

Overview of Sub-Forum 2

Statement from SF2 Chairs

The Chair and Vice-chairs express their heartfelt gratitude to members and experts of the ABMF SF2 for their contributions to make this initiative fruitful. The Chair and Vice-chairs also hope to have the continuous support of the members and experts for this initiative since this report is only the first step to bring to fruition the objectives of ABMF. Last but not least, the Chair and Vice-chairs are grateful to the ADB secretariat and the SF2 team, particularly the ADB consultant for SF2, for drafting this report.

February 2012



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Chair of the ABMF SF2



Ms. Margeret Mutiara Tang
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Preface

The Association of Southeast Asian Nations plus People's Republic of China, Japan, and Republic of Korea (ASEAN+3) established a forum called ASEAN+3 Bond Market Forum (ABMF) in September 2010 as a common platform to foster standardization of market practices and harmonization of regulations relating to cross-border trades in the region. ABMF reports its activities to the Task Force 3 (TF3) of the Asian Bond Markets Initiative (ABMI) under the institutional framework of the ASEAN+3 Finance Ministers Meeting. ABMF consists of two sub-forums—Sub-Forum 1 (SF1) and Sub-Forum 2 (SF2). SF1 collates and compares regulations and market practices in the region, while SF2 looks to harmonize transaction procedures and bond messages with a view to cut the costs of cross-border deals. This report focuses on the activities of SF2.

Members and experts participating in the ABMF SF2 have conducted a survey on bond markets and their infrastructures in ASEAN+3 with tremendous support from the Asian Development Bank (ADB) secretariat and consultants. The survey looked into making possible cross-border straight-through processing of bond transactions to encourage investment of ASEAN+3 monies in the region. The participants have contributed through fruitful discussions and compiled this report to be submitted to the Task Force 3 (TF3) of ABMI.

There are 13 countries and 14 economies in the ASEAN+3 including Brunei Darussalam (Brunei, BRU), the Kingdom of Cambodia (Cambodia, CAM), People's Republic of China (China, PRC), Hong Kong Special Administrative Region (Hong Kong, HKG), Republic of Indonesia (Indonesia, INO), Japan (Japan, JPN), Republic of Korea (Korea, KOR), Lao People's Democratic Republic (Lao PDR, LAO), Malaysia (Malaysia, MAL), Union of Myanmar (Myanmar, MYA), Republic of the Philippines (Philippines, PHI), Republic of Singapore (Singapore, SIN), Kingdom of Thailand (Thailand, THA), and Social Republic of Viet Nam (Viet Nam, VIE).

Ten economies out of 14 have already developed sound and robust bond markets, while four economies are planning to or are in the process of developing their markets. This report mainly discusses the harmonization and standardization of the 10 economies

with existing bond markets. Other important issues of ABMF SF2 include planning, developing and fostering the bond markets of the four economies, which are creating sound and robust bond markets in their respective countries.

This report is a preliminary result of the ABMF SF2 and consists of three parts. Part 1 provides an overview of the bond markets and their infrastructures in ASEAN+3. Part 2 reports on the issues of economies with bond markets in the region. Part 3 contains the bond-market infrastructure diagrams, domestic bond transaction flows, and cross-border bond transaction flows. Contents of the report are as follows:

Overview of Sub-Forum 2

Part 1: Bond Markets and Their Infrastructure in ASEAN+3

Part 2: Bond Markets and Their Infrastructures in Each Economy

Part 3: Bond Market Infrastructure Diagrams, Domestic Bond Transaction Flows, and Cross-border Bond Transaction Flows

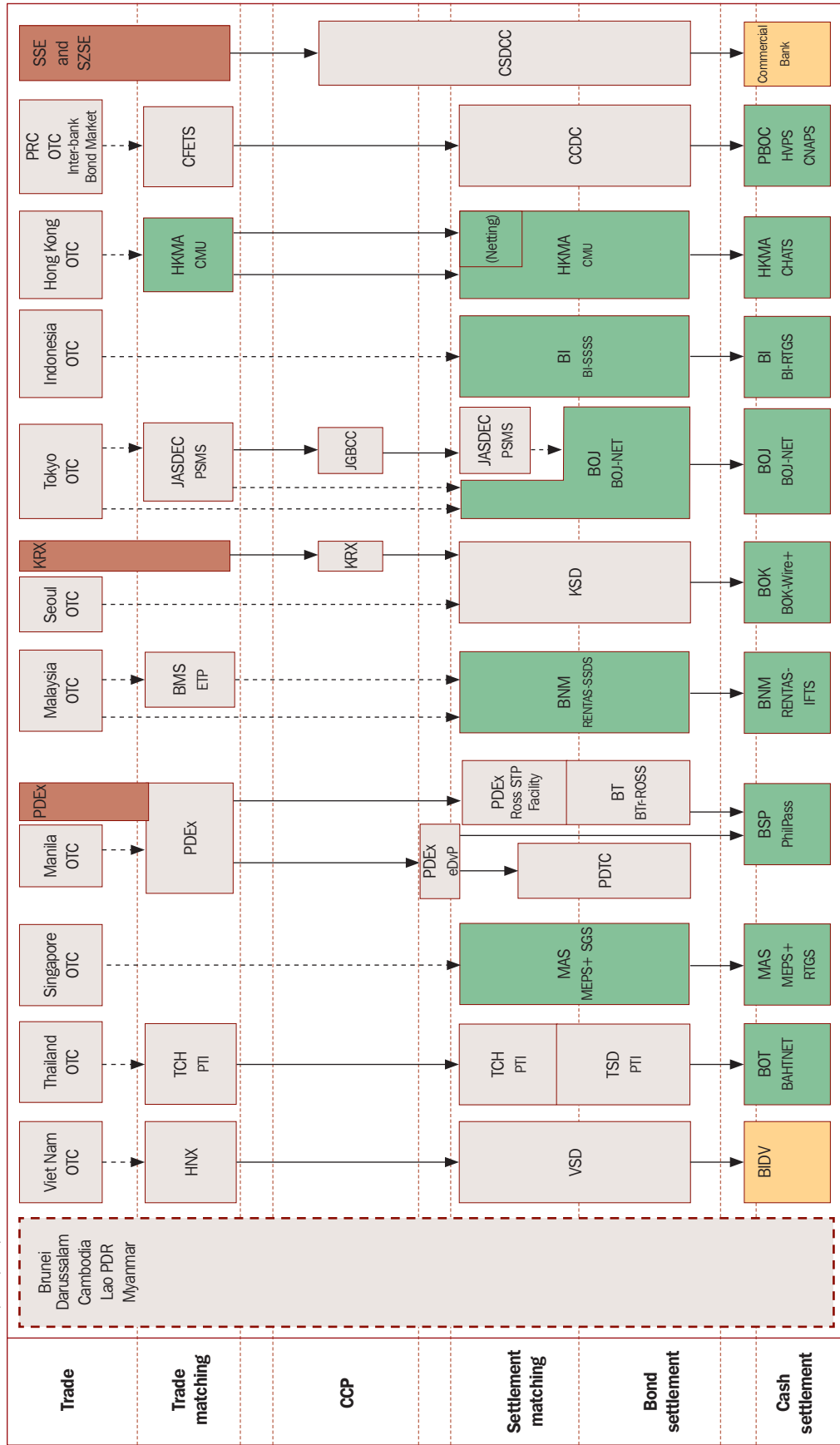
Executive Summary of SF2

The Joint Ministerial Statement of the 13th Association of Southeast Asian Nations, the People's Republic of China, Japan, and the Republic of Korea (ASEAN+3) Finance Ministers' Meeting, which was held on 2 May 2010 in Tashkent, Uzbekistan, endorsed the establishment of the 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. The ABMF aims to discuss various bond market issues in order to enhance the mobilization of regional savings for regional investments and to improve information flow in the markets. The ABMF consists of two forums: Sub-Forum 1 (SF1) and Sub-Forum 2 (SF2). The objective of SF1 is to close the information gap in regulations, market practices, and other areas in the region's bond markets. SF2 focuses to enhance regional straight-through processing (STP) by harmonization of transaction procedures and standardization of messages. This paper is the report about the activities of SF2 from September 2010 to December 2011.

The ABMF SF2 members and experts (ABMF SF2) discussed how to enhance regional STP of government bond transactions from trade to settlement, and conducted a survey on government bond settlement-related infrastructures, domestic bond transaction flows, and cross-border bond transaction flows. The ABMF SF2 chose delivery versus payment (DVP) as a typical transaction type to be surveyed.

Below is an overview of government bond markets in ASEAN+3.

ASEAN +3 Government Bond Market Infrastructure Diagram



The ABMF SF2 also surveyed on matching, settlement cycle, and other issues including numbering and coding such as international securities identification number (ISIN), business identifier code (BIC), securities account number, and character code.

The ABMF SF2 compiled and discussed the survey results from the viewpoint of enhancing cross-border STP and standardization of the messages, including numbering and coding.

The following are preliminary **conclusions** of the discussions:

- 1. Robust and sound bond infrastructures.** Each market in ASEAN+3 has its own robust and sound infrastructures. Operational risks associated with the systems are comparable with those of developed markets. Each market in ASEAN+3 has its own robust and sound infrastructures.
- 2. Listed at exchanges and traded in over-the-counter (OTC) markets.** Bonds are listed at stock exchanges in many markets; however, these are mostly traded over the phone or through other communication tools by negotiation among brokers and dealers. Bond markets in the region are generally OTC markets. This is common elsewhere since bond trade is mainly quote-driven where brokers and dealers need to negotiate the price. In contrast, exchange trade is order-driven where all orders of buyers and sellers can be seen and matched by systems.
- 3. Connection between trade system and central securities depository (CSD).** In some markets in ASEAN+3, trade data are directly transmitted to CSD from the trade system to be used for bond settlement, which is efficient and effective from an STP perspective. In order to enhance STP in the region, each market is expected to automate and connect systems between trade system and book-entry system of the CSD.
- 4. Cross-border STP.** There are still comparatively few cross-border bond transactions. Almost all trade data are entered in the CSD within the borders of markets. Both trade and book-entry systems are expected to be connected multilaterally to enhance cross-border bond transactions.
- 5. Cross-border DVP.** In order to enhance cross-border STP in ASEAN+3, increasing liquidity of government bonds and currencies in the region is essential. From this perspective, ABMF SF2 members and experts are expected to further discuss fit-and-gap analysis of cross-border DVP transactions.
- 6. Matching.** All markets have a matching at a trade or settlement level, and even at both levels. Some markets adopted central matching and others local matching. In some markets, both central matching and local matching are used. Also, matching with additional features such as reduction of input workloads is implemented. Functions such as input of post-dated transaction for bond settlement book-entry systems and automated pre-settlement matching systems are expected to be implemented since manual pre-matching through facsimile and/or telephone in the region remains to be the mode of matching.

- 7. Settlement cycle.** Settlement cycles for local bond transactions in many markets are already realized at trade date + 1 (T+1), but market practices of cross-border bond transactions depend on each market player which seem to be more than T+2 and negotiable. As such, there is no standard settlement cycle in ASEAN+3. A settlement cycle, which is a rule for all market participants to observe, is expected, though not stipulated in regulation or law.
- 8. Harmonization of terminologies and definitions.** Terminologies need to be standardized before harmonizing systems and messaging in the region.
- 9. Institutional Framework.** Fostering a mutual relationship among market actors and stakeholders is important to implement a cross-border bond trade and settlement facility. To this end, there is a need to establish an institutional framework involving authorities and experts in the fields of policy, payment, information technology, and business operations to facilitate efficient communication, especially in emergencies such as [system] failures and disasters.
- 10. Reporting facility.** Most markets in ASEAN+3 are developing and improving the reporting facility of trade data to authorities including self-regulatory organizations (SROs). A data collection scheme will be very important for the entire ASEAN+3 to make markets more sound and transparent. Also, this kind of initiative may be coordinated with the activities of the ASEAN+3 Macro-economic Research Office (AMRO).
- 11. Monitoring new issues.** New issues such as new technologies and new standards including Legal Entity Identifier will be monitored to understand market trends and possible breakthrough practices.

Based on these conclusions, possible activities of the next phase of ABMF SF2, as agreed, are listed below.

1. Continuing survey of bond transaction flows, messaging, and market practices;
2. Conduct ISO 20022 fit-and-gap analysis for government bond DVP transaction;
3. Propose a possible roadmap to standardize and harmonize bond markets in ASEAN+3;
4. Prepare detailed government bond transaction flows of economies that can possibly be connected bilaterally; and
5. Provide technical assistance to economies planning to develop bond markets in ASEAN+3.

Member List of SF2

A. National Members and Experts

Economy	Membership	Institution
Brunei Darussalam	National Member	Monetary Authority of Brunei Darussalam
Cambodia	National Member	Securities and Exchange Commission of Cambodia
China, People's Rep. of	National Member	People's Bank of China
China, People's Rep. of	National Member	China Security Regulatory Commission
China, People's Rep. of	National Expert	China Securities Depository and Clearing Corporation Limited
China, People's Rep. of	National Expert	China Central Depository and Clearing Co., Ltd. (CCDC)
China, People's Rep. of	National Expert	Shanghai Clearing House (SHCH)
China, People's Rep. of	National Expert	China Foreign Exchange Trade System (CFETS)/National Interbank Funding Center (NIFC)
Hong Kong, China	National Member	Hong Kong Monetary Authority
Indonesia	National Member	Ministry of Finance
Indonesia	National Member	Indonesian Capital Market and Financial Institutions Supervisory Agency (Bapepam-LK)
Indonesia	National Member	PT Kustodian Sentral Efek Indonesia (KSEI)/ Indonesian Central Securities Depository
Indonesia	National Member	Indonesia Stock Exchange (IDX)
Japan	National Member	Japan Securities Depository Center, Inc. (JASDEC)
Japan	National Expert	Mizuho Corporate Bank, Ltd.
Korea, Rep. of	National Member	Korea Securities Depository (KSD)
Korea, Rep. of	National Expert	Korea Capital Market Institute (KCMI)
Lao PDR	National Member	Ministry of Finance
Lao PDR	National Member	Securities and Exchange Commission Office, Bank of Lao PDR
Myanmar	National Member	Central Bank of Myanmar
Philippines	National Member	Philippine Dealing System Holdings Corp (PDS Group)
Philippines	National Member	Bankers Association of the Philippines (BAP)
Thailand	National Member	The Stock Exchange of Thailand (SET)
Viet Nam	National Member	Vietnam Securities Depository (VSD)
Viet Nam	National Member	Hanoi Stock Exchange

B. International Experts

Institution	Name	Position
Citibank	Rudy Ingkiriwang	Director, Regional Network Management, Global Transaction Services
Deutsche Bank AG	Celia D. Orbeta	Direct Securities Services, Global Transaction Banking
HSBC Securities Services	Patrick Edmond Cichy	Senior Business Consultant
J.P. Morgan	Masayuki Tagai	Executive Director, Global Market Infrastructures
State Street Bank and Trust	Jonathan Rodda	(1) Director, Securities Market Practice Group (2) Vice President, State Street Bank and Trust Company
State Street Global Advisors	Hon Cheung	Regional Director - Asia, Official Institutions Group
SWIFT	Adam Wilson	Director, Securities Markets, Asia Pacific
	Alexandre Kech	Securities Standards Development
The Bank of Tokyo Mitsubishi UFJ Ltd	Taketoshi Mori	(1) Director, Securities Market Practice Group (2) Head of Securities Market Infrastructure

C. Observing Authorities

Economy	Institution	Economy	Institution
Cambodia	Ministry of Economy and Finance	Malaysia	Securities Commission Malaysia
Cambodia	National Bank of Cambodia	Philippines	Department of Finance
China, People's Rep. of	Ministry of Finance	Philippines	Bangko Sentral ng Pilipinas
Indonesia	Bank Indonesia	Singapore	Ministry of Finance
Japan	Ministry of Finance	Singapore	Monetary Authority of Singapore
Japan	Bank of Japan	Thailand	Ministry of Finance
Korea, Rep. of	Ministry of Strategy and Finance	Thailand	Bank of Thailand
Korea, Rep. of	Bank of Korea	Viet Nam	Ministry of Finance of Viet Nam
Malaysia	Bank Negara Malaysia	Viet Nam	State Bank of Viet Nam

D. ADB Secretariat and Consultants

Institution	Name	Position
ADB Secretariat	Satoru Yamadera	Economist, Office of Regional Economic Integration (-Sept. 2011) (currently Bank of Japan)
	Seung Jae Lee	Principal Financial Sector Specialist (June 2011-)
	Shinji Kawai	Senior Financial Sector Specialist (Banking) (Sept. 2011-)
ADB Consultant for SF1	Shigehito Inukai	Professor, Faculty of Law, Waseda University
ADB Consultant for SF2	Tajji Inui	Senior Manager, NTT DATA Corporation
ADB Consultant	Matthias Schmidt	Custody Business Specialist