

Document: AGFSCB 30-036
Draft: **FIRST**
Source: AGFSCB Chair
Date: 19 August 2010
Meeting: Bangkok, Thailand

 **Asia-Pacific
Economic Cooperation**


**The Advisory Group on APEC Financial System
Capacity-Building**

A Public-Private Sector Initiative

Third Meeting 2010
26 August 2010
Ballroom 1, InterContinental Hotel Bangkok
Bangkok, Thailand

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

Office of the Advisory Group Chair



Sapporo Forum

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



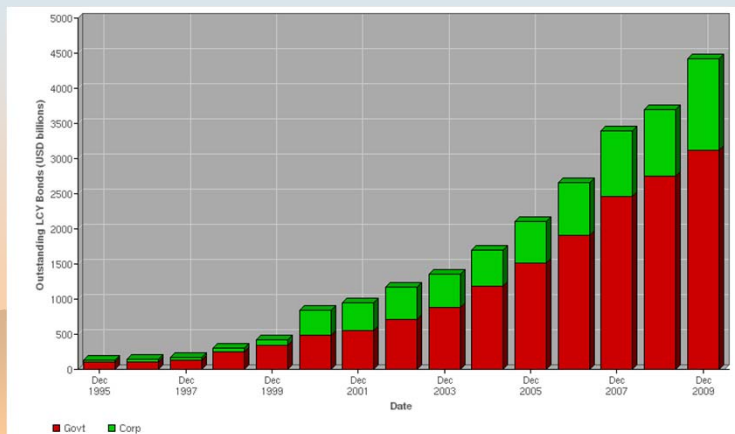
Sapporo Forum

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



Bond Market Development: Overview

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



Source: ADB, Asian Bonds Online



Bond Market Development: Overview

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

Bond Market Development: Key Challenges

- Market depth and liquidity
 - Market infrastructure and architecture
 - Legal and regulatory frameworks
 - Collaboration among:
 - Government/regulatory agencies
 - Investors
 - Issuers
 - CRAs
 - Experts
 - International agencies
- 

Bond Market Development: China, Korea and Japan

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



Bond Market Development: Issues for China

- Optimizing financing structure
- Improving product diversity
- Improving diversity of issuer base
- Promoting globalization
 - Increasing foreign issuer participation
 - Increasing overseas issuance of domestic entities
- Integration of bond with banking market
- Developing derivatives market



Bond Market Development: Issues for Korea

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



Bond Market Development: Issues for Japan

- Efficiency, transparency and liquidity of primary and secondary markets
- Robust market infrastructure
- Diversification of investor and issuer base
 - Especially through participation of foreign investors and issuers in the market



Bond Market Development: Toward the Next Stage

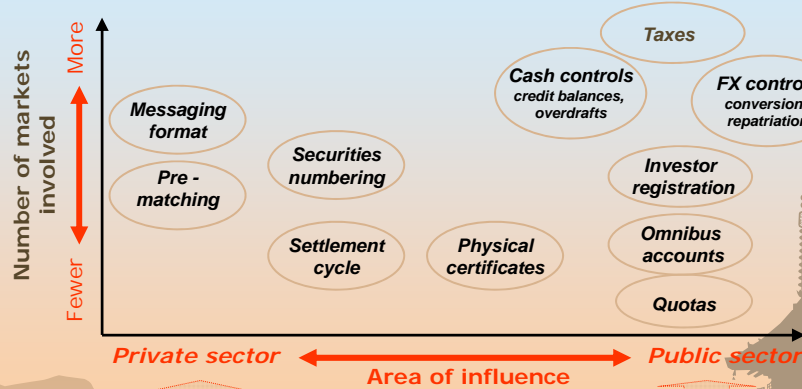
Innovative policy solutions:

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

Bond Market Development: Professional Securities Markets

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

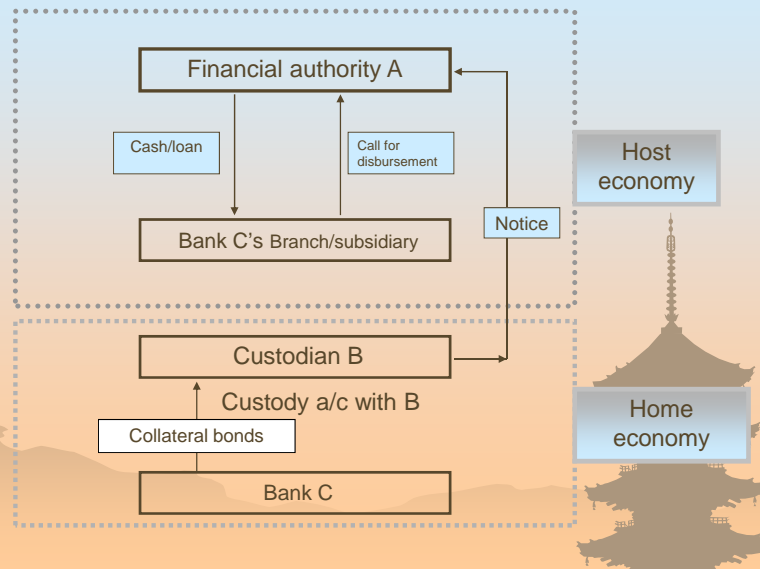
Bond Market Development: Barriers to Cross-Border Settlement



Improve information flows in the markets
 Timely information, uniform disclosure, price transparency, market statistics, information on corporate actions and legal information such as bankruptcy and insolvency laws.

Source: JASDEC

Bond Market Development: Cross-Border Securities Collateral



Bond Market Development: Cross-Border Securities Collateral

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

Bond Market Development: Healthy Environment for Credit Ratings

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

- Accounting standards
- Disclosure regimes
- Corporate governance practices

Bond Market Development: Funds Passport Scheme

- Based on successful UCITS model

Bond Market Development: Toward the Next Stage

New package of measures:

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

Continued efforts to address basic issues:

- Market depth and liquidity
- Market infrastructure and architecture
- Legal and regulatory frameworks