

ANNEX
KEY OBJECTIVES IDENTIFIED BY ABAC/PECC FOR PROMOTING PRIVATE SECTOR PARTICIPATION IN THE DEVELOPMENT OF LOCAL CURRENCY BOND MARKETS AND CROSS-BORDER INVESTMENT IN AND ISSUANCE AND TRADING OF BONDS IN THESE MARKETS*

A. MACROECONOMIC AND POLITICAL ENVIRONMENT

- Stable political system; no major internal social upheavals are expected.
- Continuity in economic policies; no major economic policy reversals in last 10 years.
- Stable financial system; banking systems and capital markets are strong.
- No restrictions on economic activities, trade and foreign investment (for all industries).
- No restrictions on trade in financial services and foreign investment in financial sector.
- No capital controls which significantly impact on capital flows.
- Exchange rate regime which is conducive to efficient capital flows and payments.
- Existence of domestic coordinating mechanism among government agencies to develop local currency bond market.
- Existence of mechanism to coordinate development of local currency and regional bond markets with other governments.

B. REGULATORY FRAMEWORK

- Clearly defined creditor rights, insolvency and informal workout processes.
- Effective enforcement of creditor rights.
- Tax and administrative procedures conducive to holding and trading of bonds.
- Effective legal framework for asset securitization.
- Cross-border securities transactions are unhindered.
- Robust system of clear, complete, timely and meaningful disclosure.
- Clear and sound rules on corporate governance, financial controls and market integrity.
- Effective enforcement of rules and penalties governing capital market activity.
- Market regulation and supervision effectively balances interests of all market participants.
- Consistent regulations and laws (including taxation) promoting capital market activities.
- Competition regulator with full authority to act against anti-competitive market activity.

C. REPORTING FRAMEWORK

- Robust and transparent accounting standards for financial and non-financial institutions.
- Convergence of domestic accounting standards with the IFRS.
- Existence of time-framed plan for converging domestic accounting standards with IFRS.

D. PUBLIC-PRIVATE SECTOR PARTNERSHIP

* These objectives are based on the results of the ABAC/PECC 2004 Taipei Bond Market Conference and were compiled into a checklist submitted to the APEC Finance Ministers in 2004 and a survey questionnaire for the ABAC/PECC 2005 survey on the policy environment for private sector participation in the development of local currency bond markets and the emergence of a regional bond market.

- Healthy cooperation between finance officials/regulators and the private financial sector.
- Existence of domestic consultative mechanism between public and private sectors to develop local currency bond markets.
- Existence of international consultative mechanism between public and private sectors to develop a regional bond market.

E. CAPITAL MARKET DEVELOPMENT

- Wide variety of product types available to institutional and retail investors.
- Developed domestic institutional investor base.
- Developed domestic retail investor base with broad participation in capital markets.
- Market is open to many players, both domestic and foreign.
- Existence, for an appropriate lengthy period, of benchmark treasury yield curve across a broad range of maturities.
- Existence of deep and liquid secondary market in local currency bonds.
- No restrictions on short-selling and repo transactions.
- No restrictions on use of derivatives across the range of maturities and currencies (e.g., swaps, options, forwards, futures).
- Existence of clear rules for deployment of credit enhancement mechanisms.
- Credit enhancement facilities reflect market price of capital; non-subsidized.
- Availability of timely, useful and reliable financial information to guide investment decisions in the local market.
- Existence of a credible and apolitical credit rating system for local currency bonds.
- Efficient clearing and settlement systems.