



ASEAN+3

Asian Bond Markets Initiative Medium-Term Road Map, 2019–2022

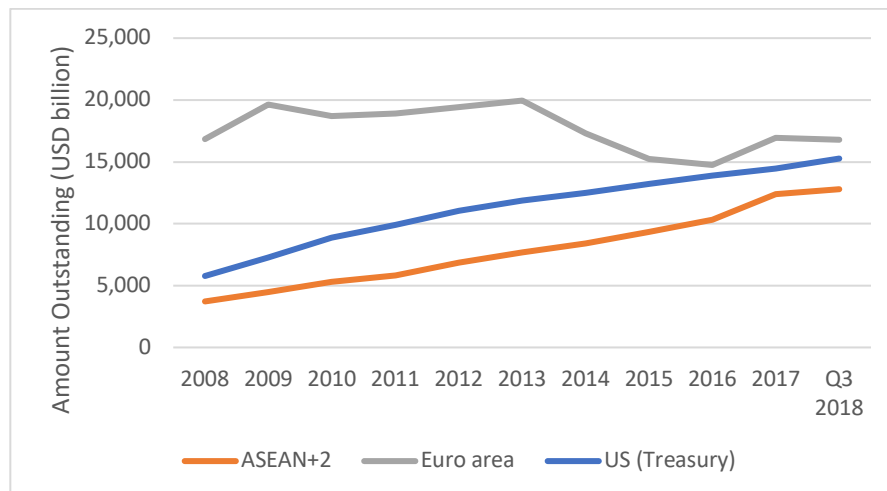
May 2019

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I. Asian Bond Markets Initiative Background and Achievements

1. The Asian Bond Markets Initiative (ABMI) was launched in December 2002 and adopted in August 2003 at the ASEAN+3 Finance Ministers Meeting.¹ It aims to foster the development of local currency (LCY) bond markets as an alternative source of funding to short-term foreign currency loans to avoid the so-called “double mismatch problem.” It also aims to recycle vast savings within the region to support needed infrastructure investments. Through market development, ABMI promotes regional financial cooperation and integration to reduce the region’s vulnerability to the sudden reversal of capital flows and to strengthen its financial resilience and stability.
2. Currently, there are four task forces under ABMI: Task Force 1 (TF1) to promote the issuance (supply) of LCY-denominated bonds chaired by People’s Republic of China (PRC) and Thailand; Task Force 2 (TF2) to facilitate demand for LCY-denominated bonds chaired by Japan and Singapore; Task Force 3 (TF3) to strengthen the regulatory framework chaired by Japan and Malaysia; and Task Force 4 to improve bond market infrastructure chaired by Republic of Korea and the Philippines. In addition, the Technical Assistance and Coordination Team (TACT) was established and is co-chaired by Brunei Darussalam, the Lao People’s Democratic Republic (Lao PDR), and Viet Nam to provide support to ASEAN member economies on their individual needs to promote bond market development.

3. Figure 1: Size of Local Currency Bond Markets



Notes: ASEAN+2 refers to ASEAN plus the Republic of Korea; Hong Kong, China; and People’s Republic of China. Euro area refers to Euro-denominated debt securities issued by Euro area residents. US (Total) includes the following types of bonds: Municipal, Treasury, Mortgage Related, Corporate Debt, Federal Agency Securities, Money Markets, and Asset-Backed. US (Treasury only) includes Bills, Notes, Bonds, TIPS, and FRN.

Sources: AsianBondsOnline, CEIC, European Central Bank, International Monetary Fund, and Securities Industry and Financial Markets Association.

4. Since the establishment of ABMI, ASEAN+3 LCY bond markets have achieved remarkable growth. In the third quarter of 2018, the aggregate amount of LCY bonds outstanding in ASEAN member economies, the People’s Republic of China (PRC), and the Republic of Korea exceeded USD12 trillion, which is coming closer to the amount of EUR-denominated bonds issued by the

¹ ASEAN+3 refers to the Association of Southeast Asian Nations (ASEAN) plus the People’s Republic of China, Japan, and the Republic of Korea.

residents of the euro area (Figure 1). Indonesia and Thailand have made concerted efforts to develop their LCY bond markets, including building strong public debt management capacities. The Republic of Korea and Malaysia have developed bond markets that are well balanced between the government and corporate segments, with significant depth in both. The PRC's LCY bond market has become one of the largest in the world and still has a room to grow. Many governments in the region have put in place sound market infrastructure in line with the level of development of their respective bond markets.

II. Achievements in 2016–2018

5. Under the current ABMI Medium-Term Road Map, 2016–2018, steady progress has been made in the development of the region's LCY bond markets. Major achievements are as follows:

(TF1)

- The contributors of the Credit Guarantee and Investment Facility (CGIF) agreed in December 2017 to increase the CGIF's capital from an initial USD700 million to USD1.2 billion. The CGIF provided guarantees to 20 bonds issued in 2016–2018 in Indonesia, the Philippines, Singapore, Thailand, and Viet Nam.
- ADB published *Promoting Green Local Currency Bonds for Infrastructure Development in ASEAN+3* in April 2018. The report provided an assessment of the status of green bond markets in ASEAN+3, identified barriers to green bond market development, and proposed recommendations to scale up green bond markets in support of infrastructure development in the ASEAN+3 region.²

(TF2)

- Information dissemination on the LCY bond markets of ASEAN+3 member economies improved significantly with the major revamp of *AsianBondsOnline* (ABO) in July 2018. In addition, the Asian Bond Markets Summit is being organized every year. It attracts a good number of attendees and is recognized as a major information dissemination event.

(TF3)

- With the support of the ASEAN+3 Bond Market Forum (ABMF)—a platform bringing together the region's private and public sector experts to discuss standardization, harmonization, and regional market integration—the *ASEAN+3 Bond Market Guides* for member economies have been revised, and the Guides for Brunei Darussalam, Cambodia, Lao People's Democratic Republic, and Myanmar were newly issued.
- The ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) promotes cross-border bond issuance and investment. In November 2018, the first corporate bond based on AMBIF was issued in Cambodia and the first CGIF-guaranteed AMBIF bond was launched in the Philippines.
- The progress made under ABMI have drawn attention from other regions. To share the experiences and good practices of ASEAN+3, non-ASEAN+3 officials can participate in ABMF as an observer. Since June 2018, Ministry of Finance of Mongolia has participated in ABMF.

(TF4)

- In April 2018, the Bank of Japan and the Hong Kong Monetary Authority announced the future creation of a delivery-versus-payment link between them in 2021. This is the first step to

² Prior to the report on green bonds, a report was published to support infrastructure bonds. See ADB. 2015. *Local Currency Bonds and Infrastructure Finance in ASEAN+3*. Manila.

creating linkages among the central securities depositories (CSDs) and real-time gross settlement (RTGS) systems of the central banks in the region.

- To facilitate creation of CSD-RTGS linkages, *A Common Understanding on Cross-Border Business Continuity Planning and Cybersecurity* was published in May 2018 by the Cross-Border Settlement Infrastructure Forum (CSIF).

(TACT)

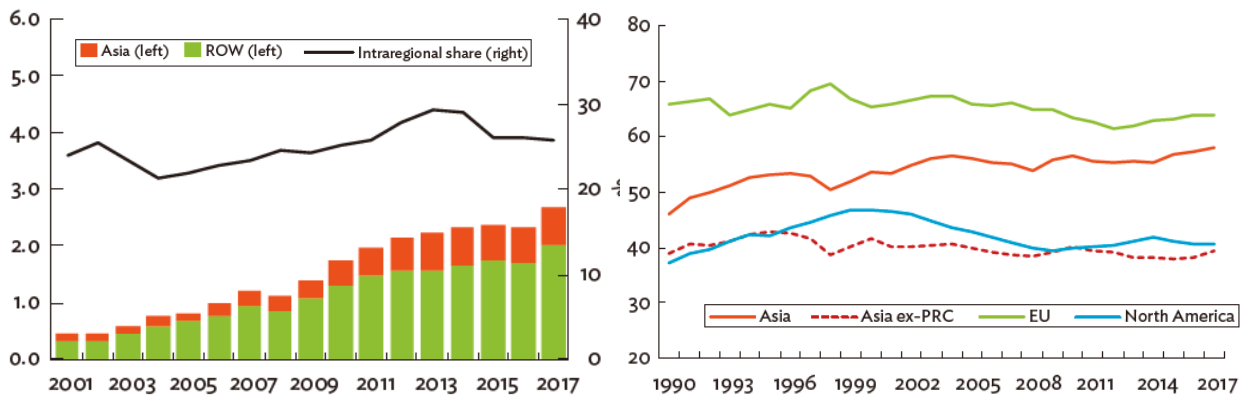
- Under the ABMI Technical Assistance Coordination Team (TACT) and with support from the Japan–ASEAN Financial Technical Assistance Fund, technical assistance has been provided to support market development in Cambodia, Indonesia, the Lao People’s Democratic Republic, Myanmar, the Philippines, and Viet Nam.

III. Remaining challenges

6. Though ABMI has created significant impacts in developing LCY bond markets in the region, there are still remaining challenges as follows:
7. **Different levels of bond market development within the ASEAN+3 region.** Some of the ASEAN+3 economies are still at the very early stage of bond market development or in the process of establishing the market. Some of the other economies need to develop corporate bond markets further to support their infrastructure investments. The rest of the economies need to improve functionality of the markets and liquidity by linking market infrastructures and facilitating more cross-border funding and investments. ABMI needs to continuously support these efforts to create more equalized developments of the bond markets. This would strengthen the region’s economic resiliency and stability.
8. **Large infrastructure investment gap.** In the ASEAN region, the investment gap in the infrastructure sector is estimated at USD102 billion per year, of which 60% (USD61 billion) is to be funded by private investments.³ However, the ability of domestic financial institutions in the region to supply needed infrastructure finance is still hampered by their limited risk-taking capacity. To enhance risk-taking capacity of the private sector, more holistic and innovative approach may be necessary. Such approach may need to go beyond a bond market and deepen its focus to invigorate infrastructure finance.
9. **Need for sustainable finance.** Many ASEAN+3 economies are vulnerable to climate risk. The region has suffered from large typhoons and health threats from pollution. Therefore, the region need to consider a new approach to mobilize and intermediate funds to create more environment-friendly finance. Particularly, establishment of green bond market should be supported.
10. **Low intraregional portfolio investments.** To increase infrastructure investments, it is necessary to utilize region’s vast saving. However, intraregional portfolio investment remains to be low while the intraregional trade shows high level of integration (Figure 2). To support recycling of vast saving within the region to lead infrastructure finance, we need to consider measures to remove a number of impediments to attract foreign investors into domestic bond markets. Having said, the efforts require thorough investigation of the causes because elimination of such causes would often conflict with other policy objectives. AMBIF was created based on such recognition, thus, can support without conflict. To facilitate further cross-border transactions, appropriate foreign exchange risk mitigation measures and LCY to LCY transaction facility need to be considered. These measures would require expansion of a scope of discussion beyond a bond market because some problems are stemming not from a bond market but from the other markets and financial transactions.

³ ADB. 2017. *Closing the Financing Gap in Asian Infrastructure*. Manila.

Figure 2: Asia's share of Inward Portfolio Debt Investments (left) and intraregional Trade (right)



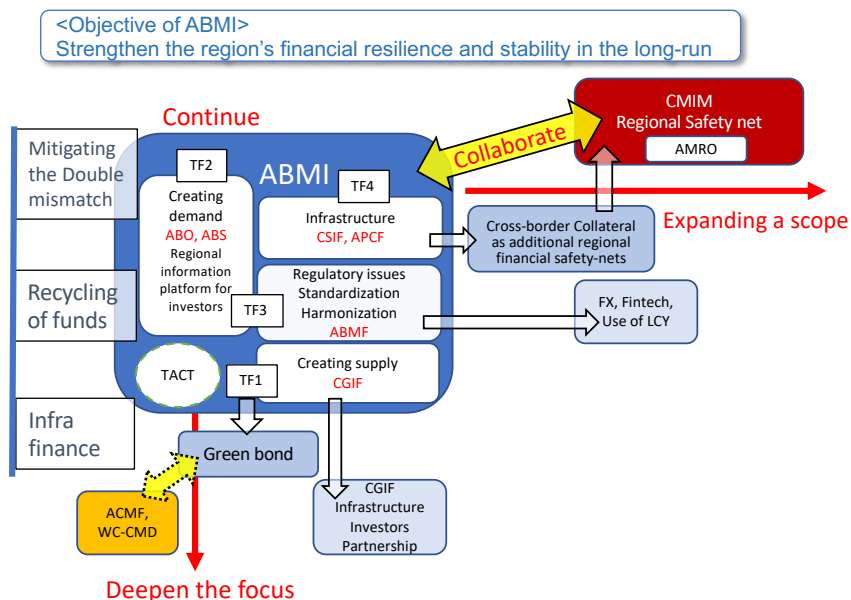
Source: ADB. 2018. Asia Economic Integration Report 2018

- Efficient resource mobilization for regional cooperation and integration.** Since the inception of the ABMI, ADB has been supporting as the Secretariat. The CGIF was established in November 2010 and has been operationalized since May 2012. The ASEAN+3 Macroeconomic Research Office (AMRO) was established in April 2011 and transformed to an international organization in February 2016. These institutions have shown good progresses and accumulated experiences and knowledge. But, to increase effectiveness to support the regional cooperation and integration and to efficiently utilize their resources, closer collaboration, communication, and cooperation among these institutions is necessary and encouraged.

IV. Future Direction of ABMI

- To address these remaining challenges of ABMI, ASEAN+3 members have identified four policy directions as the future directions of ABMI: (i) continue, (ii) deepen, (iii) expand, and (iv) collaborate (Figure 3).

Figure 3: The Future Direction of ABM



Source: ADB ABMI Secretariat

- 1) **Continue.** ABMI continues to support development of LCY bond markets in the region.
- 2) **Deepen.** ABMI will deepen its commitment and support to infrastructure finance. ABMI will support the CGIF's effort of establishing the Infrastructure Investors Partnership (IIP) and development of green bond markets in the region.
- 3) **Expand.** ABMI will expand its scope of discussion to include other market activities closely linked with recycling of funds and bond market development in the ASEAN+3 region.
- 4) **Collaborate.** ASEAN+3 will strengthen collaboration among ADB, CGIF, AMRO, and ASEAN Secretariat (ASEC) to support regional financial cooperation initiatives.

Each task force will consider these directions and consider action plans.

V. Proposed Directions and Actions of Each Task Force

i. TF1: Promoting Issuance of Local-Currency-Denominated Bonds

13. TF1 continues to promote corporate bond issuance through the CGIF. TF1 will deepen its support to infrastructure finance, possibly through establishment of the CGIF Infrastructure Investment Partnership (IIP) which the CGIF is preparing for, and support to green bond market development. IIP would be an innovative public-private partnership to supplement the limited risk-taking capacity of the private sector by mobilizing institutional investors' funds in developed economies through bond issuance, which also ensures more efficient use of the public sector funds. In addition to guarantee to LCY bonds for infrastructure investment, IIP would also guarantee LCY bank loans to greenfield projects to lead to their refinancing by LCY bonds after the construction period. The creation of IIP will enhance the CGIF's capacity to support infrastructure finance and recycle regional savings. It would be catalytic to attract private funding for infrastructure projects through promotion of LCY bonds for infrastructure investment. ADB and the CGIF continue to collaborate to create more issuances.
14. Green bonds are debt securities whose proceeds are used to finance projects or assets with positive environmental benefits. The development of a green bond market can help infrastructure investments because it can support project bonds and expand the investor base. Green infrastructure projects are relatively new and, thus, easy to be segregated for securitization. Investors who previously did not purchase an issuer's conventional bonds may be interested in buying a green bond to align their portfolios with responsible investment mandates.

ii. TF2: Facilitating Demand for Local-Currency-Denominated Bonds

15. TF2 continues to support information dissemination to raise awareness among bond investors, thereby leading to increased LCY bond investments. ADB continues to enhance information dissemination about ABMI activities through ABO as a primary bond information platform in ASEAN+3. The Asian Bond Markets Summit also continues to share information on ASEAN+3 bond market developments.
16. TF2, in cooperation with TF1, will also support the CGIF's effort of establishing IIP through deepening understanding of the LCY bonds for infrastructure investment by holding seminars offered for not only the ASEAN+3 authorities but also market participants.

iii. TF3: Improving the Regulatory Framework

17. TF3 continues to support corporate bond market development in ASEAN+3 economies by promoting AMBIF. In particular, ADB and CGIF should continue to create more AMBIF bonds to support market development. It also continues to support creation of cross-border bond issuance and investments. Support is ongoing for the standardization and harmonization of bond markets

in ASEAN+3 economies. ABMF is continuing its push for standardization and harmonization of technical standards and bond-market-related regulations. As a platform to collaborate with the private sector, ABMF will promote technologies to improve regulatory reporting and may be able to reduce the regulatory burden.⁴ To develop bond markets and increase the recycling of funds within the region, it may be necessary to consider expanding the discussion to include foreign exchange and currency swap market instruments and LCY-to-LCY payments and transactions. It will also discuss new technologies to support cross-border transactions to improve bond markets. ABMF will coordinate with ASEC to enhance the effectiveness of technical assistance. In addition, collaboration with the private sector through ABMF should facilitate the dissemination of knowledge to those economies that need it most.

iv. TF4: Improving Related Infrastructure for Bond Markets

18. TF4 continues to support the creation of CSD-RTGS linkages to enhance efficiency in cross-border transactions and facilitate LCY-to-LCY transactions within the region. CSIF continues to discuss technical specifications to support these linkages. TF4 will support a study on new technology for payments and settlements, and share experiences and knowledge among members. To create more concrete opportunities for cross-border transactions, ABMF, AMRO, CSIF, and the Asian Prime Collateral Forum (APCF) may consider a joint-study to discuss collateral usage of government bonds for LCY-to-LCY cross-border transactions and liquidity management to facilitate more cross-border transactions and improve the region's safety net.

v. Technical Assistance Coordination Team

19. TACT continues to support LCY bond market development. ASEC continues facilitating the need of ASEAN Member States (AMS) for technical assistance and training workshops, as well as capacity building programs to further develop and improve their bond markets. TACT continues its support for strengthening market foundations and addressing constraints to bond market development in the region. ASEC and ADB will enhance coordination to increase the effectiveness of technical assistance. As the co-chair of the ASEAN Steering Committee for Capacity Building Initiatives to Support ASEAN Financial Integration, ADB will seek the involvement of AMRO to increase the effectiveness of technical assistance for AMS.

⁴ For example, know-your-customer procedures can be discussed.

Appendix 1

Proposed Implementation Schedule of Activities by Task Force

Issues to be Addressed	Implementation Period	
	2019–2020	2021–2022

Task Force 1: Promoting Issuance of Local-Currency-Denominated Bonds (People's Republic of China, Thailand)
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<p>Continue Promote more corporate bond issuance through the CGIF</p>	√	√
<p>Deepen Support to infrastructure finance e.g. IIP Support to green bond market development</p>	<p>Agree in 2019 TA starts in 2019</p>	√ √
<p>Collaborate ADB and the CGIF continue to create more issuances</p>	<p>Already started</p>	√

Issues to be addressed	Implementation Period	
	2019–2020	2021–2022

Task Force 2: Facilitating the Demand for Local-Currency-Denominated Bonds (Japan, Singapore)
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<p>Continue Support information dissemination to create more awareness among bond investors</p>	√	√
<p>Enhance information dissemination about ABMI activities through ABO as a primary bond information platform in ASEAN+3</p>	√	√
<p>Organize Asian Bond Markets Summit to share information on ASEAN+3 bond market developments</p>	√	√
<p>Organize seminars to deepen understanding of LCY bonds for infrastructure investment</p>	√	√

Issues to be Addressed	Implementation Period	
	2019–2020	2021–2022

Task Force 3: Strengthening Regulatory Framework (Japan, Malaysia)

<p>Continue</p> <p>Support corporate bond market development in ASEAN+3 economies by promoting AMBIF</p> <p>Support creation of cross-border bond issuance and investments through AMBIF</p> <p>Support standardization and harmonization of bond markets in ASEAN+3 economies</p>	√	√
<p>Expand</p> <p>ABMF will promote technologies to improve regulatory reporting and reduce the regulatory burden (e.g., know-your-customer procedures can be discussed)</p> <p>ABMF will discuss new technologies to support cross-border transactions to improve bond markets</p> <p>ABMF may consider expanding the discussion to foreign exchange and currency swap market instruments, and LCY-to-LCY payments and transactions</p>	Interim study for preparation	√
<p>Collaborate</p> <p>ABMF will coordinate with ASEC to enhance the effectiveness of technical assistance</p> <p>ABMF, AMRO, CSIF, and APCF consider promotion of cross-border collateral</p>	Already started in 2019	Preliminary discussions start in 2019

Issues to be Addressed	Implementation Period	
	2019–2020	2021–2022

Task Force 4: Improving Related Infrastructure for Bond Markets (Republic of Korea, Philippines)

<p>Continue</p> <p>Support creation of CSD-RTGS linkages to enhance efficiency in cross-border transactions and facilitate LCY-to-LCY transactions within the region</p>	√	√
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Discuss technical specification to support the linkages		
Expand CSIF will support a study on new technology on payment and settlement, and share experiences and knowledge among members	Sharing experiences and knowledge at the meeting	√
Collaborate ABMF, AMRO, CSIF, and APCF consider collaboration in the study on cross-border collateral to facilitate more cross-border transactions and to improve the regional safety net	Preliminary discussion starts in 2019	√

Issues to be Addressed	Implementation Period	
	2019–2020	2021–2022
TACT: Technical Assistance and Coordination Team (Brunei Darussalam, Lao People's Democratic Republic, Viet Nam)		
Continue Provide technical assistance to strengthen market foundations and address constraints to bond market development in selected member economies	√	√
Collaborate ASEC and ADB will enhance coordination to increase the effectiveness of technical assistance ADB will seek involvement of AMRO to increase the effectiveness of technical assistance to AMS.	Already started in 2019	√