



THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Draft Report of the 4th Public-Private Sector Forum on Bond Market Development

Office of the Advisory Group Chair

APEC Public-Private Sector Forum on the Development of Bond Markets and Financial Inclusion

CONFERENCE REPORT

Draft as of 12 August 2010

EXECUTIVE SUMMARY

The Advisory Group on APEC Financial System Capacity-Building and the APEC Business Advisory Council (ABAC), in cooperation with Japan's Ministry of Finance, convened the APEC Public-Private Sector on the Development of Bond Markets and Financial Inclusion in Sapporo, Japan on 31 May 2010. The Forum was attended by 80 participants from government, international organizations, private sector and academe.

The first part of the Forum focused on the development of capital markets, building on the results of the previous three bond market development forums organized by the Advisory Group and ABAC since 2007. The first three sessions, which dealt with this subject, included overviews of the region's bond markets and capacity-building efforts and discussions on the Chinese, Korean and Japanese bond markets. They also included discussions on innovative ways to bring the development of capital markets in the region to the next higher level. The second part focused on financial inclusion.

This forum represents a significant milestone in the work of the Advisory Group and ABAC on these two issues. As bond market development in the region has reached a significant stage of development owing to various regional cooperation efforts, an undertaking aimed at further progress in the broader context of capital markets has become desirable. With increased interest by APEC economies in the idea of a regional initiative, a discussion of financial inclusion has also become timely. Both initiatives require significant capacity-building efforts as well as active collaboration between public and private sectors.

Bond Market Development

Bond market development in the region has reached a significant stage, owing to various regional cooperation efforts, especially the Asian Bond Market Initiative (ABMI), which continues to undertake important initiatives. Nevertheless, discussions held during the past three years under the APEC Public-Private Sector Forum on Bond Market Development have revealed key weaknesses that still need to be addressed. In particular, supply constraints arising from inadequate market depth and liquidity, market infrastructure and architecture and legal and regulatory frameworks represent the key obstacle to market development. These discussions highlight the importance of continued and focused capacity-building efforts and collaboration among government and regulatory agencies, investors, issuers, credit rating agencies, private sector experts and international agencies.

The great diversity within the region has been highlighted by the discussions of the local currency bond markets in China, Korea and Japan, which are at different levels of development and facing different sets of challenges. The experiences of these three economies and the progress they have achieved over the past several years underscore the tremendous impact that reforms can have on market development. Going forward, each of these economies needs to focus on particular issues in order to sustain the momentum of market development.

- For China, the focus will be on optimizing the financing structure, improving the diversity of products and the issuer base, promoting globalization through increased foreign issuer

participation and increased overseas issuance of domestic entities, more closely integrating the bond and banking markets, and the development of derivatives markets.

- For Korea, the key issue is ensuring that regulatory changes being undertaken as part of global regulatory trends in response to the recent crisis are in line with the objectives of market development, particularly with respect to their impact on liquidity and the demand for bonds and other safe assets.
- For Japan, the major issues revolve around improving the efficiency, transparency and liquidity of primary and secondary markets, the development of a robust market infrastructure and the diversification of the investor and issuer base, particularly through increased participation of foreign investors and issuers in the market.

There is wide scope for the introduction of new initiatives, building on current achievements, to bring capital market development and integration in the region to the next higher level. In addition to continued efforts to address key issues in the development of government and corporate bond markets, innovative solutions that can be pursued on a regional basis under the APEC framework include the following:

- Development of wholesale securities markets open only to professional investors (exempt from strict disclosure rules designed to protect retail investors), to encourage the expansion of the issuer base, including foreign issuers, and to promote more issuance by current issuers. Individual economies could establish such arrangements and eventually collaborate to develop regional arrangements for securities settlement, removing barriers to entry and undertaking further steps to create an integrated regional professional securities market.
- Collaboration between government and regulatory officials and market players to reduce barriers to cross-border settlement. The public sector should take the lead in addressing barriers related to tax, foreign exchange controls, cash controls, investor registration, omnibus accounts and quotas. The private sector should lead efforts to address barriers related to messaging formats and pre-matching. Both public and private sectors should collaborate in addressing barriers related to physical certificates, securities numbering and settlement cycle.
- Promoting the use of foreign securities as eligible collateral throughout the region to enable major domestic and foreign financial institutions and investors to participate in cross-border collateral markets. In these markets, bonds can be actively used as collateral in money market transactions or traded in repurchase agreements, contributing toward more liquid bond markets. Existing arrangements can be considered as starting points in developing new bilateral arrangements, with a view toward a region-wide system.
- Continued collaborative efforts among governments, regulatory agencies, credit rating agencies and market players to promote region-wide convergence of accounting standards, disclosure regimes and corporate governance practices toward robust global standards.
- Establishment of a pathfinder initiative to introduce a funds passport scheme. Such a scheme is intended to facilitate the distribution of collective investment funds complying with a widely agreed common set of fund investment guidelines across participating jurisdictions. It should be designed to provide superior standards of retail investor protection and regulation compared to non-qualifying funds. Development of the common set of guidelines under which funds can apply for distribution across participating economies will need to be accompanied by efforts to address related regulatory and tax barriers as well as currency issues.

Financial Inclusion

[See Meeting Paper 4-A for the report on the APEC Financial Inclusion Forum, whose executive summary will be inserted here in the combined final report.]

Implementing APEC's Growth Strategy

Post-crisis recovery is proceeding at varying speeds across regions and economies. Many of the Asia-Pacific region's economies are leading efforts toward a quick recovery and more balanced growth, offering hope for the emergence of a new engine that will help sustain global economic growth in the years ahead. While the economic rebound that came immediately on the heels of the crisis was driven mainly by government stimulus, downside risks remain that have been highlighted by recent developments in Europe. In this context, the private sector must begin to play a more important role if the economic recovery is to be sustained.

A healthy and well-developed financial market is vital in enabling the private sector to play this role. In the region's developing economies, efforts are needed to focus on ways to accelerate the development of bond markets. While much has been accomplished through policy and regulatory reforms to stimulate the growth of these markets, particularly in Asia, innovative solutions are needed to bring capital market development and integration in the region to the next higher level. Greater financial inclusion, which will broaden the base of economic growth and help deepen financial systems, is another issue that needs to be addressed.

This year, an APEC growth strategy is being introduced to complement the pillars of trade and investment liberalization, facilitation and technical and economic cooperation that have guided APEC's development since the Osaka Summit in 1995. Bond market development and financial inclusion are both central to the success of efforts to promote balanced, inclusive and sustainable growth. It is hoped that policymakers will seriously consider the ideas presented in this report in designing concrete initiatives that can be undertaken within the framework of this new growth strategy, in collaboration with the private sector.

APEC Public-Private Sector Forum on the Development of Bond Markets and Financial Inclusion

CONFERENCE REPORT

INTRODUCTION

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This forum represents a significant milestone in the work of the Advisory Group and ABAC on these two issues. As bond market development in the region has reached a significant stage of development owing to various regional cooperation efforts, an undertaking aimed at further progress in the broader context of capital markets has become desirable. With increased interest by APEC economies in the idea of a regional initiative, a discussion of financial inclusion has also become timely. Both initiatives require significant capacity-building efforts as well as active collaboration between public and private sectors. Through this forum, the Advisory Group and ABAC aimed to bring together experts from both sectors.

APEC senior finance officials welcomed the initiative from the private sector to hold these discussions, noting the importance of their collaboration with ABAC for the whole APEC Finance Ministers' Process (FMP) and the fruitful outcomes that have resulted from continuous private sector advice to APEC Economic Leaders, Ministers and Senior Finance Officials and Senior Officials that has become a specific characteristic of the APEC process. The holding of the fourth in the series of discussions on bond markets in this year's Forum demonstrates the importance given by APEC Finance Ministers to the views of the financial industry. The incorporation of financial inclusion in these discussions highlights the growing interest of APEC in this issue.

PART I: BOND MARKET DEVELOPMENT

A. OVERVIEW OF CURRENT TRENDS IN THE REGION'S BOND MARKETS

Asian Bond Markets: Overview of Current Trends and Regional Initiatives

The Asian Bond Market Initiative (ABMI) was endorsed by the ASEAN+3 Finance Ministers' Meeting in August 2003 in Manila. It was established for the purpose of helping develop efficient and liquid bond markets in the region and fostering a high degree of financial independence in Asia. Since then, it has made significant contributions and has become an important symbol of regional cooperation.

The ABMI Framework has evolved over the years. Today, undertakings within this framework are done by four task forces (focused on promoting issuance of local currency denominated bonds, facilitating demand for these bonds, improving the regulatory framework and improving related market infrastructure) and a technical assistance coordination team. These work under the supervision of a steering group, which monitors progress and coordinates future plans, and which in turn reports to the ASEAN+3 Deputy Finance Ministers, who meet semi-annually and to the grouping's Finance Ministers, who meet annually.

As a result of efforts undertaken by governments individually and within the framework of regional cooperation, Asia ex-Japan local currency bond markets have achieved historical growth since the start of the new century. The resilience of these markets has been demonstrated by continued strong issuance and growth in the face of difficult global economic and financial conditions since 2008. In 2009, the value of emerging Asian local currency bonds outstanding increased by 16.5% year on year. Their share of the world total of bonds outstanding has increased from 2.1% at the end of 1996 to 7.8% by the third quarter of 2009. Performance of Asian local currency bonds has remained robust throughout the current downturn. The iBoxx Pan-Asian Index returned (in unhedged US dollar terms) 4.14% in 2008, 5% in 2009 and 4.09% in the first quarter of 2010.

At the 13th ASEAN+3 Finance Ministers' Meeting in Tashkent, Uzbekistan in May 2010, the ministers agreed together with ADB to support the issuance of local currency corporate bonds in the region through a Credit Guarantee and Investment Facility (CGIF). The CGIF was established as an ADB trust fund with an initial capital of US\$700 million, which will be operational before the end of 2010.

Another important development relates to the work of the Group of Experts (GoE) The GoE was an independent group under the ASEAN+3 framework, made up of representatives of private sector entities, including central securities depositories (CSDs), local custodians, global custodians and international central securities depositories (ICSDs) with expertise in cross-border bond or foreign exchange transaction and settlement issues nominated by governments of member economies.

The GoE has submitted to ASEAN+3 a report discussing key issues related to cross-border bond transactions and settlements. The report by the GoE consists of three parts.

- The first part contains survey results of estimated cross-border transaction costs in ASEAN+3, focusing on custodian fees. The survey results show that cross-border bond transaction costs in the ASEAN+3 region are generally higher than those of the US or the EU. Even within the ASEAN+3 markets, considerable variation is found across countries.
- The second part discusses the feasibility of two options for developing a regional settlement intermediary (RSI), namely, through an Asian ICSD and through a CSD Linkage in Asia, and presents recommendations for the next step. The study provides necessary legal and financial conditions if the RSIs need to be established.
- The third part presents a list of major barriers to cross-border bond investment and settlement and a set of recommendations to address them. The study also identifies perception gaps as significant impediments that arise from lack of market participants' awareness of progress made by authorities in reforming or removing impediments.

In response, the ministers endorsed the establishment of an ASEAN+3 Bond Market Forum (ABMF) as a common platform to foster standardization of market practices and harmonization of regulations relating to cross-border bond transactions in the region. ABMF is expected to provide a framework to support a regional dialogue between the public and private sectors.

In addition, the ministers also welcomed the establishment of the technical working group on a Regional Settlement Intermediary (RSI) to further evaluate the policy recommendations by the GoE.

A Review of Findings from Previous APEC Public-Private Sector Forums on Bond Market Development

The idea of a public-private sector dialogue on bond markets was presented by ABAC in 2006 to the Finance Ministers, who endorsed the proposal. Australia came to host the first forum in Melbourne the following year, Peru hosted the second in Cusco in 2008, and Singapore hosted the third in 2009. The first forum focused on Indonesia, the Philippines and Vietnam; the second on Chile, Mexico and Peru; and the third on Malaysia and Thailand. The following are the major conclusions of these three forums.

In general, there has been very significant development of bond markets in the region as a result of policy and regulatory reforms following the Asian crisis, but key challenges remain.

- Most emerging bond markets remain relatively small and underdeveloped.
- There is great diversity in bond market development within the region. Disparities include the quality of the policy environment and the size of local currency bond markets relative to GDP.
- In Asia, governments have actively promoted financial integration through such initiatives as the ABMI and the Asian Bond Fund (ABF). In Latin America, the process has been driven by cross-border investment and issuance related to foreign investment.
- Supply constraints represent the key obstacle to market development. They fall broadly into three major categories – depth and liquidity; market infrastructure and architecture; and the legal, policy and regulatory framework.
- Liquidity and depth are critical for bond market development.
 - ✧ Promoting liquidity of corporate bond markets would require diversification of financial instruments and maturities and the development of secondary markets. Key obstacles to the development of secondary markets include the generally limited size of issuances; the buy-and-hold attitude of investors; the lack of price signals in the market and the lack of repo markets.
 - ✧ Enhancing depth requires addressing issues of concentration in both the issuer and investor base. Diversity of issuers in most economies is limited, and bond issuance in general is highly concentrated in the public sector. Key obstacles include under-developed market infrastructure; inadequate corporate governance, disclosure and financial information; high costs of issuance through charges and taxation; and uncoordinated regulatory and supervisory frameworks.
 - ✧ In most bond markets, the investor base is concentrated, with majority of bonds held by banks and hedge funds. This concentration limits the resilience of markets. There are a number of obstacles. (a) First, the insurance and pension fund sectors tend to be small. In emerging markets, institutional investors tend to be conservative in their asset structure, compared to developed economies, where their counterparts are large-scale buyers of government bonds. (b) Second, capital and market restrictions limit foreign investor participation. (c) Third, underlying monetary policy objectives of some economies need greater clarity. (d) Finally, there is a need to address regulatory disparities that result in different rules for different market participants.
- With respect to corporate bond market infrastructure, constraints on market making and price discovery are the primary impediments. Key issues include building benchmark yield curves; strengthening disclosure laws, listing requirements, and accounting

standards; improving transparency; building post-trading information structures, and providing a clearance and settlement infrastructure that is free, transparent and involves minimal administration costs. The role of credit rating agencies is vital. Effective comparison of ratings across economies requires consistency in application of methodologies. Associated derivatives markets remain underdeveloped in many developing economies. In the absence of those markets, investors' ability to reduce risk is diminished.

- Investors and issuers in the region are confronted with challenges related to the regulatory, supervisory, legal, and taxation environment.
 - ✧ The first is creating a level playing field, where rules and obligations are clear and applied in a non-discriminatory manner. This would require greater coordination and collaboration of regulatory agencies, clear, transparent and harmonized rules, proper enforcement, and innovation-friendly regulations.
 - ✧ The second is improving legal protection and legal infrastructure. Inconsistent interpretation of rules is detrimental to confidence and the willingness of firms to enter markets. Key issues include enforcement of contracts; creditor rights protection and enforcement; effective and efficient settlement systems; and insolvency and bankruptcy laws supported by informal work-out arrangements within and across jurisdictions.
 - ✧ The third is taxation. Withholding taxes have an important impact on corporate bond markets. Taxes also affect cross-border investment and issuance. Among steps that could be considered are a survey of individual member economies; regular reviews of relevant taxes within a regional context; and regional discussions to address adverse impacts of taxes on market development.
 - ✧ The fourth is the need for coordination and collaboration among domestic regulatory agencies to avoid confusion in supervisory arrangements and the arbitrary application of rules, as well as to reduce excessive and burdensome compliance costs such as those arising from multiple reporting requirements.
 - ✧ The fifth is further liberalization of capital markets and the development of derivatives markets. Restrictions on capital flows, inability to manage foreign exchange and interest rate risks, and barriers to entry to both issuance and investment are key impediments that limit the growth of the investor base.
 - ✧ The sixth is exchange rate policy, which has a significant impact on the development of bond markets. Fixed rates impede market diversity and limit the ability of taking foreign exchange positions onshore, usually resulting in investors having to hold underlying assets to protect against currency moves. As such, foreign investor participation tends to be limited. In an environment of exchange rate flexibility, investors see more investible opportunities on a regional basis.
 - ✧ The seventh is the development of derivatives and repo markets that enable investors to hedge, such as through interest rate and currency swaps. These are important developments yet to take place in some markets, but are necessary for investors to manage underlying risks in their portfolios.

Discussions during the third forum reinforced the importance of a number of key issues.

- First is the need to prioritize corporate bond market development and how governments could facilitate this process. Governments should have clear strategies for creating a benchmark yield curve, promoting secondary market liquidity and risk management instruments, widening the issuer and investor base, and establishing new products.

- Second, legal and regulatory systems need to be strengthened to attract investors. This means working toward securities and corporation laws that foster and enforce transparency and fair play, provide adequate creditor protection and recovery processes, market regulations that allow efficient bond transactions, and standardized custodial and settlement practices designed to reduce operational risks.
- Third, taxation is a key issue, as investors look at total return. Tax and other incentives should be considered in expanding the investor base, and the impact of various taxes should be re-examined.
- Fourth, investors should be assured of the quality of requirements for issuance and adequate disclosure, and should have sufficient access to market information.
- Adequate market surveillance is needed to ensure compliance of market players and intermediaries with relevant guidelines and should cover primary and secondary markets to detect abuses and deter misconduct.
- Markets that enable investors to hedge, such as through interest rate and currency swaps, are necessary to manage underlying risks in portfolios.
- Credit guarantee institutions could help facilitate access of local companies to long-term capital.
- Investor education is important to develop a credit culture, which is key to greater market activity, and the role of institutional investors should be promoted.
- Incentives are useful in promoting local demand for new assets, such as savings bonds or Islamic financial instruments. The investor base should be diversified by mobilizing the onshore individual savings pool in addition to existing public and corporate asset pools and providing the right conditions for foreign investors to enter the market.
- Finally, further steps are needed to provide investors with useful and comparable credit ratings for bonds across the region's emerging markets, as well as efficient bond settlement systems.

Looking ahead, continued capacity-building is important. Regional cooperation and integration is a key element of capacity-building. There is a need for institutional arrangements to ensure continued reforms and improvements on a long-term basis and spanning political cycles. Importance needs to be given to capacity-building in certain priority areas. Such efforts should focus on the issues previously mentioned to address supply constraints.

Developed economies can play an important role in promoting policies that lead to market development in developing economies. Consideration could be given to how the synergy of such programs with other regional efforts may be enhanced. International institutions play a very useful role in bringing onto the table the experiences not just of APEC economies, but also of non-member economies. APEC should consider how programs undertaken by these institutions can be more effectively deployed in conjunction with each other and with other capacity-building efforts in the region.

Considering Asia's experience, regional financial integration in Latin America could be facilitated through closer collaboration among regulators and policy makers with more active support from international institutions such as the Inter-American Development Bank. Experiences in Asia and Latin America underscore the positive contributions of closer collaboration between the public and private sectors to the success of efforts to develop domestic financial markets. There is much scope for expanding this collaboration, such as through exchanges of information on best practices, implementing mechanisms for public-private partnership and regular roundtables.

Within APEC, there is a need to deepen connectivity between international initiatives and the actual implementation of reforms in member economies. The APEC Finance Ministers could consider APEC policy reviews on connectivity, focused on how regional and international capacity-building activities can more effectively support individual economies in developing their markets.

Development of Local Currency Bond Markets in the Region and the Role of Rating Agencies

Asian local currency bonds are emerging as an asset class, attracting domestic and foreign investors with a view to yield and portfolio diversification. While until the mid-1990s, Asian issuers were using mainly the short-term dollar debt markets as a funding source, they have since turned to medium- and long-term borrowing in local currencies. Examples are San Miguel's PHP38 billion issue in 2009 and a number of Korean, Indian, Australian and Gulf-based banks that became unable to issue in global markets raising funds in Malaysia in 2008.

Despite the dynamic growth of South and Southeast Asian bond markets, there remain several areas for improvement. The investor base, which has not changed significantly, except for fixed income mutual funds which have grown in some countries, needs to be expanded. Settlement systems need to be improved. In a number of markets, an artificial rating benchmark exists where investors buy paper carrying a rating of single A and above. The ability to price non-investment grade credit risk is not as developed, as markets still operate based on absolute yield. Longer dated maturities are also needed to help further develop the market.

Following are observations on some individual emerging Asian markets:

- Indonesia's local currency bond markets have posted strong growth with an increasing presence of local corporate borrowers accounting for over 50 % of total corporate bonds outstanding. This has led to greater diversity of the issuer base. Among the fixed income investors: mutual funds, insurance companies and foreign holders account for 40 % of the investor base, bringing them on a par with banks. In line with the growth of local currency bond markets, the two local rating agencies, PT Fitch Ratings Indonesia and the government-backed Pefindo, have assisted in the development of the local currency bond markets by increasing their coverage of ratings. However, liquidity, transparency and investors establishing correlations between ratings and pricing are some issues that require attention.
- Malaysia has a relatively robust local bond market with a broad range of market participants and a wide diversity of tenors and financial instruments. Private sector bonds make up half of the market. The market is the largest in the ASEAN region and has provided a robust platform for Sukuk (Islamic Finance) issuance. Despite the size and development of this market, issuers have generally preferred to obtain a single rating from either of the two local rating agencies, Rating Agency Malaysia (RAM) and Malaysian Rating Corporation (MARC). An overwhelming majority (98 %) of issuers have a single rating which suggests that market participants have a role to play by assisting in evolving this market to a dual rating market, with a view to establishing better corporate governance standards. However, with 334 ratings, Malaysia is the most developed ratings market in the region.
- Ten years ago the Philippine local currency bond market was largely one of government bonds. At present the top 20 corporate bond issuers outstanding as of December 2009 consist of large corporations and banks that account for over 80% of the market. In recent years the local currency bond market has become an attractive source of funding for firms. Banks remain the primary investors and the market continues to be illiquid. There is only

one local rating agency (PhilRatings) that assigns ratings to local currency bonds, although Fitch Ratings assigns ratings to local currency bank bonds.

- Singapore's bond markets have grown rapidly since 1998. The market is liquid, diverse (several offshore names have issued in the market) and sophisticated in terms of the structured products offered. The market is hampered by low yields and the lack of ratings for the top 50 issuers in the market. Investors have a role to play by encouraging issuers to obtain ratings.
- Thailand's bond market provides a good alternate source of funding to corporations. The top ten issuers are mainly government-linked corporations that account for almost 50% of the amount outstanding. The investor base is reasonably diversified with banks dominating the investor profile (25%). There has been growing diversity in sector issuance with companies in the oil and gas, property, food production, telecommunications, auto leasing and health care sectors issuing in the market. Two rating agencies serve the local market in Thailand – Fitch Ratings Thailand and TRIS Rating Co, Ltd. Both agencies have a track record in developing the local financial institution and corporate ratings for local currency bonds. Insurance, bond funds and structured finance products are also rated by FitchRatings.
- The markets in Vietnam are in a stage of infancy with no rating agency present in the local markets.

Rating agencies play a constructive role in the development of local currency bond markets, but more work needs to be done in terms of promoting greater transparency and improving corporate governance standards by encouraging multiple ratings (at least a dual rated universe), expansion of the investor base, removal of artificial investment benchmarks for investment (e.g. Single A rating ceilings), development of local high yield markets, and issuance of longer dated maturities.

B. THE DEVELOPMENT OF APEC ECONOMIES' BOND MARKETS: EXPERIENCES FROM CHINA, KOREA AND JAPAN

The Chinese Bond Market: Current Development and Prospects

In spite of its relatively short history, China's bond market has been growing rapidly. As in many other developing economies, China's bond market was launched only recently; hence its currently limited market depth and liquidity. However, with the Chinese government giving priority to the development of a multi-level capital market, the bond market entered a period of rapid growth characterized by four major features.

- First is the expansion of the market's size. By end-2009, bonds outstanding reached RMB 17.53 trillion, 3.4 times of that at the end of 2004. Trading volume also grew rapidly. In the inter-bank bond market, the trading volume of spot security increased 18 times during the same period of time, and that for pledge-style repo and buy-out style repo expanded 6.5 times. The number of participants in the inter-bank market climbed to 9,427, forming a multi-level market structure with market makers as core, financial institutions as main investors and other institutional investors as participants.
- Second is the diversification of products. In the early stage, trading involved mostly treasury and enterprise bonds. Today, China's bond products include policy financial bonds, central bank bills, commercial bank sub-bonds, common financial bonds, financial company bonds, panda bonds, hybrid capital debt, asset-backed securities, short-term financing bill, medium-term notes and corporate debt, among others. In the first quarter of 2010, issuance by small and medium enterprises exceeded those of state firms for the first time.

- Third is the improvement of market facilities. Efforts to develop an efficient, integrated bond trading system, a bond tendering and bidding system as well as a custody and clearing system have been accelerated. Recent years have witnessed a continuous improvement in the market-making mechanism and hence remarkable growth of market liquidity. In 2009, regulators allowed commercial banks to enter the exchange market, in order to lessen market segmentation between the exchange and over-the-counter markets. The management of issuance and circulation has also been improved, and information disclosure and credit ratings systems were established, with a clear direction toward market-oriented operations.
- The fourth is enhancement of financing functions. The ratio of bond market financing to bank loans has increased 21-fold from 0.7% in 1999 to 16.4% in 2009. Today, China's inter-bank credit debt market is the largest in Asia. The yield curve has developed with the establishment of benchmark interest rate for pricing of financial products. The bond market now supports the implementation of monetary and fiscal policies. In recent years, the People's Bank of China (PBoC) has introduced new instruments for open market operations including the central bank bills and short-term repos, which now serve as important channels for implementing monetary policy. In 2009, treasury bond issuance reached RMB 1.62 trillion, up 91% year-on-year, providing a powerful support in implementing proactive fiscal policies.

However, China's bond market still has a long way to develop, with the following as key issues:

- The financing structure needs to be optimized. In spite of government efforts to develop direct financing, it still has a long way to go. In 2009, new bank loans amounted to RMB 9.6 trillion, while new issuance of enterprise bonds stood at only RMB 1.6 trillion. Banking loans still remain the most important source of financing for supporting economic growth and social development.
- There is need for greater diversity of products and the issuer base, as well as an improved credit rating system. Products are currently dominated by low-risk bonds such as treasury bonds, central bank bills and policy bank bonds, which accounted for 82.3% of the total market in 2009. The credit rating industry has a relatively short history and faces a number of challenges.
- Globalization needs to be accelerated. Although the government is encouraging more foreign issuers in the market, without full convertibility of the local currency, bond issuance by foreign entities has been limited. As of end-2009, there were only four such issuances amounting to only RMB 4 billion. Overseas issuance by domestic entities is also at a very early stage.
- Markets need to be more closely integrated. Wider participation of more commercial banks in the exchange market is needed, in order to promote integration through arbitrage across markets.
- Markets for derivatives need to be developed. With the rapid growth of the bond market and innovative products, the ability of China's financial system to deal with credit and interest needs to be enhanced. In the absence of risk-mitigating and diversifying derivative instruments, market players find it difficult to hedge against systemic risk.

These challenges reflect the fact that China is still at an early stage of developing its bond market. Nevertheless, there is much potential for its future development, and the prospects for entering a new stage in this process that can significantly expand opportunities stand to be enhanced by the deepening and acceleration of economic, financial and structural reforms.

- Acceleration of economic structural adjustment will provide a favorable environment for further development of China's bond market. In the post-crisis era, China's credit policies

will be more focused on differentiation strategies, while ensuring stable economic growth. It is expected that new bank loans, which grew rapidly in 2009, will grow more modestly in the future, while direct financing will play an increasing role in meeting the demands of a growing economy.

- The emergence of a multi-level capital market promises to provide an historical opportunity for China's bond market. In recent years, governments at all levels have placed emphasis on bond market development. The Central Conference on Financial Affairs convened in 2007 put forward the objective of "enlarging the scale of enterprise bond issuance, sparing no effort to develop the corporate bond market and improving the bond management system." In January 2009, the PBoC lifted limits on bond issuance in the inter-bank market to facilitate direct financing of SMEs, more fluid circulation and smoother trading.
- China has learned valuable lessons and experiences from the financial crisis, particularly with respect to proper risk management on the part of both regulators and bond-issuers.
- The continued development of the institutional investor base will contribute to enhanced market stability. Institutional investors ranging from commercial banks and insurance companies to securities corporations and trust companies will be playing an indispensable role in activating and stabilizing China's bond market.

Regarding prospects for the future, current policy directions are seen resulting in a number of positive outcomes that will help create a wide and deep bond market that will offer tremendous opportunities and promote overall development:

- First, easier access and a more diversified issuer base can be achieved through increased issuance of various types of instruments, including short-term bonds and asset-backed securities issued by agriculture sector firms, collective bonds issued by small and medium enterprises, financial bonds issued by qualified auto finance companies and corporate bonds and pilot property investment trust funds issued by qualified real estate firms.
- Second, it is expected that improved market infrastructure, increased capacity-building and prudent financial innovation will result from various measures. These measures include improvements to the information disclosure mechanism, the credit rating system and services provided by intermediary agencies, as well as the development of debt and asset-backed securities and structured products.
- Third, phased moves toward capital account convertibility are expected to promote the gradual internationalization of the bond market. These moves include the step-by-step loosening of restrictions on cross-border capital flows and expansion of channels for overseas investment in RMB by qualified domestic institutional investors (QDII), the accelerated development of the RMB offshore financial market, greater foreign investment in China's financial markets and increased issuance of RMB bonds by foreign financial institutions. These developments will help bring about a multi-level capital market with a higher level of internationalization and improved transactions, pricing and information disclosure.

The Korean Bond Market: Current Development and Prospects

The Korean bond market has steadily developed since the Asian financial crisis, when total bonds outstanding was worth Won 235 trillion, equivalent to 46% of GDP. By the end of 2009, the value of total bonds outstanding has grown to Won 1,208 trillion and 114% of GDP. The secondary market has grown dramatically, with 2009 trading volume being 20 times that of 1997. Online trading has been a key factor, as 99% of bonds are now traded online.

Since the first issuance of guaranteed corporate bonds in 1972, the Korean corporate bond market has developed in response to several major events. The second milestone was the establishment of the first domestic credit rating agency in 1986, followed by the introduction of shelf registration in 1992. Immediately after the Asian crisis, changes were made to the Deposit Protection Act removing the legal protection for bonds guaranteed by guarantee insurance companies in 1998, while the Asset-Backed Securities (ABS) Act was enacted into law in the same year. The next phase of development came with the introduction of the Well-Known Seasoned Issuer (WKSI) program in 2009.

These major changes had a profound effect on the development of the market. After the policy changes introduced in 1998, the ratio of guaranteed corporate bonds to total corporate bonds dramatically fell from a level above 70% in 1997 to less than 30% in 1998 and to less than 10% in 1999. Since then, almost all corporate bonds issued have been non-guaranteed. ABS issuance also rose sharply in the years following the enactment of the ABS Act, particularly during the years 2000-2001 and almost equaled total corporate bond issuance in 2002-2003 as the latter experienced a brief reduction. As corporate bond issuance experienced a recovery and steadily expanded after 2004, however, ABS issuance lagged behind.

Another important development has been the tremendous growth of the secondary market. As with the corporate bond market, this was spurred by several changes introduced by the government in the wake of the Asian crisis. These included the introduction of mark-to-market rules for bonds in collective investment schemes in 1998, the replacement of syndication with the Primary Dealer System and the listing of Korean Government Bond futures in 1999 and the deregulation of short sales of bonds and improvements in the market for repo and securities borrowing and lending in 2000. These changes have resulted in the dramatic rise of trading volume in government bonds since 1998. Securities firms currently account for more than half (50.4% in 2009) of total trading volume among all investors, followed by mutual funds (16.9%) and banks (16.7%).

Latest developments, particularly regulatory changes being undertaken as part of the global response to the recent crisis, are beginning to have an impact on the Korean bond market. Major regulatory changes introduced in Korea include the launch of an integrated multi-level oversight council, restrictions on business areas and operation size of financial institutions and a stronger investor protection framework. Financial institutions are also closely watching whether Korean regulatory authorities will follow the current global regulatory trend, in particular with respect to regulation of over-the-counter derivatives and establishment of processes and institutions to deal with bankruptcy of financial institutions and prevent future bailouts.

While it is feared that new regulations could reduce liquidity in the market, there is also an opportunity for reforms having salutary effects on the bond market. With the introduction of new regulations to promote safety and soundness as well as decreased risks in financial markets, demand for bonds and other safe assets is expected to increase.

- New regulations directing banks toward safe assets and requiring large institutions to separate safe and risky businesses are resulting in Korean banks shunning investment in risk assets and moving toward government bonds. The impact of these regulations on low-rated and less liquid corporate bonds is expected to be negative. Banks are expected to increase their bond investments if a slowdown in the property and securities markets leads to an expansion of bank deposits.
- For insurers, following the bailout of AIG, market participants expect more restrictions on investment in risk assets and derivatives, as well as mergers. Insurers are expected to increase their investment in safe assets such as bonds, especially in view of the impending adoption of risk-based capital in 2011 and reinvestment of funds raised from

initial public offerings. Bonds are expected to take up a larger portion of managed assets under the low interest rate environment.

- For securities and asset management companies, it is expected that regulations on management of short-term products and derivatives, as well as quality standards for money market funds, will be strengthened.
- In view of the European fiscal crisis and the fall in yield of US treasury bonds, it is expected that overseas investors will increasingly prefer Asian local currency bonds and provide a stable base for supply and demand in the Korean bond market. However, the bond market could be negatively affected by any increased regulation on Korean branches of overseas banks.

The Japanese Bond Market: Expanding Foreign Issuance and Investment

Since the 1990s, various reforms have been undertaken to develop the Japanese corporate bond market, including deregulation of limitations and improvements in guidelines governing corporate bond issuances. In 2006, electronic registration of corporate bonds was introduced. These reforms have stimulated the growth of the market. In 2009 alone, corporate bond issuance grew by 29%. Nevertheless, compared to the US corporate bond market, where the total worth of bonds outstanding is equivalent to 48% of GDP, the Japanese market is still small, amounting to only 11% of GDP.

Corporate bonds account for only 0.1% of total household financial assets in Japan, as compared to 5% in the US. An important factor is the continued preference of Japanese households for cash deposits, which make up 55% of their financial assets, with insurance and pension reserves comprising another 27%. Compared to Japan, financial assets of US households are more evenly distributed among various types of assets including cash deposits (14%), insurance and pension reserves (29%), stocks, investment trusts and other equities (44%) and bonds (9%).

Consequently, the investor base for corporate bonds in Japan is also much less diverse compared to the US. Banks (with 48% of total worth of bonds outstanding) and insurers and pension funds (29%) are the largest holders, followed by government (12%). In the US, the investor base is more evenly composed, with the largest portion (27%) held by insurers and pension funds. Banks only hold 8% of corporate bonds. Individual investors hold 19% of corporate bonds in the US, compared to only 2% in Japan. Notably, foreigners hold 21% of corporate bonds in the US, compared to only 1% in Japan.

The high-yield market is much less developed in Japan compared to the US, with very few corporations issuing bonds rated below investment grade. In 2009, investment-grade issues comprised 95% of the total in Japan, compared to 84% in the US. Turnover in the Japanese corporate bond market is also much more limited than in the US.

One important factor affecting Japan's corporate bond market is the structure of sectoral money flows, with large deficits in the public sector and surpluses in the private sector (financial firms, private non-financial firms and households). Companies being cautious in making investment decisions under the current post-crisis circumstances, there is low demand for investment. When needed, it is also attractive to raise capital through bank loans. Issuance of yen-denominated bonds issued by non-residents, more widely known as samurai bonds, fluctuates widely, reflecting trends in exchange rates, real economic growth and other factors.

In view of these challenges, Japan is continuing efforts to promote the steady development of the market, in collaboration with market participants. The focus of these efforts has been the improvement of the primary and secondary markets. With respect to the primary market, key objectives include enhancing flexibility, improving underwriting practices and establishing a robust system for default risk management. With respect to the secondary market, efforts are

aimed at establishing a system for price information, the development of repo markets and strengthening of the clearing system.

Tax reforms are also being undertaken through the new Japanese Bond Income Tax Scheme. Effective June 2010, non-resident investors will be exempt from tax on interest on corporate bonds issued before the end of March 2013. It is hoped that this tax change will be made a permanent arrangement. Current procedures for tax exemption for interests on bond investments are also being simplified.

These reforms are aimed at key objectives, which include greater efficiency, transparency and liquidity of the corporate bond market, as well as the development of a robust infrastructure, particularly in the area of information on transaction prices, clearing and settlement systems.

From the standpoint of issuers, it is expected that financial reforms being undertaken in various economies in response to the crisis will limit the scope of banking activities, while changes in the Basel Accord may additionally lead to more restrained lending activities of commercial banks. In this context, companies are expected to increasingly turn to capital markets. Consequently, expanded issuance and investment in Japan's bond market, including by foreign issuers and investors, is seen as a positive development due to its impact on market liquidity.

Major Japanese corporate issuers also face a growing demand for fund raising in other Asian economies, and are increasingly looking at opportunities for their subsidiaries to issue local currency bonds in these markets. For this reason, efforts to develop local currency bond markets in emerging Asian markets are viewed very favorably. The proposal to create bond markets for market professionals with less stringent requirements is also expected to enhance the accessibility of Japan's bond markets for foreign issuers and investors.

From the standpoint of investors, in addition to market and economic fundamentals, market access and the management of growth are two key issues that could be addressed to promote foreign investment in local currency bond markets.

- Global custodians provide tools to allow clients to manage entry into new markets, which include market profiles with detailed information on trading and settlement practices, taxation and investment regulations, pre-investment documentation required of foreign investors prior to trading in some markets and reference guides for documentation for settlement, among others. As all trades require the certainty of settlement, investors need to have timely information about changes in relevant laws and regulations. Governments and regulators can benefit from collaboration with global investment specialists in designing reforms to reduce cross-border and behind-the-border barriers to enable increased market access as well as increased visibility.
- In order to enhance market liquidity in a diverse region, it is important to address the fragmentation of markets before it takes place. The development of efficient local markets in the region can be promoted by region-wide recognition of new and more efficient practices by both regulators and the industry. The benefits of such an approach have been demonstrated in Europe, where the European Union has collaborated with industry during the past few years to develop and monitor coherent market practices alongside interoperable standards and promoted the alignment of interests. Markets in the region would be well served by the establishment of a regional public-private sector forum that includes both domestic and regional initiatives in its scope, fosters industry focus through convergence of concrete goals on regional bond market development, and leads to endorsement by the public sector of private sector efforts to develop coherent market practice.

C. CAPACITY-BUILDING FOR CAPITAL MARKET DEVELOPMENT AFTER THE FINANCIAL CRISIS

Regional integration continues to be an important aspiration of the business sector for the Asia-Pacific region. In the area of capital market development, the lack of market integration has hampered the development of local markets. Much of the accomplishment achieved thus far in this area has occurred within the framework of ASEAN and ASEAN+3. However, there is still a long way to go, both in terms of the development of individual markets, as well as in terms of regional financial integration.

There is wide scope for the introduction of new initiatives, building on current accomplishments, to bring capital market development and integration in the region to the next higher level. Innovative solutions that can promote a more active private sector role in these efforts are needed, and given its strong links to the private sector, APEC can play an important part. This section discusses a number of new proposals, in addition to various considerations on how improvements in the market can be achieved.

A Passport Scheme for Cross-Border Recognition of Fund Management Products as a Vehicle for Financial Integration

Funds passporting and its benefits. One innovative way of promoting financial integration is the introduction of a passport scheme that facilitates the distribution of collective investment funds complying with a widely agreed set of regulations across participating jurisdictions. Benefits stand to arise from greater market depth and liquidity, lower product manufacture and investment costs, greater investment choice and potential returns and improved investor protection. Such a scheme can significantly improve the ability of participating jurisdictions to tap into the global pool of assets under management that is estimated to increase to US\$156 trillion over the next decade.

In addition, the region can benefit from the development of talent and knowledge-intensive activities and generation of employment in key sectors. These include, for example, fund management, accounting and administration; transfer agency and shareholder services; custody; trustee; client relationship and business development management; compliance; legal services; tax, human resources; finance and marketing.

The UCITS experience. The experience of Europe offers a way to better understand the workings of a funds passporting scheme. First proposed in 1976, the Undertakings for Collective Investment in Transferable Securities (UCITS) became a reality through the first UCITS Directive (UCITS I) of the European Commission in 1985. The Directive had two broad objectives. The first was to enable the sale of fund management products among member economies, which came to be called “passporting”. The second is to outline a set of principles by which UCITS funds must manage their assets. The scope of these rules includes risk management, counterparty and concentration limits, eligible assets, disclosure and regulation, among others. Once authorized as UCITS qualified by one participating economy under the harmonized legislative framework, a product can then be sold to retail investors in all participating economies without need for further authorization.

Considered unsatisfactory in the beginning, UCITS has developed in stages. Since 1985, the European Commission has amended the scheme by issuing several directives: a draft UCITS II directive (eventually abandoned during the 1990s), UCITS III (2003) and UCITS IV (for adoption in 2011). With the improvements introduced by UCITS III, UCITS funds achieved tremendous growth and expanded their geographical coverage. From 2001 to 2009, the total number of cross-border funds grew from 3,200 to 7,500. The current pool of UCITS funds, which includes equity-linked, balanced, bond, money market and alternative funds, is worth more than five times the global hedge fund industry at its height.

UCITS funds continued to grow in popularity relative to non-UCITS funds, and by the end of 2009 already accounted for 75% of the total European fund market. While UCITS was

originally intended to facilitate intra-European distribution of funds, it has become a popular product in other parts of the world, including the Middle East and in Asian economies such as Japan, Hong Kong, Singapore and Chinese Taipei. In 2009, 30% of UCITS sales were already being made outside Europe, with Chinese Taipei becoming the second largest market globally.

UCITS' growing global reach has especially benefited Luxembourg and Ireland, which have become leaders in the passporting of UCITS funds across borders owing to regulatory and tax settings that encourage global administration and distribution. To compensate for the decline of its heavy industries, Luxembourg successfully targeted the funds industry by offering low taxes. Foregone taxes on revenues of domiciled funds were more than compensated for by the growth of the industry and its impact on employment and the economy. Ireland made use of its network of double tax treaties with various jurisdictions to compete with Luxembourg for leadership in UCITS.

Key to the expansion of UCITS were significant improvements made to the original directive by UCITS III. The Product Directive – one of its two major elements – successfully expanded product coverage, allowing investments other than transferable securities, UCITS funds of funds, greater use of cash deposits, financial derivatives instruments and financial indices. It also clarified the use of permissible money market instruments and rules on counterparty exposure. UCITS III also contained a Management Company Directive, which covered cross-border management companies and the use of simplified prospectus. Considered by market participants as much less successful than the Product Directive, it is being improved through UCITS IV, which is due for adoption in 2011.

Widely recognized as a success story, UCITS provides an example of a scheme that, through a process of continued refinement, has evolved into a sophisticated structure that has also fostered closer regulatory cooperation, expanded product choice, economies of scale, expanded opportunities for economic development and improved standards of investor protection and regulation in participating jurisdictions. It provides an attractive model for consideration in the Asia-Pacific region, where the preservation of retail investors' savings is acquiring greater importance as a consequence of recent demographic and economic trends.

Funds passporting as a step toward regional financial development and integration.

Successful penetration by UCITS of a number of key markets in Asia indicates that funds passporting is a feasible option for the region. Given the significant development of capital markets, increasing cooperation among regulators and the substantial growth of funds generated in the region, many key prerequisites for a successful funds passporting regime are already in place in several economies.

The role that funds passporting can play in the region is better understood by referring to two key policy objectives behind regional financial cooperation efforts: the recycling of savings into capital markets within the region and the development of emerging capital markets and the requisite financial expertise. The achievement of these objectives requires three elements: (a) large and broad capital markets to absorb savings; (b) efficient trading, settlement and clearing structures to reduce overall costs and risk; and (c) efficient intermediation between the region's asset markets on one hand and the region's investors on the other. Significant progress has been achieved in putting the first two elements in place, through such efforts as the ABMI and ABF and other ongoing work.

With respect to the third element (efficient intermediation), an important weakness still needs to be addressed. Two factors that drive efficient financial intermediation are (a) product innovation (i.e., creating attractive products for Asian investors) and (b) fund jurisdiction (i.e., local products that are easily accessible across the region). There has been significant progress in product innovation in recent years, particularly with the introduction of real estate investment trusts, exchange traded funds and structured products.

With regard to jurisdictional issues, however, there has been little progress in allowing funds domiciled within the region to be more broadly available. This challenge is illustrated by the example of the ABF Pan-Asia Bond Index Fund (PAIF), an exchange traded fund invested in eight Asian local currency bond markets launched under the auspices of several central banks under the Executives Meeting of East Asia and Pacific Central Banks (EMEAP), and which is currently domiciled in Singapore and listed in Japan and Hong Kong, China. PAIF is currently the only major Asian domiciled large fund offering available to investors across a wide range of jurisdictions.

The process of listing PAIF in some markets required detailed discussions with local regulators, and even eventual changes to local regulations. It required efforts to manage ever increasing burdens associated with meeting multiple compliance needs of different jurisdictions, including setting up additional business units to meet local regulatory requirements. These processes entail significant business costs, which stand in the way of making local products more accessible across the region.

Ironically, while regionally domiciled funds face these challenges, funds domiciled outside the region (including UCITS funds from Luxembourg and Ireland, as well as other offshore funds from such jurisdictions as Bermuda, Cayman and Virgin Islands) can be easily registered in many jurisdictions within the region. Consequently, the region's funds market has evolved in a way where offshore funds have established dominant or significant positions (91% in Hong Kong, China; 79% in Singapore; 59% in Chinese Taipei; and 37% in Australia). In practical terms, and as an example that illustrates the consequences of the current regulatory framework, this means that an investor based in Hong Kong who wishes to buy a Hong Kong equity fund is likely to be offered a UCITS fund from the distributor.

This situation results in leakages in financial intermediation know-how out of the region, which will continue to escalate with the growth of Asian savings that is being driven by demographics (ageing populations) and economics (growing affluence). In addition, as foreign domiciled funds like UCITS are designed to conform to regulations set outside the region (and driven by specific considerations in these jurisdictions), they do not necessarily incorporate the needs of investors and regulators in the region, such as those for derivatives or alternative investments.

These are challenges to which a funds passporting initiative within the region can provide a solution that could give regulators the comfort they need to increase cross-border recognition of products, particularly unlisted funds, from within the region. However, the goal of a common set of fund investment guidelines under which funds can apply for region-wide distribution would be in itself a challenging one. Key issues that will need to be addressed for the success of regional funds passporting are the following:

- Regulatory barriers: Overcoming differences in regulations among participating jurisdictions would require agreements on such issues as licensing, compliance, monitoring, disclosure, dispute resolution, appropriateness of products, investor protection and legal recourse.
- Tax: There is a need to develop common approaches to treatment of foreign investors vis-à-vis local investors as well as to the issues of withholding tax and the review and harmonization of existing tax treaty arrangements to remove tax arbitrage opportunities.
- Currency issues: Issues related to increased costs arising from foreign exchange conversions involving the use of the US dollar as a settlement currency and the lack of free convertibility of currencies in the region need to be addressed.

Given the diversity in levels of market development within the region, a funds passporting scheme would be best established through a pathfinder initiative that can evolve over time. In the beginning, the initiative could examine the possibility of a system of mutual recognition of

fund products, perhaps initially through a smaller group of economies that already have established infrastructure for selling, managing and regulating fund products. Products could also be made available to sophisticated investors first and to retail investors later. Once the scheme becomes more established, other member economies could be encouraged to join. Eventually over the longer term, the possibility of establishing a link between the regional passporting scheme and UCITS could also be examined.

A Regional Professional Securities Market

Focusing on wholesale financial services, a proposal for the establishment of an Asian Inter-Regional Professional Securities Market (AIR-PSM) provides useful ideas.¹ The development of a regional professional securities market that can efficiently bridge the cross-border needs of issuers and investors in the region would be in line with the trend of closer regional integration, following the rapid growth of regional supply chains and intra-regional trade over the last few decades. It is also seen as a possible next stage of development on top of the development of local currency bond markets.

In their current stage of development, most domestic bond markets in the region are not able to fully capitalize on innovations in the international capital market for professionals. Although many institutional investors from the region are keenly interested in local currency bonds and equities, particularly in Asia, where currencies are expected to appreciate over the medium and long term, the available financial instruments are limited. This underscores the need to develop the infrastructure for cross-border financial and capital market transactions.

In Japan, the development of the corporate bond market has been limited due to stringent disclosure requirements for public offerings imposed on issuers to protect Japanese retail investors, although the majority of these bonds are purchased by professional investors. Existing private placement markets in Japan, which do not anticipate the emergence of a secondary market from the outset, are also not easy to use for both issuers and investors. Such restrictions have significantly limited the ability of issuers to issue bonds in a quick and timely manner.

Japan offers tremendous potential to provide funds for the region, given its sizable savings, the presence of major corporate groups with significant operations in the region and the existence of a well-developed domestic bond market infrastructure. It is well-placed to play a role in the development of a regional professional securities market and the requisite systems for disclosure and the provision of traded-price information for eligible financial instruments, and in promoting a high-quality market environment that can help increase the supply of such instruments.

The AIR-PSM proposal aims to enable the efficient circulation of savings within the region in a way that adds high value. It also aims to help develop and accumulate financial expertise in the region by creating a marketplace that will encourage companies and financial institutions in the region to become innovative principal and professional users of the market. Eventually, it is envisioned to develop into markets for Asian currency denominated regional bonds that will free issuers in the region from foreign exchange risk.

The proposal offers to develop the AIR-PSM in three stages:

- In the first stage, Japan could establish a public offering bond market under the rules of one of the existing Japanese exchanges. This market would be open only to professional investors and exempt from disclosure rules that were designed to protect retail investors.

¹ For a full discussion of the AIR-PSM proposal, refer to Shigehito Inukai, *Grand Design for an Asian Inter-Regional Professional Securities Market* (Tokyo, LexisNexis Japan Co., Ltd. 2008) and Waseda GCOE website in Japanese (<http://www.globalcoe-waseda-law-commerce.org/>).

Yen-denominated bonds may be issued in this market by either Japanese or non-Japanese issuers, and can substitute for samurai bonds and the existing Japanese shelf registration system, providing minimum disclosure requirements in English for foreign issuers. A Japanese version of the eurobond market (Euro Asia Offering Market) could be established, with eurobonds or medium-term notes with an eligible option of being listed on the Japanese exchange and offered to professional investors in Japan. This market would be based on principles similar to Rule 144A (providing a safe harbor from the registration requirements of the US Securities Act of 1933 for private resale of restricted securities to qualified institutional buyers) option of the eurobond.

- In the second stage, other interested economies in the region could establish similar arrangements in their own domestic markets.
- In the third stage, interested economies and Japan would collaborate in developing regional arrangements for securities settlement, removing barriers to entry and undertaking further steps to create a cross-border professional securities market: i.e., AIR-PSM.

Toward a Regional Clearing and Settlement System: Addressing Barriers to Cross-Border Settlement

Work within ABMI on improving bond market infrastructure has recently focused on the development of infrastructure for securities settlement. This work was undertaken by the Group of Experts (GoE) under Task Force 4 of ABMI from institutions including domestic and international central securities depositories as well as local and global custodians. The GoE has taken a two-pronged approach. One is an evaluation of options for a regional settlement intermediary. The other is examining barriers to cross-border settlement, including legal and regulatory settlement-related barriers. This section focuses on the latter, which has been undertaken through an extensive market survey of over 58 financial institutions and experts in the region and 30 meetings in key financial centers in the region.

Areas identified by institutional investors, asset managers, banks, brokers, custodians and NCSDs/ICSDs where barriers are most serious are the following:

- Currency convertibility
- Taxes
- Securities numbering
- Cash remittance

Other areas where significant barriers exist are:

- Corporate events
- Physical certificates
- Investor registration
- Settlement cycles
- Omnibus accounts
- Legal jurisdiction
- Message formats
- Issuer disclosure
- Trade matching

The study reveals that important barriers to cross-border investment and settlement exist in many of the economies in East and Southeast Asia. Some markets have made significant and rapid progress in recent years toward reducing barriers. However, perception gaps remain, where market participants are not aware of the progress that has been achieved. Gaining and retaining cross-border investors' confidence in a market is critical, as negative perceptions about a market tend to persist.

Reducing barriers requires a combination of regulatory and private sector initiatives. Areas where the public sector will need to play the central role in addressing barriers are taxes, foreign exchange controls (conversion, repatriation), cash controls (credit balances, overdrafts), investor registration, omnibus accounts and quotas. Areas where the public and private sectors will need to collaborate in introducing reforms are physical certificates, securities numbering and settlement cycle. The private sector will have to play the central role in addressing barriers related to messaging formats and pre-matching.

A key issue that economies need to address is improving information flows in the market. This includes timeliness of information, uniform disclosure, price transparency, market statistics, information on corporate actions and legal information such as bankruptcy and insolvency laws.

To facilitate reforms, the ABMI study recommends the establishment of a coordinating body with a mandate to set realistic goals and timelines for reducing barriers to cross-border bond investment across the region. This body should liaise with regulators and industry representatives while monitoring and reporting on progress. It should work with individual market authorities and encourage them to improve the transparency of regulations and to establish best practices and standards. While the main focus would be regulatory barriers, private sector initiatives should also be encouraged. Individual economies are encouraged to develop medium-term roadmaps for reducing barriers.

Promoting Cross-Border Securities Collateral Management

Liquidity is a major issue that needs to be addressed for the region's bond markets to develop to the next stage. In this context, it is useful to examine the prospects for promoting the wider use of securities in cross-border collateral management within the region. For the financial industry, it is currently an important issue that stems from the need to improve risk management to cope with unstable prices and liquidity risks that have arisen with the increasing frequency of global crises, as illustrated by the Lehman Shock and the Greek Debt Crisis.

Globally active financial institutions managing their positions on an integrated basis around the world are aware that pressures originating in one market tend to be quickly transmitted elsewhere. With expansion of client activities in the region, especially in Asia, as a result of growing activities of corporate clients, the introduction of new financial products and services for clients and the rapid growth of markets, the ability to provide stable financial services to clients has become ever more important to financial institutions. This has led to a greater appreciation of tools for managing liquidity risks in contingency cases, which also contribute positively to market stability.

The use of bonds as collateral is an important element of managing liquidity risks. Most financial authorities in Asia have liquidity providing facilities backed by bond collaterals. Most financial institutions in the region use government bonds as collateral for repos and loans from financial authorities. A number of central banks all over the world, such as Federal Reserve Bank, the Bank of England, the Swiss National Bank and the Bank of Japan, accept foreign securities as collaterals in the context of cross-border collateral management.

The basic scheme for the use of cross-border collateral for local liquidity enhancement is as follows:

- In the home economy, a bank opens an account with a custodian, where eligible bonds are deposited.
- In the host economy, the central bank also opens an account with the custodian for receiving the eligible bonds as collateral or in repo agreement.

- In cases of contingency, the central bank of the host economy provides local currency loans against delivery of the collateral by the custodian.

Currently, the use of foreign securities as eligible collateral is not yet accepted in most emerging markets in the region, where there is an overwhelming preference for cash, although there are already initial efforts to introduce the practice. Financial institutions with operations in several markets are keen to benefit from a more flexible pool of collateral that also provides a means to meet any unforeseen sudden need for liquidity, as well as to better manage their risks and liquidity profiles in serving corporate clients. Where it is being practiced, the use of securities for cross-border collateral management has contributed to market stability during the recent crisis.

In the context of efforts to promote the development of bond markets, the use of foreign securities as eligible collateral will promote the development of local currency balance sheet business and enhance the attractiveness of bonds for financial institutions. It will enable major domestic and foreign financial institutions and investors to participate in cross-border collateral markets, and lead to development of markets in the region where bonds are actively used as collateral in money market transactions or traded in repurchase agreements. Eventually, expanded use of bonds in cross-border collateral management will help increase investor demand.

Given these benefits, emerging markets in the region should consider promoting the use of securities in cross-border collateral management. Cooperation among authorities, particularly central banks, is a key ingredient for success. The role of the custodian, which needs to be credible and at the same time flexible in times of emergency, is of central importance. Existing arrangements, particularly those involving emerging markets, provide a good starting point for consideration in developing new bilateral arrangements, which can eventually lead to a region-wide system. The participation of financial institutions, particularly those that have been involved in current arrangements, in designing these systems will be helpful.

Enhancing the Quality and Usefulness to Regional Investors of Domestic Credit Ratings

While international bond markets are well-served by existing global credit rating agencies, domestic credit ratings remain important for the development of emerging local currency bond markets in the region, due to their usefulness to investors in differentiating among various levels of risk in most of these markets. As domestic credit ratings provide *relative* rankings of creditworthiness within a single market (where financial commitments issued or guaranteed by the government are normally assigned the highest rating and others are rated in relation to this benchmark) over a wider scale, as opposed to global credit ratings, which assign ratings based on a globally comparable scale, they are most useful to investors in less developed economies where global ratings tend to be normally compressed within a narrow range and do not allow sufficient differentiation among credits.

However, because domestic ratings are not intended to be internationally comparable (nor comparable over time, if the creditworthiness of the benchmark entity changes significantly), their usefulness to regional investors wishing to use ratings to compare bonds in different emerging markets is very limited. Regional investors are now able to use information provided by global rating agencies that also issue domestic ratings to make such comparisons, but still very few markets in the region are covered in this way.

Due to these limitations, efforts are being undertaken to improve the comparability of domestic credit ratings across the region, to facilitate cross-border investment. These efforts focus on promoting convergence of practices among domestic credit rating agencies in the region. The Association of Credit Rating Agencies in Asia (ACRAA), which was established with this objective in mind (in addition to ensuring high quality of domestic ratings), has played an important role through its cooperation with ADB and its undertakings within the framework

of ABMI, which include best practice dialogues, workshops and the development of a handbook on international best practice in credit ratings.

The success of these efforts, however, will also depend on governments and regulators providing a healthy environment for the development of the credit rating industry. In the context of current discussions on regulatory reforms, two issues need to be addressed.

- First, credit rating agencies in the region operate within the context of specific corporate cultures that are characterized in many economies, although to varying degrees, by close relationships among members of the same corporate grouping, main bank relations and strong ties to government. In response to criticisms of the role that credit rating agencies played in recent crises that occurred in the US and Europe, the urge to regulate the industry has increased. It is therefore important for governments and regulators in the region to keep in mind the regional context and the dangers of overregulation, particularly its potential impact on liquidity and the already deteriorating credit environment.
- Second, credit ratings are based on information made available to agencies within the context of existing accounting standards, disclosure regimes and corporate governance practices in each market, which currently vary across the region. Enhancing the quality of credit ratings will require continued efforts by governments and regulators to promote improvements in these areas. Promoting comparability of ratings across markets in the region will require efforts toward region-wide convergence of these standards, regimes and practices. This will also require greater collaboration between the industry and governments, especially in the context of regional organizations.

Future Directions for Regional Cooperation in Bond Market Development

Recent developments have highlighted the importance of bond markets for the region. As problems in the global financial system in the wake of the recent crisis led to the tightening of credit and drastic reduction of bank lending to the corporate sector, firms were able to continue funding their operations through the region's local currency bond markets. This stood in stark contrast to the situation during the Asian financial crisis before governments undertook efforts to develop their bond markets. In this sense, these efforts have succeeded in meeting one of the most important objectives of bond market development in the region, which is to help ensure firms' continued access to finance in times of turmoil and thus strengthen financial stability.

Nevertheless, the region will benefit from further reforms that will introduce greater efficiency in financial intermediation. Liquidity, market infrastructure and hedging markets remain key issues that require focus to achieve continued progress. An important element in this process is financial integration, which can be advanced through efforts to improve settlement systems, reduce transaction costs and facilitate cross-border transactions. As Asian bond markets further develop and become more integrated among each other, APEC can play a key role in helping these markets benefit from global integration, which is important to reduce the risks of market volatility and to help these markets maximize the efficiency benefits from increased foreign investment, particularly in government bond markets.

Within this context, financial institutions see the following as key steps toward further progress. With respect to government bond markets, efforts should focus on:

- Regular, predictable issuance programs for government bonds, including through the retiring and reissuing of bonds so as to create liquid benchmark issues.
- Robust, reliable and efficient OTC trading infrastructure such as price discovery, trade execution, clearing and settlement platforms. Elimination of barriers to trading such as transaction taxes.

- Establishment of a Primary Dealer Network evaluated and rewarded on the basis of their contribution to liquidity.
- Effective government bond repurchase markets (without such barriers as the prohibition on shorting and the punitive treatment of failed trades but with supporting legislation such as netting of financial transactions in bankruptcy).
- Liquid Government bond futures markets through the establishment of efficient futures platforms and well designed futures contracts
- A broad domestic investor base through promoting the institutional savings sector (life and health insurance, pension, mutual and hedge funds).
- A larger and more diversified foreign investor base through the removal of withholding tax, complex investment registration processes and capital controls
- The elimination over time of exchange controls and the development of a freely convertible currency.

With respect to corporate bond markets, following are key issues:

- The development of a liquid government bond market (see above).
- Increased transparency and better corporate governance in the issuers and intermediaries through legislation, enforcement and promoting a culture of compliance and adherence to international accounting standards.
- Adherence to international norms in the credit rating process and standards for corporate bonds
- A fair, efficient and predictable process for resolving disputes relating to corporate bonds (including bankruptcies) and protection of creditors' rights.

D. BOND MARKET DEVELOPMENT: SUMMARY OF KEY ISSUES

Bond market development in the region has reached a significant stage, owing to various regional cooperation efforts, especially ABMI, which continues to undertake important initiatives. Nevertheless, discussions held during the past three years under the APEC Public-Private Sector Forum on Bond Market Development have revealed key weaknesses that still need to be addressed. In particular, supply constraints arising from inadequate market depth and liquidity, market infrastructure and architecture and legal and regulatory frameworks represent the key obstacle to market development. These discussions highlight the importance of continued and focused capacity-building efforts and collaboration among government and regulatory agencies, investors, issuers, credit rating agencies, private sector experts and international agencies.

The great diversity within the region has been highlighted by the discussions of the local currency bond markets in China, Korea and Japan, which are at different levels of development and facing different sets of challenges. The experiences of these three economies and the progress they have achieved over the past several years underscore the tremendous impact that reforms can have on market development. Going forward, each of these economies needs to focus on particular issues in order to sustain the momentum of market development.

- For China, the focus will be on optimizing the financing structure, improving the diversity of products and the issuer base, promoting globalization through increased foreign issuer participation and increased overseas issuance of domestic entities, more closely integrating the bond and banking markets, and the development of derivatives markets.

- For Korea, the key issue is ensuring that regulatory changes being undertaken as part of global regulatory trends in response to the recent crisis are in line with the objectives of market development, particularly with respect to their impact on liquidity and the demand for bonds and other safe assets.
- For Japan, the major issues revolve around improving the efficiency, transparency and liquidity of primary and secondary markets, the development of a robust market infrastructure and the diversification of the investor and issuer base, particularly through increased participation of foreign investors and issuers in the market.

There is wide scope for the introduction of new initiatives, building on current achievements, to bring capital market development and integration in the region to the next higher level. In addition to continued efforts to address key issues in the development of government and corporate bond markets, innovative solutions that can be pursued on a regional basis under the APEC framework include the following:

- Development of wholesale securities markets open only to professional investors (exempt from strict disclosure rules designed to protect retail investors), to encourage the expansion of the issuer base, including foreign issuers, and to promote more issuance by current issuers. Individual economies could establish such arrangements and eventually collaborate to develop regional arrangements for securities settlement, removing barriers to entry and undertaking further steps to create an integrated regional professional securities market.
- Collaboration between government and regulatory officials and market players to reduce barriers to cross-border settlement. The public sector should take the lead in addressing barriers related to tax, foreign exchange controls, cash controls, investor registration, omnibus accounts and quotas. The private sector should lead efforts to address barriers related to messaging formats and pre-matching. Both public and private sectors should collaborate in addressing barriers related to physical certificates, securities numbering and settlement cycle.
- Promoting the use of foreign securities as eligible collateral throughout the region to enable major domestic and foreign financial institutions and investors to participate in cross-border collateral markets. In these markets, bonds can be actively used as collateral in money market transactions or traded in repurchase agreements, contributing toward more liquid bond markets. Existing arrangements can be considered as starting points in developing new bilateral arrangements, with a view toward a region-wide system.
- Continued collaborative efforts among governments, regulatory agencies, credit rating agencies and market players to promote region-wide convergence of accounting standards, disclosure regimes and corporate governance practices toward robust global standards.
- Establishment of a pathfinder initiative to introduce a funds passport scheme. Such a scheme is intended to facilitate the distribution of collective investment funds complying with a widely agreed common set of fund investment guidelines across participating jurisdictions. It should be designed to provide superior standards of retail investor protection and regulation compared to non-qualifying funds. Development of the common set of guidelines under which funds can apply for distribution across participating economies will need to be accompanied by efforts to address related regulatory and tax barriers as well as currency issues.

PART II: FINANCIAL INCLUSION

[See Meeting Paper 4-A for the report on the APEC Financial Inclusion Forum, whose contents will be inserted here in the combined final report.]

CONCLUSION

Post-crisis recovery is proceeding at varying speeds across regions and economies. Many of the Asia-Pacific region's economies are leading efforts toward a quick recovery and more balanced growth, offering hope for the emergence of a new engine that will help sustain global economic growth in the years ahead. While the economic rebound that came immediately on the heels of the crisis was driven mainly by government stimulus, downside risks remain that have been highlighted by recent developments in Europe. In this context, the private sector must begin to play a more important role if the economic recovery is to be sustained.

A healthy and well-developed financial market is vital in enabling the private sector to play this role. In the region's developing economies, efforts are needed to focus on ways to accelerate the development of bond markets. While much has been accomplished through policy and regulatory reforms to stimulate the growth of these markets, particularly in Asia, innovative solutions are needed to bring capital market development and integration in the region to the next higher level. Greater financial inclusion, which will broaden the base of economic growth and help deepen financial systems, is another issue that needs to be addressed.

This year, an APEC growth strategy is being introduced to complement the pillars of trade and investment liberalization, facilitation and technical and economic cooperation that have guided APEC's development since the Osaka Summit in 1995. Bond market development and financial inclusion are both central to the success of efforts to promote balanced, inclusive and sustainable growth. It is hoped that policymakers will seriously consider the ideas presented in this report in designing concrete initiatives that can be undertaken within the framework of this new growth strategy, in collaboration with the private sector.

ANNEX

APEC PUBLIC-PRIVATE SECTOR FORUM ON THE DEVELOPMENT OF BOND MARKETS AND FINANCIAL INCLUSION

ORGANIZED BY
THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY BUILDING
THE APEC BUSINESS ADVISORY COUNCIL
IN COOPERATION WITH THE MINISTRY OF FINANCE, JAPAN

31 May 2010
ANA Hotel Sapporo, Ohtori Room
Sapporo, Japan

PROGRAM

08:30-09:00 **REGISTRATION**

09:00-09:15 **OPENING SESSION**

09:00-09:05 **Welcome and Opening Remarks**

Mr. Yoshihiro Watanabe, Chair, Finance and Economics Working Group, APEC Business Advisory Council (ABAC) and Managing Director, Institute for International Monetary Affairs

09:05-09:10 Mr. Mark Johnson AO, Chair, Advisory Group on APEC Financial System Capacity-Building and Chairman, AGL Energy

09:10-09:15 Mr. Takeshi Kurihara, Chair, APEC Senior Finance Officials' Meeting and Director, Research Division, International Bureau, Ministry of Finance of Japan

PART I: The 4th APEC Public-Private Sector Forum on Bond Market Development

Chair: Mr. Mark Johnson AO, Chair, Advisory Group on APEC Financial System Capacity-Building and Chairman, AGL Energy

09:15-09:45 **SESSION ONE**

OVERVIEW OF CURRENT TRENDS IN THE REGION'S BOND MARKETS

09:15-09:30 **Asian Bond Markets: Overview of Current Trends and Regional Initiatives**

Mr. Satoru Yamadera, Economist, Office of Regional Economic Integration, ADB

09:30-09:40 **Overview of Findings from Previous APEC Public-Private Sector Forums on Bond Market Development**

Dr. Julius Caesar Parreñas, Coordinator, Advisory Group on APEC Financial System Capacity-Building and Advisor on International Affairs, The Bank of Tokyo-Mitsubishi UFJ, Ltd.

09:40-09:45 **Development of local currency bond markets in South and South East Asia and the role played by rating agencies in developing these markets)**

Mr. Vivek Goyal, Managing Director, Head of Business and Relationship Management Asia Pacific, Fitch Ratings

09:45-11:00 **SESSION TWO**

THE DEVELOPMENT OF APEC ECONOMIES' BOND MARKETS: EXPERIENCES FROM CHINA, KOREA AND JAPAN

09:45-10:00 **Presentation: The Chinese Bond Market: Current Developments and Prospects**

Madame Lili Wang, Co-Chair, ABAC Finance and Economics Working Group; and Executive Director and Senior Executive Vice President, Industrial & Commercial Bank of China (ICBC)

10:00-10:15 **Presentation: The Korean Bond Market: Current Developments and Prospects**

Dr. Young-Hwan Byeon, Financial Economist, Capital Market Supervision Office, Financial Supervisory Service, Republic of Korea

- 10:15-10:30 **Presentation: Expanding Foreign Issuance and Investment in the Japanese Bond Market**
Mr. Yoshio Okubo, Senior Managing Director, Japan Securities Dealers Association
- 10:30-10:35 **Comments**
Mr. Moonsoo Kim, Head of the Rating Planning Team, Business Development Division, Korea Ratings
- 10:35-10:40 **Comments**
Mr. Kunihiro Ogura, General Manager, Planning and Administration Department, Finance Division, Mitsui & Co., Ltd.
- 10:40-10:45 **Comments**
Mr. Masayuki Tagai, Executive Director, Global Market Infrastructures, Treasury and Securities Services, JP Morgan Chase Bank, N.A.
- 10:45-11:00 **Open Discussion and Q&A**
- 11:00-11:20 **COFFEE BREAK**
- 11:20-12:45 **SESSION THREE (PANEL DISCUSSION)**
- CAPACITY-BUILDING FOR CAPITAL MARKET DEVELOPMENT AFTER THE FINANCIAL CRISIS**
- 11:20-11:25 **Introduction by the Session Chair**
- 11:25-11:35 **Comments by Panelist: Passport Schemes for Cross-Border Recognition of Fund Management Products as a Vehicle for Financial Integration**
Mr. James R.F. Shipton, Managing Director, Executive Office, Head of Government Affairs, AEJ, Goldman Sachs
- 11:35-11:45 **Comments by Panelist: Toward a Regional Clearing and Settlement System – Addressing Barriers to Cross-Border Settlement**
Mr. Hiroshi Ikegami, Director, Fixed Income and Investment Trust Department, Japan Securities Depository Center, Inc.
- 11:45-11:55 **Comments by Panelist: Promoting Cross-Border Securities Collateral Management to Improve Bond Market Liquidity**
Mr. Hiroyoshi Nakamaru, Chief Manager, Risk Management Department, Global Operations Control Division, The Bank of Tokyo-Mitsubishi UFJ, Ltd. (TBC)
- 11:55-12:00 **Comments by Panelist**
Professor Shigehito Inukai, Executive President and Secretary General, Capital Markets Association for Asia; and Professor, Faculty of Law, Waseda University
- 12:00-12:05 **Comments by Panelist**
Mr. Hon Cheung, Regional Director – Asia, State Street Global Advisors
- 12:05-12:10 **Comments by Panelist**
Mr. Kazuo Imai, Chairman, Association of Credit Rating Agencies in Asia (ACRAA); and Advisor, International Business, Japan Credit Rating Agency, Ltd.
- 12:10-12:15 **Comments by Panelist**
Mr. Romuald Semblat, Senior Economist, International Monetary Fund (IMF)
- 12:15-12:45 **Open Discussion and Q&A**
- 12:45-14:15 **LUNCH**
- PART II: Financial Inclusion Forum**
- Chair:** Dr. Julius Caesar Parreñas, Coordinator, Advisory Group on APEC Financial System Capacity-Building and Advisor on International Affairs, The Bank of Tokyo-Mitsubishi UFJ, Ltd.
- 14:15-15:45 **SESSION FOUR (PANEL DISCUSSION)**
- INNOVATIVE POLICIES TO PROMOTE FINANCIAL INCLUSION THROUGH MICROFINANCE**
- 14:15-14:30 **Introduction by the Session Chair: New developments and the emergence of microfinance as an effective tool for promoting financial inclusion**

- 14:30-14:35 **Promoting investment in microfinance**
Mr. Hiroshi Amemiya, Advisor, Developing World Markets
- 14:35-14:50 **Key policy solutions for promoting financial inclusion**
Mr. Eduardo Jimenez, Regional Associate, Alliance for Financial Inclusion
- 14:50-15:00 **Promoting financial identity through credit reporting systems**
Dr. Robin Varghese, Asia-Pacific Credit Coalition (APCC) and Senior Fellow and Director of Research, PERC/Information Policy Institute
- 15:00-15:10 **The role of the public sector in promoting financial inclusion**
Mr. Kazuto Tsuji, Executive Technical Advisor to the Director General, Public Policy Department, Japan International Cooperation Agency (JICA)
- 15:10-15:20 **Promoting synergy between APEC and the G-20 in promoting financial inclusion**
Dr. Lois Quinn, Senior Economist & Financial Systems Advisor, Office of International Banking and Securities Markets, US Department of the Treasury
- 15:20-15:30 **Promoting synergy in regional cooperation for financial inclusion**
Mr. John West, Senior Consultant for Capacity Building and Training, Asian Development Bank Institute
- 15:30-15:45 **Open Discussion and Q&A**
- 15:45 **End of Session**
- 15:45-16:00 **CLOSING SESSION**
- 15:45-16:00- **Closing Remarks**
Madame Lili Wang, Co-Chair, ABAC Finance and Economics Working Group; and Executive Director and Senior Executive Vice President, Industrial & Commercial Bank of China (ICBC)