



**PUBLIC-PRIVATE PARTNERSHIP FOR CORPORATE BOND
MARKET DEVELOPMENT IN APEC**

Draft as of 26 June 2006 (**AGENDA ITEM 3**)

ATTACHMENT 1

Background

The development of capital markets, particularly long-term local-currency bond markets, is crucial to promoting financial stability and economic growth in the Asia-Pacific region. For this reason, a number of regional initiatives have been launched in recent years¹ to foster the development of bond markets in the region, as well as to facilitate increased cross-border transactions and a long-term process of integrating these markets.

During two recent conferences organized by the APEC Business Advisory Council (ABAC) and the Pacific Economic Cooperation Council (PECC),² the private sector expressed full support for these efforts, while underscoring the need for effective mechanisms to promote regulatory reforms, the growth of the region's investor and issuer base, and region-wide convergence toward global capital market standards and practices.

Such mechanisms, which involve collaboration between the public and private sectors, are particularly important for the development of robust corporate bond markets. The development of corporate bond markets has not kept pace with the recent significant growth in size and liquidity of government bond markets in the region's developing economies. ABAC is keen to work with APEC Finance Ministers to establish mechanisms for public-private partnership in addressing this concern.

Issues

There are a number of existing international cooperation mechanisms for promoting policy reforms and convergence, including the Trade Policy Review Mechanism of the WTO, peer review in the OECD and the Financial Sector Assessment Program of the IMF. Within APEC, the Individual Action Plan process, involving a type of peer review, is used to promote trade and investment liberalization and facilitation.

¹ These include the Asian Bond Market Initiative (ABMI) under the framework of the ASEAN Plus Three (APT), the Asian Bond Fund (ABF) under the framework of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) and various initiatives in APEC to support the development of bond market infrastructure and the institutional investor base.

² These were the bond market conferences organized by ABAC and PECC in cooperation with the Asian Bankers' Association (ABA) and the Association of Credit Rating Agencies in Asia (ACRAA) in Taipei in May 2004 and in cooperation with the Asian Development Bank Institute (ADBI) in Tokyo in June 2005.

Such cooperation mechanisms have been successful where structured dialogues and activities have enabled participating economies to undertake systematic examinations and assessments of their own policies and eventually adopt internationally established best practices, principles and standards as well as policy and regulatory improvements.³ They offer models that APEC can consider in developing a regional cooperation mechanism to develop corporate bond markets.

The APEC Finance Ministers' process provides a potentially effective framework for such a mechanism. It includes all the significant financial markets in East Asia and North America (and a number from Latin America) and involves key international financial institutions, development agencies and the private sector. It also has a noteworthy track record of collaboration among its members in a number of areas.⁴

Regional financial cooperation has reached a stage where it may begin to benefit more fully from a structured process. Over the years, the work of the APEC finance ministers has advanced with a considerable degree of consensus. Further progress in key areas, especially corporate bond market development, now require measures that will effectively enable the private sector to expand commercial activity and thus play its proper role in the development of financial markets.

In 2003, ABAC and PECC collaborated in establishing the *Advisory Group on APEC Financial System Capacity-Building*, which is currently chaired by the Chair of the ABAC Finance Working Group. This advisory group brings together representatives of international financial and development institutions, as well as private financial sector organizations together with ABAC and PECC, with the purpose of contributing ideas to promote capacity-building in support of the goals stated in the APEC Finance Ministers' 2001 strategic review.⁵ ABAC believes that this group can play an effective role in supporting the development of corporate bond markets.

ABAC believes that there now exists an opportunity for APEC Finance Ministers to consider the possibility of initiating a mechanism through which the public and private sectors can work together to accelerate the development of corporate bond markets, in support of current domestic and regional efforts by economies in the

³ Specifically, participating economies have benefited from these processes through several or all of the following: (a) the sharing of experiences and information; (b) development of an extensive source of constantly updated reference material on laws, policies, regulations and/or practices of participating economies; (c) the facilitation of consensus and convergence of laws, policies and regulations; (d) the use of independent assessments of policies to promote domestic support for reforms; and (e) better identification of capacity constraints and technical assistance needs and facilitation of interaction among public agencies, leading to more effective and efficient capacity-building programs.

⁴ These include ministerial statements on the free and stable movement of capital, meeting the financial challenges of population ageing, fiscal policies, regional bond market development, financing of SMEs and micro-enterprises, fiscal and financial aspects of regional trading arrangements, combating the financing of terrorism and money laundering, fiscal and financial reforms, improving the allocation of domestic savings, strengthening the international financial system, strengthening domestic financial systems, strengthening corporate governance, improving social safety nets, fighting financial crimes, creating new opportunities with information technology, capital market development, capital account liberalization, the development of securitization, and facilitating private sector participation in infrastructure development.

⁵ In their strategic review, the Finance Ministers pledged to promote sound and credible policies for:

- sustainable and broad-based growth with equity in the APEC region;
- good corporate governance and public sector management;
- stable and efficient financial markets;
- greater economic cooperation, integration and openness among APEC economies; and
- facilitation of economic and technical cooperation within the region in pursuit of the above goals.

region to develop market infrastructure, demand and supply in emerging local currency bond markets.

Such a mechanism could be designed in such a way as to :

- (a) take the form of policy dialogues focused on the development of corporate bond markets in individual developing APEC member economies and the promotion of cross-border transactions in these markets;
- (b) involve both developed and developing member economies , whereby participants share insights from their varied experiences in seeking possible solutions to the challenges faced by individual economies;
- (c) utilize the Advisory Group on APEC Financial System Capacity-Building to provide advice based on inputs from relevant public and private sector institutions (including representatives of international financial and development institutions and the financial industry in the region, as well as ABAC and PECC); and
- (d) provide a report of each policy dialogue, which would be helpful in facilitating the sharing of information and experiences among member economies.

The recent work of ABAC and PECC has yielded two insightful reports and a set of recommendations on measures to develop the region's bond markets that ABAC has endorsed to the APEC Finance Ministers in 2004 and 2005. These reports form the basis for ABAC's views on how private sector activity in the region's bond markets may be encouraged to expand, and which ABAC would be pleased to discuss in detail with relevant officials within the context of this cooperation mechanism.

Recommendations

In light of the above considerations, ABAC recommends that the APEC Finance Ministers:

- ***endorse in 2006 the establishment of a mechanism through which APEC economies, the private sector and key international institutions could work together to help accelerate the development of local-currency bond markets, especially those for corporate bonds, in the region's developing economies, in particular through the identification of measures to facilitate greater private sector activity and cross-border transactions in these markets.***
- ***carry out the establishment of this mechanism under the APEC Finance Ministers' process and the undertaking of initial activities in 2007, in collaboration with the Advisory Group on APEC Financial System Capacity-Building and with the support of the Asian Development Bank.***

Proposal developed by ABAC Chinese Taipei

2006-06-27