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Meeting: Yokohama, Japan



**THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM**  
**CAPACITY-BUILDING**  
A Public-Private Sector Initiative

Fourth Meeting 2010  
10 November 2010  
10:15 AM – 12:15 PM  
Seiryu I/II, Yokohama Bay Sheraton Hotel & Towers  
Yokohama, Japan

**Meeting Paper 7-A**  
**Recent Progress under the ABMI –**  
**ABMF and Plans for 2011**

Asian Development Bank



**Recent progresses under the ABMI**  
**- ABMF and plans for 2011**

APEC Japan 2010  
THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM  
Fourth Meeting 2010  
Yokohama, Japan

**Satoru Yamadera**  
Economist  
Office of Regional Economic Integration  
Asian Development Bank

10 November 2010



## Outline

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1. Recent Market Trend
2. ASEAN+3 Bond Market Forum (ABMF)
  - ❖ First meeting in Tokyo, Japan, on 28 September
3. Plans for 2011

3

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## Positive market environment for Asian LCY Bonds continues

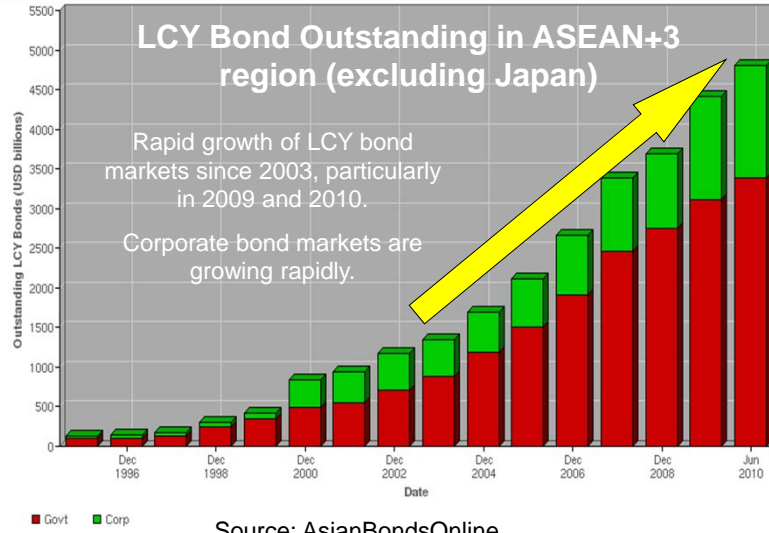
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- Strong issuance and growth
  - LCY bonds outstanding reached USD4.8 trillion at the end of 2Q10
  - Strong growth of 18.8% y-o-y, 5.1% q-o-q growth in 2Q10
  - Government bonds grew 16.7% y-o-y, corporate bonds 24.4% y-o-y in 2Q10
- Regional efforts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

4

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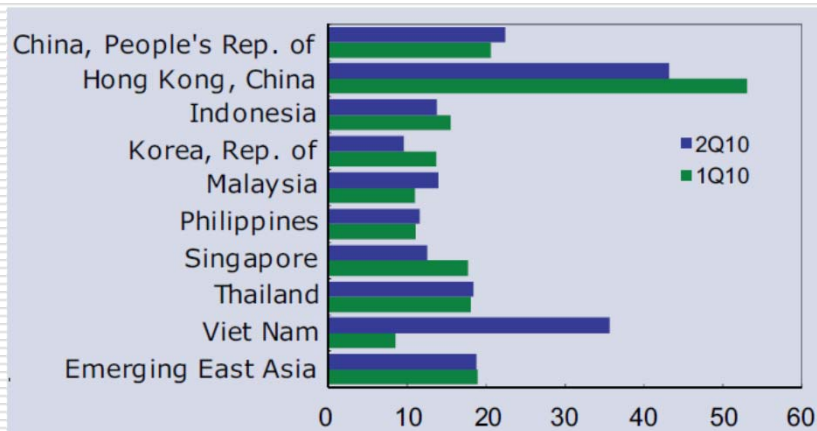
## Recent bond markets development in Asia



5



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

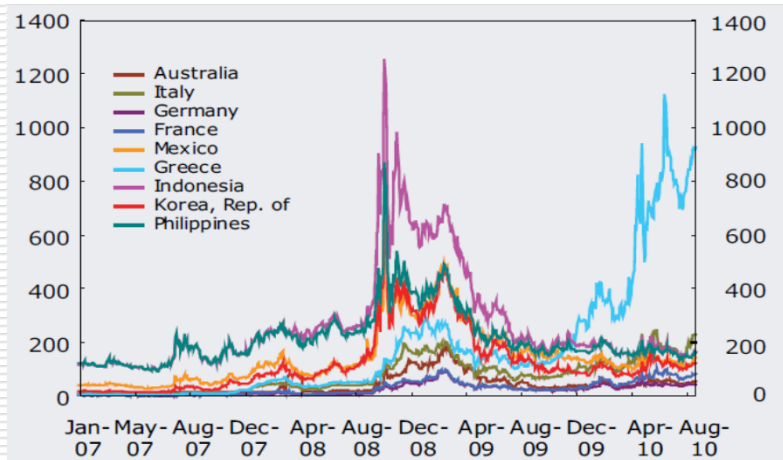


Note: Emerging East Asia comprises China, People's Republic of; Hong Kong, China; Indonesia; Korea, Republic of; Malaysia; Philippines; Singapore; Thailand; and Viet Nam.  
Source: Asia Bond Market Monitor October 2010

6



## Credit Default Swap Spreads for Select OECD and Asian Economies

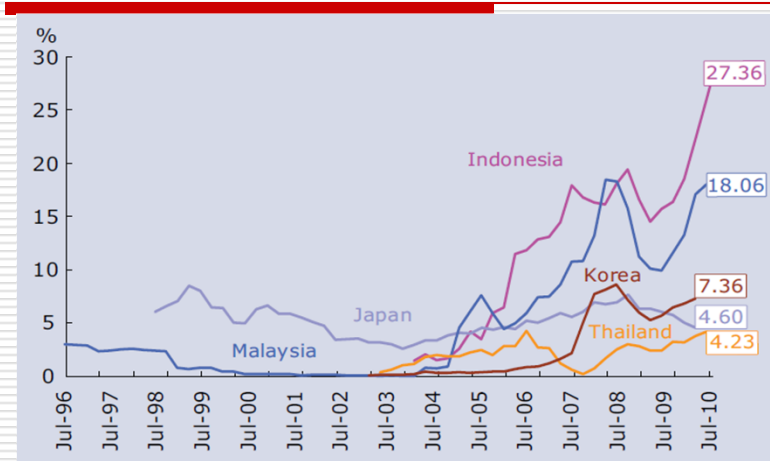


7

Source: Asia Bond Monitor Oct 2010

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## Foreign Holdings of LCY Government Bonds (% of total)



8

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

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## iBoxx ABF Index Family Returns

Market	Modified Duration (years)	2009 Returns (%)		2Q10 Returns (%)		2010 YTD Returns (%)	
		LCY Total Return Index	USD Unhedged Total Return Index	LCY Total Return Index	USD Unhedged Total Return Index	LCY Total Return Index	USD Unhedged Total Return Index
China, People's Rep. of	6.00	(0.64)	(0.69)	3.18	3.73	4.39	4.65
Hong Kong, China	3.75	(0.76)	(0.82)	2.17	1.79	3.79	3.45
Indonesia	5.40	20.22	35.61	11.80	15.50	15.03	18.90
Korea, Rep. of	3.68	1.94	9.73	4.36	(0.40)	6.77	3.91
Malaysia	4.67	0.48	1.64	2.87	8.15	4.47	13.20
Philippines	4.28	9.00	11.88	4.54	4.27	9.27	11.08
Singapore	5.57	0.48	3.06	3.52	3.68	5.17	8.29
Thailand	5.05	(3.47)	0.73	5.85	8.60	7.48	13.76
Pan-Asian Index	4.81	—	5.00	—	4.44	—	7.85
HSBC ALBI	8.18	—	6.13	—	4.61	—	7.74
US Govt 1-10 years	3.91	—	(1.38)	—	4.76	—	6.74

— = not applicable, ALBI = Asian Local Bond Index, LCY = local currency, US = United States.

Notes:

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

9 Source: *Asia Bond Monitor October 2010*.

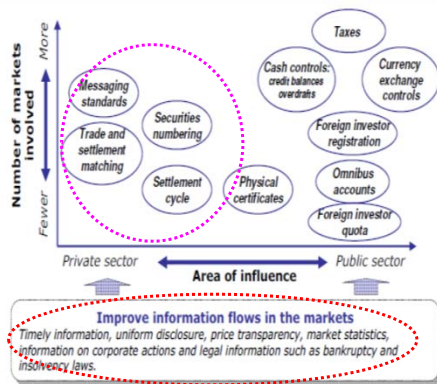


## Outline of ASEAN+3 Bond Market Forum (ABMF)

10



# Agenda Items for Discussion



**Sub-Forum 1:**  
Collecting information on regulations and market practices

**Sub-Forum 2:**  
Enhancing regional Straight-Through-Processing (STP)

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11

## Sub-Forum 1

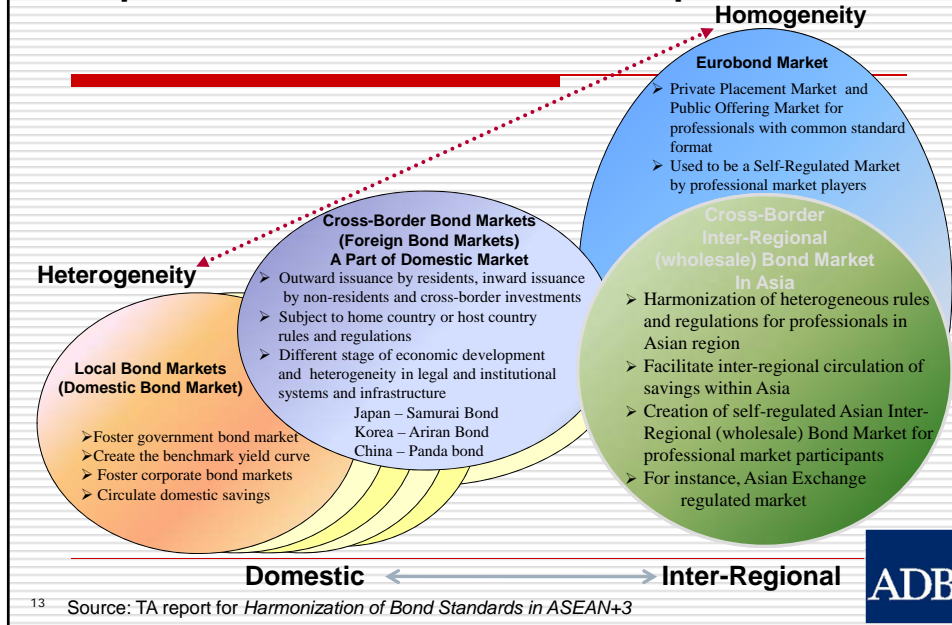
**Objective: Close the information gap**

1. Collect all relevant information on regulations as well as market structures and practices in the region
2. Once all of the relevant information has been collected, a compendium of regulations and market structures and practices in the region will be published through the ADB-sponsored Asian Bonds Online website.

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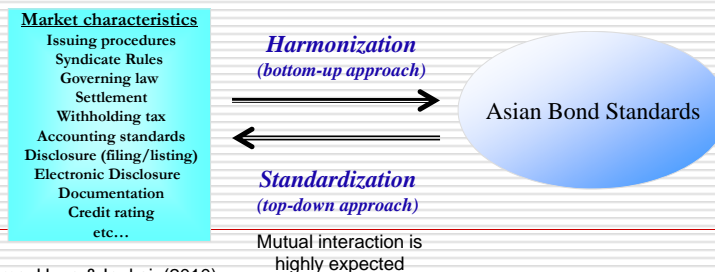
12

## Sequence of Bond Markets Development in Asia



## Asian Bond Standards as a Common Platform

- Fragmented financial markets in Asia (each domestic market)
    - different regulatory and legal systems
    - different stages of market development and economic size
    - different taxation, capital control and currency restriction, etc.
  - Asian common set of rules and standards
    - in line with global best practices
    - facilitate cross-border capital flows and financial integration
- ex) ASEAN and Plus Standards, Harmonization of Bond Standard in ASEAN+3



# ITEMS for analysis

(Tentative: Subject to discussion)

- Disclosure & Investor Protection Rules
- Credit rating System
- Issuance Procedures (Auction, Primary Dealer System, etc)
- Electronic Trading Platform and Mandatory Trading Requirements
- Trading Rules (Repo, etc.)
- Redemption Procedures
- Requirements for Investors (Registration, Documentation, etc) / QIB / Professional Investor
- Taxation & Tax Procedures (Income and Capital Gain tax, WH-tax, Stamp Duty, etc.)
- Investment Rules for Domestic Investors
- Foreign Investor Quota / Foreign Investor Registration / Currency Exchange Controls
- Cash Controls—Credit Balances / Overdrafts
- Utilization of Omnibus Accounts (Security Account Holding Structure)
- Settlement & Clearing Systems / Custody Systems
- Legal Framework / Governing Law
- Bankruptcy Procedures related to Bond Transaction
- Regulatory Framework / Self-Regulatory Framework / Market Practices
- Role of Investment Exchange / Industrial & Market Association / Dealers Association / Regulators

15

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## Sub-Forum 2

- Objective: Reduce cross-border transaction costs by enhancing STP**
  1. Identify custodians' procedures which lead to higher costs
  2. Clarify all transaction procedures involved in cross-border transactions from one end-user to the other end-user
  3. Ideally, all transactions should be operated straight-through by using common standards and the same messaging

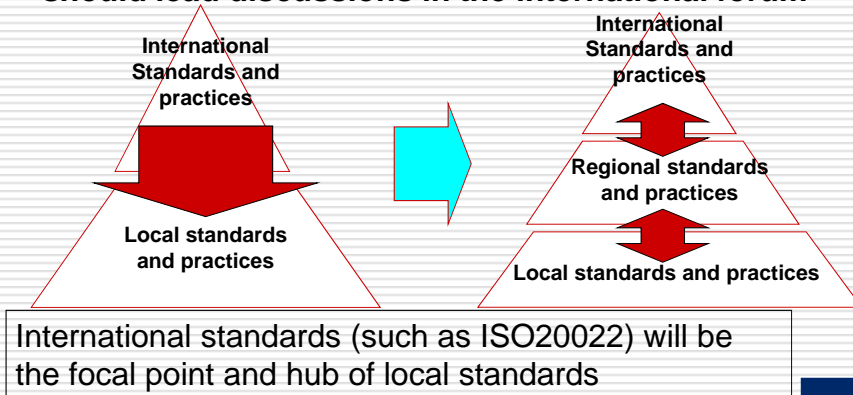
16

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## Vision of ABMF SF2

Asia should engage standard setting more closely and should lead discussions in the international forum



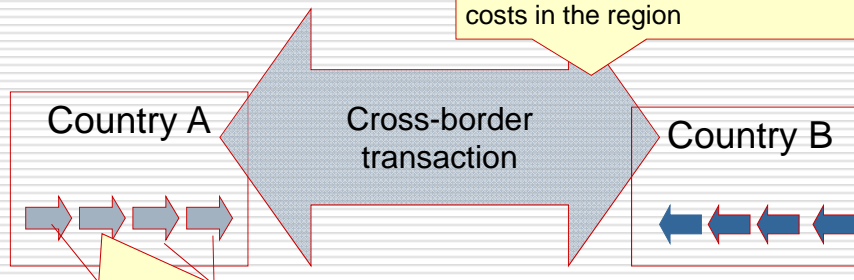
17

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## Inputs by the Sub-Forum members

Approach to clarify transaction procedures

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



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

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## SF1 members and experts

Brunei International Financial Centre (BIFC)	Nomura Securities Co. Ltd.
National Bank of Cambodia	Daiwa Securities Capital Markets Co. Ltd.
SEC of Cambodia	Korea Financial Investment Association
People's Bank of China	Korea Capital Market Institute (KCMI)
China Security Regulatory Commission	Korea Exchange (KRX)
Hong Kong Monetary Authority	Securities and Exchange Commission Office, Bank of the Lao PDR
China Securities Depository and Clearing Corporation Limited Shanghai	Financial Market Association of Malaysia (PPKM)
China Government Securities Depository Trust and Clearing Co. LTD	Central Bank of Myanmar
Ministry of Finance of Indonesia	Bureau of Treasury of the Philippines
Indonesian Capital Market and Financial Institutions Supervisory Agency	Securities and Exchange Commission of the Philippines
Tokyo Stock Exchange, Inc.	Securities and Exchange Commission of Thailand
Japan Securities Dealers Association	Thai Bond Market Association (Thai BMA)
Japanese Bankers Association	Vietnam Bond Market Association (VBMA)

19



## SF2 members and experts

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

20



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## Plans for 2011

21

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## ABMF Working schedule

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- Quarterly meetings
  - First meeting in Tokyo
  - Second meeting in mid-December (9-10 or 13-14) 2010 in Manila
  - Third meeting in Feb 2011
    - First reporting to TF3
  - Fourth meeting in June or July 2011
  - Fifth meeting in Sept 2011
    - Second reporting to TF3
  - Sixth meeting in Dec 2011
  - Submission of the final reports by the end of 2011.
  
- Sub-Forum 1 and 2 will be held back to back.

22

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## Launch of Credit Guarantee and Investment Facility (CGIF)

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

Source: The Joint Ministerial Statement of the 13th ASEAN+3 Finance Ministers' Meeting, 2 May 2010, Tashkent, Uzbekistan

23  
23

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## Possible area of collaboration

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- Advisory Group's recommendation
  - a) development of wholesale securities markets exclusively for professional investors;
  - b) regional public-private sector collaboration mechanisms to reduce barriers to cross-border settlement;
  - c) use of foreign securities as eligible collateral throughout the region;
  - d) ways to accelerate the region-wide convergence of accounting standards, disclosure regimes and corporate governance practices; and
  - e) establishment of a pathfinder initiative to introduce a regional funds passport scheme.
  
- ABMF
  - ABMI TF3 will discuss next agenda items to be discussed under the ABMF in Feb or March 2011
    - Feedback from ABAC may be discussed.

24

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REGIONAL OVERVIEW: Brunei, Cambodia, China, People's Rep. of, Indonesia, Japan, Korea Rep. of, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Viet Nam

Latest Update: October 7, 2010 11:22 (Manila Time)

### Asia Bond Monitor October 2010

Local currency bond markets in emerging East Asia expanded by an annual 18.8% as of the end of June, with \$4.8 trillion in paper outstanding. This large expansion was driven by 24.4% year-on-year growth in the corporate bond market, which has become an increasingly important source of funding for private sector investment. Strong offshore and onshore demand for emerging East Asia's local currency bonds has reduced the premiums paid on corporate debt over government benchmark bonds and contributed to a flattening in government bond yield curves.

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News | ADB Research | External Research

- (JP) Japan's foreign reserves hit record high in Sept.
- (KR) FDI into Korea sags 9.4%, partly on strong won
- (KR) S. Korea's manufacturing labor productivity rises 13.6 pct in Q2
- (KR) S.-Korea may cut 2011 treasury issue volume - source
- (PH) Capital controls not being considered by central bank

Thank you

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