

III. Developing the Concept of AMBIF

In its Phase 1 report, SF1 concluded that while ASEAN+3 economies were heterogeneous in nature, a sufficient number of common elements were evident in bond markets across the region. This led to the belief that connecting the markets on the basis of a common solution would be the best way to achieve ABMF's key mandate of retaining and recycling ASEAN+3 savings within the region.

Based on these key findings of Phase 1, SF1 members agreed to connect markets through an intra-regionally standardized bond issuance framework that would allow issuers in participating economies to issue bonds in any participating location with the use of standardized or simplified documentation and information disclosure requirements, subject to compliance with the existing domestic legal and regulatory requirements.

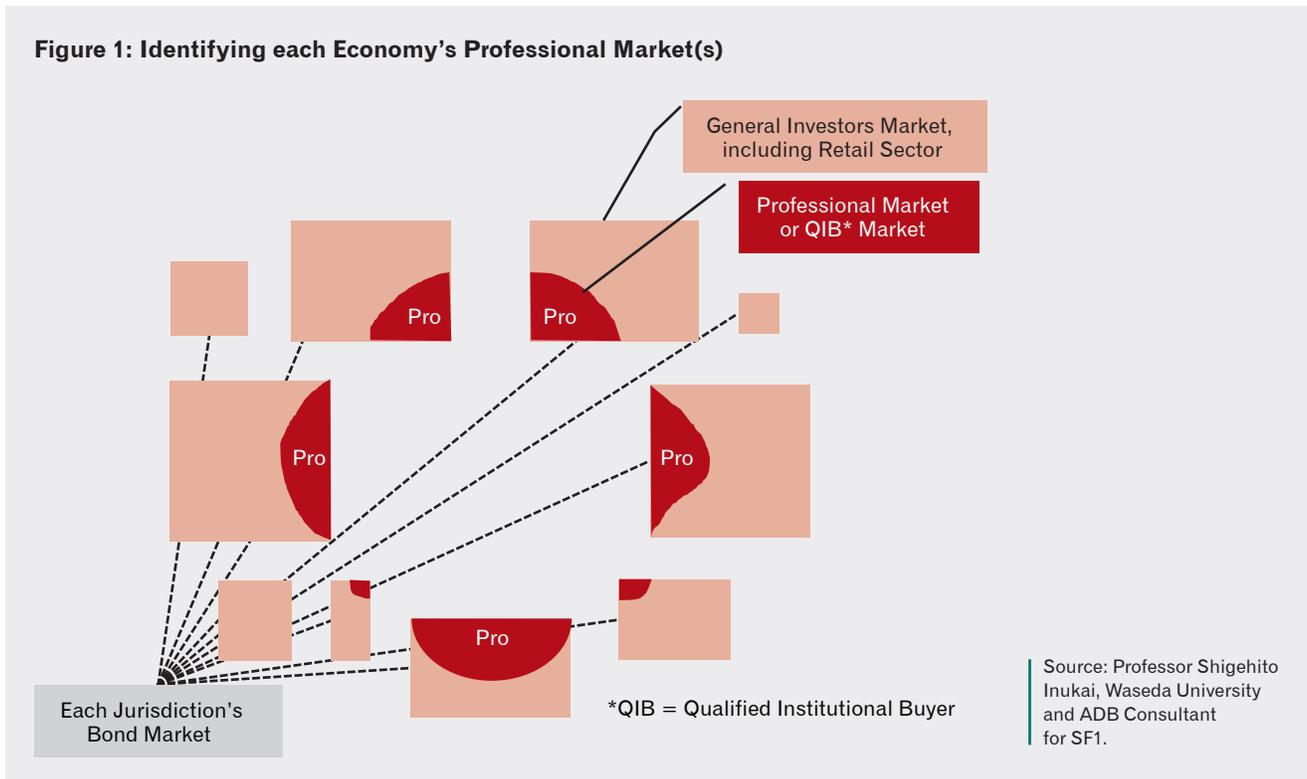
The need to define a framework, rather than a single solution for a common bond market, was determined by the many influencing factors evident in the regional markets through ABMF's Phase 1 efforts. This proposed bond issuance framework was named the ASEAN+3 Multi-Currency Bond Issuance Framework, or AMBIF, and the path to its configuration is detailed in this chapter.

Focus on Professional Markets

In developing AMBIF, SF1 members emphasized the consideration in each jurisdiction of professional market(s) or exempt market regime(s) that feature limited disclosure for professional investors or waive full disclosure requirements typically required for ordinary public offerings.¹⁴ The intention was to create an intra-regional professional bond market populated only by professional investors, issuers, and intermediaries in the belief that regulatory bodies' concerns over investor protection could be better mitigated in professional markets than in retail markets.

To achieve the goal of developing AMBIF, SF1 members conducted research on (i) approaches appropriate for AMBIF; (ii) the similarities and distinctions across the region in disclosure, documentation, issuers, professional investors, underwriters, and other intermediaries; and (iii) the various regulatory processes for issuances; all of which will form the basis

¹⁴ Limited disclosure refers to a certain level of disclosure information that can be accepted as the minimum required information by professional investors.

Figure 1: Identifying each Economy's Professional Market(s)

of identifying AMBIF Components and their implementation.¹⁵

To identify appropriate markets or market segments for AMBIF, various types and concepts of professional markets across the region were surveyed. In cases where private placement markets are positively recognized by regulatory bodies, these are included in the AMBIF discussion. At the same time, private placement markets, which are not based on specific legal provisions defining and governing such private placements, were excluded since regulatory authorities typically do not have the same level of comfort with them.

A key lesson learned from the Phase 2 market visits was that market drivers differed among bond markets in ASEAN+3 economies. For example, private placement concepts differed quite

substantially by market. Therefore, SF1 has been focusing on the similarities among existing market features. At the same time, SF1 has not sought to unify market features and terminology across economies.

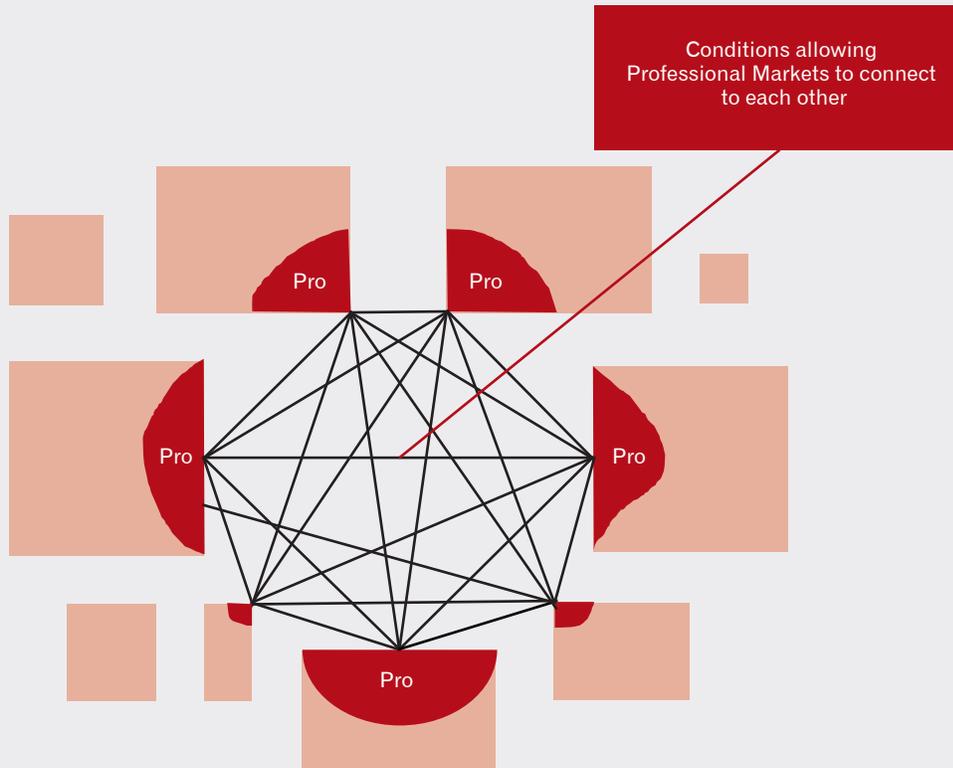
Connecting the Markets

Nevertheless, SF1 members came to the conclusion that the key to AMBIF's success lies in connecting the region's economies using markets or market segments similar enough so as to not pose a challenge to defining the characteristics of AMBIF as the common platform. The principle behind this conclusion is illustrated in **Figures 1, 2, and 3**. Each figure represents a step in the process toward the realization of AMBIF.

In the initial step illustrated in Figure 1, it is important to identify the professional markets or market segments that already exist in individual ASEAN+3 economies.

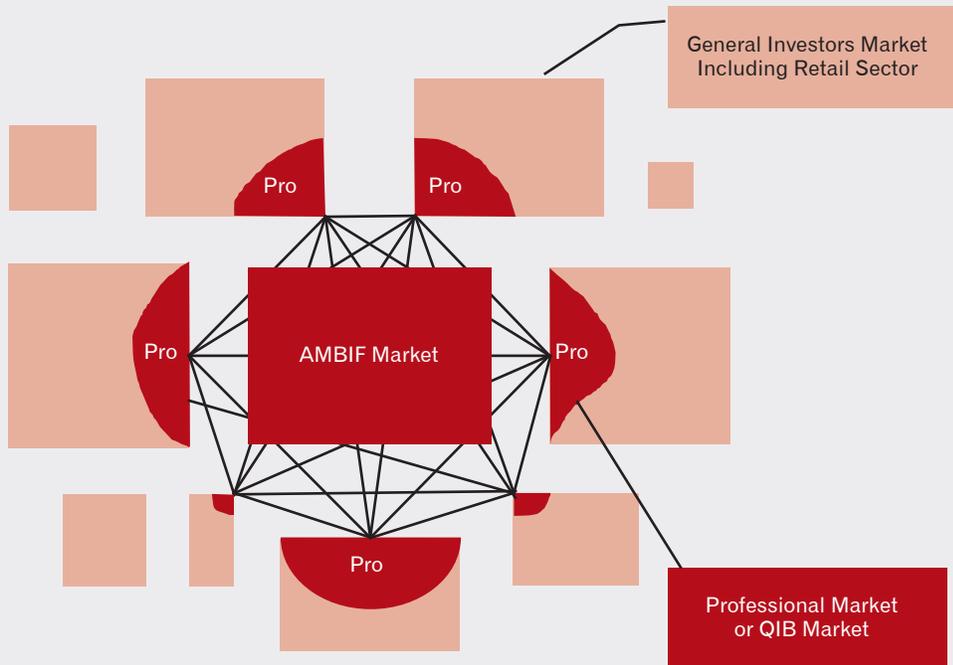
¹⁵ In the context of AMBIF, regulatory process refers to the process that would allow the issuance of bonds in a given market. Since such processes vary widely across jurisdictions, this term is meant to include (but is not limited to) clearance, approval, verification, registration, screening, evaluation, and mere submission or filing. In this context, the term does not relate to the acceptance of civil liabilities. It is not the intention of AMBIF to have regulatory authorities change current or adopt new regulations.

Figure 2: Identifying Professional Market Elements



Source: Professor Shigehito Inukai, Waseda University and ADB Consultant for SF1.

Figure 3: Combining Professional Market Elements to arrive at ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF)



AMBIF = ASEAN+3 Multi-Currency Bond Issuance Framework, ASEAN = Association of Southeast Asian Nations.
 Source: Professor Shigehito Inukai, Waseda University and ADB Consultant for SF1.

Figure 2 illustrates the second step of the process, in which SF1 members set out to study and identify possible professional market elements that could enable connections to be made across the region's markets.

Figure 3 illustrates how a professional bond issuance framework can be created by combining the identified professional markets with the suitable professional market elements.

Defining the AMBIF Proposal

In the process of defining AMBIF, SF1 conducted a number of discussions among members and experts, and was informed by the detailed information obtained and lessons learned from the ABMF market visits in 2012. The intent was to find common denominators among the professional markets in individual ASEAN+3 economies.

Starting with research on professional investor concepts, SF1 members adjusted their focus to the existence of exempt regimes (typically referenced by using the term private placement) before concluding that no single such element would provide an easy and immediate link between markets due to the fact that professional market drivers differed across the region.

Instead, SF1 decided to aim for what was termed the most suitable professional market or market segment for each economy by linking these markets or market segments through the definition of a number of common elements of a professional market, resulting in the AMBIF Components explained in Chapter IV. This section details the evolution of the AMBIF proposal in identifying commonalities among professional markets in the region.

Professional Investor Concepts

With the aim of prescribing a professional bond market for ASEAN+3 as the proposed platform for AMBIF, SF1's initial focus was on the use of existing professional investor concepts in each market. The hope was that a common definition

Table 1. List of Professional Investor Concepts in ASEAN+3

| Professional Investor Concept | ASEAN+3 Jurisdictions |
|----------------------------------|---|
| Accredited Investors | Singapore, Thailand |
| Eligible investors | People's Republic of China |
| Institutional Investor | Singapore, Thailand |
| Professional Investor | Hong Kong, China; Rep. of Korea; Viet Nam |
| Qualified Buyer | Philippines |
| Qualified Individual Buyer | Philippines |
| Qualified Institutional Buyer | Rep. of Korea |
| Qualified Institutional Investor | Japan |
| Specified Investor | Japan (Tokyo PRO-BOND) |
| Sophisticated Investor | Malaysia |

ASEAN = Association of Southeast Asian Nations.

Note: Hong Kong, China is considered a distinct bond market within the People's Republic of China.

Source: ADB Consultants for SF1, compiled from market visit information.

of professional investors and their attachment to a particular market or market segment would provide the most significant common denominator between individual markets.

However, the term professional investor turned out to be too much of a generalization. SF1 found that the ASEAN+3 markets were using no less than 10 definitions for professional investor concepts in either legislation or market practice, with there sometimes being more than one definition in use per market embedded in fundamental and/or securities market laws and regulations. **Table 1** gives an overview of the professional investor concepts that were identified.

In addition to the possibility of there being more than one term for professional investors in each market, it was found that the market term used may also differ from the legal term, possibly due to either the translation process or established market practice. The result is that the use of professional investor concepts was deemed not to be suitable for use as a common platform to link ASEAN+3 bond markets.

This was coupled with the realization that professional investor concepts nevertheless would need to be an integral part of AMBIF. Consequently, it was decided to break down the various concepts found in different markets into the underlying types of professional investors contained in each concept, in order to make the individual concepts more

comparable across markets. This resulted in the definition of AMBIF Investors.

Professional Markets (Exempt Regimes)

Once the use of professional investor concepts was deemed impractical, SF1 members turned their focus to the evidence of professional markets or market segments across ASEAN+3 economies. Professional markets are typically exemplified by the existence of an exempt regime.

An exempt regime refers to the exemption of market participants from the need for full compliance with market requirements for offers of securities to the general public; these standards cover eligible investor types and number of investors, specific instruments, documentation, and initial and continuous disclosure requirements.

The typical exempt regime may be a concept of limited (but defined) disclosure by issuers, on the assumption that market participants are professional institutions that are able to make their own decisions on the basis of available information. In many economies, private placement is an accepted market term for an exempt regime.

Cases where private placement markets are positively recognized by regulatory bodies were included in the AMBIF discussion. At the same time, private placement markets not based on specific legal provisions to define and govern private placements, were excluded considering that they typically do not provide the same level of comfort or recognition for regulatory authorities.

In addition, other possible types of an exempt regime may exist in a given market. **Table 2** lists some examples of the more common exempt regimes that are found in ASEAN+3 economies.

Market visits and discussions among members and experts concluded that some markets or market segments were defined by an exempt regime or private placement concept, while other markets had multiple types of exempt regimes. At the same time, some markets did not regulate private placement or other possible exempt regimes, and yet others did not feature enough of a distinction between full disclosure and exempt regimes. In addition, several markets showed no evidence of an exempt regime.

Since the existence of private placement markets or other exempt regimes may be regulated differently across ASEAN+3 markets, the use of exempt regimes does not lend itself for use as a common denominator for the connection of these markets. However, similar to professional investor concepts, SF1 recognized that exempt regimes would probably need to be part of the key characteristics of a solution to connect bond markets on a professional basis. This stage of discussions ultimately led to the definition and inclusion of AMBIF Markets as one of the AMBIF Components.

Most Suitable Professional Market (or Market Segment)

In the discussions on a common denominator as the basis for AMBIF, SF1 members eventually realized that the drivers effectively defining a market as professional differed significantly across the region's economic jurisdictions. While the emphasis

Table 2. Examples of Exempt Regimes in ASEAN+3

| Types of Exempt Regime | ASEAN+3 Jurisdictions |
|---|---|
| Private Placement (specific provisions in law or regulations) | Thailand, Viet Nam |
| Professional Investors, incl. HNWI (using the concept applicable in a given market) | Malaysia, Singapore, Thailand |
| Short Term Instruments (e.g., as commercial paper) | Japan, Rep. of Korea |
| Small Number of Investors or Units of Securities (e.g. typically less than 50) | Japan, Rep. of Korea, Philippines, Thailand |
| Specific Instruments | Philippines |

HNWIs = high net-worth individuals.

Source: ADB Consultants for SF1, based on market visit research.

is on professional investors in some markets, specific legislation exists for private placement or other exempt regimes in other markets. In fact, several jurisdictions featured more than one market or market segment with different drivers for the qualification as professional.

While market practice in an individual economy is the ultimate driver of what type of professional market or approach should be applied and most utilized, no single such regime or approach is sufficiently suitable to serve as a link to connect ASEAN+3 markets in the spirit of the proposed common bond issuance framework.

SF1 members concluded that it might be more practical to identify what was termed the most suitable professional market (or market segment) in each economy. This would require a breakdown of the respective characteristics that made a market (or market segment) professional and the definition of which of these individual features and functions were indeed intended to be included in an AMBIF proposal, such as eligible market participants and planned limitations or restrictions. Through discussions involving the ADB Secretariat and SF1 members and experts, these characteristics became the basis for the AMBIF Components defined in Chapter IV.

Significant Benefits from AMBIF

The key outcome of SF1 Phase 2 activities is the introduction of organized and well-documented Asian intra-regional bond markets with AMBIF as a conduit. AMBIF is intended to pave the way for the emergence of a wider market that includes a new issuance avenue for a new asset class (ASEAN+3 or AMBIF bonds) within a larger investor universe.

During the process of discussing and defining AMBIF Components, the ADB Secretariat and SF1 members and experts increasingly paid attention to the typical requirements mentioned by issuers and investors. The intention was for AMBIF to address such typical requirements to the extent possible while, at the same time, incorporating anticipated benefits for both issuers and investors, as well as for other market participants, which would make

the implementation of AMBIF more desirable. While the typical market and participant requirements are further explained in Chapter VI, the anticipated benefits are detailed below.

Anticipated Benefits for Investors

From an investor and market perspective, AMBIF is expected to create significant opportunities for additional LCY issuances as a distinct asset class. These issuances would broaden and deepen overall market offering opportunities, in the process creating the liquidity often cited as a key investor requirement. They would draw the attention of other potential issuers as well.

Investors would also clearly benefit from defined or standardized documentation and focused disclosure requirements, using the common approach across participating markets, which should make the assessment of issuers and individual issues easier. The availability of information on AMBIF Instruments and the transparent regulatory process leading to the issuance of these instruments addresses the persistent problem of information asymmetry that is much lamented by investors. In short, AMBIF would allow for attractive, regular LCY bond issuance a common ASEAN+3 approach.

Anticipated Benefits for Issuers

From an issuer perspective, the anticipated benefits inherent in AMBIF include a new, approved, and flexible avenue for LCY financing. This is complemented by the need for only limited and focused disclosure using a defined documentation approach and standardized underlying documents and practices.

One of the most significant anticipated benefits is the emphasis on an expedited regulatory process under AMBIF for multiple bond issuances by an issuer or a group of issuers across participating markets. At the same time, some of the envisaged benefits, such as improved time to market and

the inherent ability to tap multiple markets on the basis of a common approach across participating markets, thereby gaining access to a wider investor base, would be available to issuers immediately.

Finally, another positive impact of AMBIF would be more liquid and integrated secondary markets, and the anchoring of fair market price formation. In summary, potential issuers in ASEAN+3 markets could look forward to a more rapid issuance process for LCY bonds, with more reasonable issuance expenses.