunities and higher returns. The relevance of capital account liberalization and flexible exchange rates for such a market has already been noted. In addition to these prerequisites, and to the fundamental measures to strengthen and develop domestic bond markets as mentioned above, certain measures that can add impetus to the emergence of a regional market should be pursued. These are as follows:

1. *Regional policy coordination and cooperation* is required to address a number of interlocking measures, including the harmonization of market infrastructure and practices, including insolvency regimes, credit rating practices and accounting standards. APEC should play a role in this process, with the support of international financial institutions and the involvement of the private sector. These should be closely coordinated with related initiatives such as the ABMI and the ABF, where wider participation by all interested APEC economies should be encouraged. APEC should establish a coordinating function under the APEC Finance Ministers' Process to promote bond market development and progress in member economies.
2. *Credit enhancement* facilities at domestic and regional levels could play important roles in the financing of small and medium enterprises. Market players believe that the impact of using public resources for regional credit enhancement mechanisms would be greater than if they were used to merely stimulate demand. However, such facilities should reflect the market price of capital.

CAPACITY-BUILDING IN KEY AREAS

To accelerate the development of domestic bond markets and the emergence of a regional bond market, governments need to intensify regional capacity-building efforts in partnership with the private sector. Particular areas where APEC regional cooperation could play a significant role include the following:

- A. **Expanding the region's institutional investor base.** APEC should undertake policy dialogue and cooperation among its member economies and the private sector to encourage broader cross-border investment by institutional investors in domestic bond markets. These efforts should focus on helping economies provide an enabling environment for bond investors, by undertaking the following:
 1. Developing a government bond issuance program to support the yield curve, involving the issuance of bonds in sufficient sizes to attract wider investor participation and effective communication with investors to understand their needs.
 2. Ensuring that tax regimes are attractive to domestic and foreign investors.
 3. Promoting the adoption of internationally accepted standards on documentation and practices in markets.
 4. Developing transparent processes and a conducive environment for assessing risk and return in traded instruments.
 5. Improving regulations to promote efficient markets and settlement systems.
- B. **Developing a strong regional credit rating industry.** To strengthen the credit rating industry in the region and to lay the groundwork for the commercial and technical viability of regional ratings, APEC should undertake the following:
 1. Support the expansion of ongoing capacity-building efforts, particularly those by the ADB and ACRAA, to upgrade analytical skills and develop best international practices in DCRAs.
 2. Address key areas that are crucial to improving the performance of CRAs in emerging markets, focusing on promoting high standards of corporate governance, robust accounting standards and practices, effective regulatory oversight with respect to disclosure and the accreditation and operation of CRAs, and open markets.
 3. Support the ongoing work of ADB and ACRAA to harmonize rating practices of DCRAs in the region, with the objective of making their credit ratings

more comparable and easier for global and regional investors to understand.

4. Support the undertaking of regional default studies and cooperation among DCRA in making cross-border rating exercises and dual domestic and regional ratings.
5. Engage GCRA, together with ACRA, in capacity-building efforts to promote a deeper understanding among policy makers, regulators and regional and domestic investors of credit culture and the role of credit ratings in capital markets.

C. **Promoting effective domestic and region-wide insolvency and creditor rights systems.** Significant work has been done to identify measures and develop principles that can be applied to improve insolvency and creditor rights systems in individual economies and throughout the region. APEC should focus on promoting the timely adoption of these measures and principles. In particular, APEC should:

1. Undertake regional cooperation to facilitate the establishment of arrangements for cross-border recognition of insolvency administrations, in conjunction with promoting mutual confidence in judicial, legislative and administrative procedures among economies in the region and continued efforts to strengthen insolvency regimes.
2. Promote the adoption of the set of principles developed under the ADB's regional technical assistance on insolvency law to ensure balance and consistency between the secured transactions and insolvency law regimes. This is essential for creditors to have more confidence in assessing their risks and for facilitating reorganizations of financially troubled debtors.
3. Promote the adoption of the set of principles based on the work of INSOL International and the ADB to improve the environment for informal workouts and ensure that parties are able to negotiate according to commercial realities and that reorganizations result in sustainable operations.
4. Implement the recommendations of the APEC Strengthening Economic Legal Infrastructure (SELI) Coordinating Group on debt collection litigation and arbitration, particularly with respect to capacity-building projects involving education and training, the promotion of access to information on legal systems and legal precedents, best practice guidelines through sharing of experience, public-private sector partnership in organizing seminars and workshops, and encouraging each member economy to undertake necessary measures to accelerate economic legislation.

D. **Promoting region-wide convergence toward robust global accounting standards.** APEC can play an important role in addressing issues related to the development and adoption of the IFRS, and in accelerating the process of convergence with IFRS within the region. Specifically, APEC should:

1. Establish a regional forum of domestic accounting standard-setting bodies within APEC. This forum should be used to (a) initiate discussions to provide common inputs from the region into the work of the IASB, especially on the continuing development of the IFRS, as well as the Standards Interpretations Committee, on the further development of interpretations of standards; (b) share concerns on accounting issues, and (c) facilitate capacity-building work. This forum could be developed along the lines of existing efforts in the region, such as the annual meeting among standard-setting bodies from China, Japan and Korea.

2. Formulate a common policy statement on convergence with a target year for attainment of full convergence within the region. This serves to encourage all member economies to move more resolutely toward this goal.
3. Establish an APEC Policy Initiative on Convergence under the APEC Finance Ministers' Process, which should involve the regional forum of domestic standard-setting bodies mentioned above and focus on the following tasks:
 - a) *Documenting domestic convergence plans of member economies.* APEC economies, on a voluntary basis, should develop and submit updated plans and timetables, using GAAP Convergence 2002 as a starting point.
 - b) *Developing a Regional Convergence Plan.* Timetables could be set for full convergence, aligned with domestic convergence timetables, as well as for key milestones of the plan.
 - c) *Identifying available resources within the region to support convergence.* The Initiative should identify and facilitate sharing of domestic experiences on convergence efforts, as well as of technical expertise and literature and of financial resources among member economies.
 - d) *Facilitating convergence efforts of developing member economies.* The Initiative should develop ways to support convergence efforts of developing member economies, especially in disseminating information on all adopted IFRS to relevant domestic organizations and individuals, improving accounting curricula and developing regulatory infrastructure.
 - e) *Promoting funding mechanisms to support convergence efforts.* Such assistance should focus on the publication of IFRS literature in domestic languages; dissemination of guidance on adoption of IFRS; research toward local clarification of complex aspects; and studies to resolve concerns on the theoretical strength of certain provisions and realignment of taxation policies toward convergence. Efforts should be coordinated, whenever appropriate, with the Standards Interpretation Committee of the IASB and the International Federation of Accountants (IFAC).

The private sector participants welcomed the opportunity to contribute their thoughts on the development of domestic and regional bond markets. They also welcomed the efforts of Asia-Pacific governments, particularly the APEC Finance Ministers, to promote public-private sector partnership at the regional level in addressing issues related to financial market development. Participants expressed their desire to work with APEC toward deepening and broadening this partnership, which is seen as crucial for the success of ongoing efforts. An informal *APEC Bond Market Network*, with the PECC Finance Forum providing institutional support and working closely with ABAC, is to be developed toward this end.

APPENDIX: ABOUT THE CONFERENCE

“Developing Bond Markets in APEC: Moving Forward through Public-Private Sector Partnership” is a joint project of the APEC Business Advisory Council (ABAC) and the Pacific Economic Cooperation Council (PECC), in partnership with the Asian Bankers’ Association (ABA) and the Association of Credit Rating Agencies in Asia (ACRAA). It was held on May 10-11, 2004 at the Grand Formosa Regent, Taipei.

The conference was jointly hosted on behalf of ABAC and PECC by ABAC Chinese Taipei and the Chinese Taipei Pacific Economic Cooperation Committee (CTPECC), with the support of the Office of the Chinese Taipei APEC Senior Official. Dr. Jeffrey L.S. Koo, ABAC member as well as Finance and Services Working Group Co-Chair and Chairman of CTPECC, acted as Conference Chair.

The conference attracted participants from investment and commercial banks; securities, insurance, law and accounting firms; credit rating agencies; domestic regulatory bodies; industry and services; academe and the Asian Development Bank (ADB) and the ADB Institute.

Complete and detailed information about the conference, a list of participants, as well as conference papers, presentations, related papers on bond market development and links to relevant sites on the Internet are available at the conference website, which may be accessed at:

<http://www.tier.org.tw/pecc/conference/bondmarket2004.htm>