

VIII. Next Steps in ABMF Phase 3

This chapter details the potential and necessary steps for ABMF SF1 and its work items in the course of a future Phase 3. At present, an ABMF Phase 3 is under consideration among the relevant stakeholders, with a decision on the continuation of SF1 work on AMBIF expected by the end of 2013.

AMBIF Implementation

Key among the activities for a proposed Phase 3 of ABMF SF1 would be the actual implementation of AMBIF. SF1 foresees a range of necessary activities to be conducted on a step-by-step basis, with close cooperation among the stakeholders represented in ABMF.

Agreement on AMBIF Concept

As outlined in Chapter VII, a prerequisite for AMBIF Implementation would be an agreement among stakeholders, particularly the policy bodies and regulatory authorities in ABMF, on the principles and proposed features of AMBIF. Members would have to conclude that AMBIF should move forward in its proposed form, including the proposed AMBIF Components required at the initial stage, as well as the envisaged AMBIF Regulatory Process.

Key among the expected conclusions would be to identify the appropriate market segments for AMBIF in the respective economies and an agreement on the suitable approaches to the AMBIF Regulatory Process as outlined in Chapter V.

It is envisaged that such an agreement would be documented in an appropriate manner for it to be officially sanctioned. This could range from the official endorsement of a formal AMBIF proposal by each responsible stakeholder to any of the recognition mechanisms between stakeholders currently employed within ASEAN+3. The actual format of such an agreement has not yet been decided and is still being discussed among the regulatory participants in ABMF under the guidance of ABMI TF3.

In addition, members and stakeholders may decide to facilitate some changes to AMBIF based on final discussions in Phase 2. This is entirely desirable, since the intention of ABMF SF1 is to bring AMBIF to market in a form acceptable to all participating stakeholders.

Particular Considerations

It is recommended that in the process of agreeing to the AMBIF proposal the relevant policy bodies and regulatory authorities, and SROs and market

institutions give consideration to a number of particular issues. These considerations may well influence the choice and timing of the form of agreement ultimately decided upon.

Policy bodies and regulatory authorities should consider whether they are able and ready to relax or set aside existing transfer restrictions on non-domestic investors in primary markets. Concessions on such restrictions are regarded as likely having a positive influence on participation in an economy's primary market, and could be stipulated in a manner most agreeable to regulators, such as by investor type or investor domicile. Regulators could also consider what format such concessions would require (e.g., the issuance of a directive or notification to the market).

Another potentially beneficial consideration could be the concession for foreign issuers to participate in an economy's bond market, if not already permitted under existing regulations. Policy bodies and regulatory authorities could decide whether their home market would be ready for such a step that could eventually lead to a harmonization of practices among ASEAN+3 markets.

In the same spirit, one final subject could be included in the deliberations of the policy bodies and regulatory authorities on potential concessions. In discussions in SF1, the issuance of LCY bonds in other ASEAN+3 markets was raised but not discussed in detail. While this topic is clearly seen as a long-term discussion item, since it touches on many separate regulations and policy issues, participating economies could begin to consider this matter in the context of AMBIF implementation and its potential for strengthening regional bond market development.

Multilateral and Bilateral Agreements

Once a conclusion on the AMBIF proposal is reached, the next step requires the participating economies to decide on the form of agreement linking their respective markets. Here, stakeholders would have to conclude on whether a multilateral agreement would be possible and achievable to realize, or whether one or more bilateral agreements would be preferable to initiate the process.

For ease of implementation under a shorter timeframe, SF1 would like to ask stakeholders to consider starting the process with bilateral agreements, if a multilateral agreement cannot be achieved within a reasonable timeframe. One advantage would be that a number of potential country pairs could proceed in parallel if it becomes too difficult or time consuming to conclude a multilateral agreement at the initial stages. In keeping with the basic approaches to AMBIF, any bilateral agreement should include a regional aspect, meaning that such agreements could easily be broadened to include more than two markets, and more than one mode of connecting said markets. At the same time, this would also mean that bilateral agreement should not contain conditions that are in contrast to the AMBIF Components agreed upon among policy bodies and regulatory authorities.

Implementation in Individual Markets

Once AMBIF concepts and the best approach to an implementation are decided upon, the economies participating in the initial adoption would be required to embark on the implementation of AMBIF in their respective markets. A practical approach to AMBIF implementation would be the declaration of a pilot issue.

Among the points to be addressed by the policy bodies and regulatory bodies for the implementation of AMBIF would also be the need to facilitate potential procedural changes in their respective markets, as needed, together with delegated authorities and market participants.

Pilot Issues

With the AMBIF Concept and Components agreed upon, and an approach in place that member economies are ready to pursue, the use of pilot issues would be a practical and beneficial execution method. This would require interested parties from among issuers, investors, intermediaries and, most importantly, regulatory authorities from home and host markets to commit to being the first participants in an AMBIF issuance.

These pilot issues would provide an opportunity to work through existing and future challenges with the pilot participants by discussing and executing,

on a step-by-step basis, the necessary actions required for the issuance of AMBIF Instruments. This may not yield the ultimate anticipated benefits because every step may have to be carried out for the first time in a careful and potentially time-consuming manner.

However, the idea is for market participants, policy bodies, and regulatory authorities to familiarize themselves with the necessary activities and proposed regulatory processes. At the same time, many of the proposed actions under such AMBIF pilot issues would be very similar to the actions regularly carried out by all participants under existing bond issuance avenues. Hence, it is proposed that experienced market participants be considered as issuers and intermediaries for pilot issues, and that they target markets where regulatory authorities already have a certain comfort level with the expected activities.

While errors, delays, and corrections may potentially occur, as with any pilot activity, the resulting experience and comfort gained by all participants would greatly reward the efforts. While adherence to the participating markets' regulations and rules is required, stakeholders should kindly make allowances for the repetition or correction of individual activities that may inadvertently occur.

Adjustment of AMBIF Components and Processes

Realistically speaking, it should be expected that AMBIF pilot issues might generate discussion points for the further refinement of AMBIF. These points could relate to either individual AMBIF Components or the regulatory processes proposed, or both.

The experiences and lessons from pilot issues and the expressions of the comfort level of the participating institutions would be crucial input for ABMF member discussions in a proposed Phase 3, and are expected to guide the development and progress of AMBIF implementation accordingly. The proposed Phase 3 work plan would need to cater to such activities.

AMBIF Disclosure Documentation

Chapter IV contains a number of recommendations for the potential set of disclosure required for the issuance of bonds under AMBIF. These recommendations are based on the compilation of typical bond issuance documents surveyed by ADRB, which was formed in 2013 by market practitioners to complement the efforts of ABMF SF1, with a particular focus on defining the proposed AMBIF Disclosure Documentation.

Update of ASEAN+3 Bond Market Guide

The discussions among ABMF members and experts, as well as the Phase 2 market visit meetings, have resulted in the understanding that many changes have occurred in the regulatory landscape of ASEAN+3 bond markets since the publication of the *ASEAN+3 Bond Market Guide* by ABMF SF1 in April 2012.

Part of the original ABMF SF1 mandate in Phase 1 was to address the persistent information asymmetry with regard to ASEAN+3 bond markets. This objective remains a focus of SF1. Hence, it is proposed to set aside sufficient time in the course of a proposed Phase 3 for activities to update the *ASEAN+3 Bond Market Guide*. In addition to the update of the original *ASEAN+3 Bond Market Guide*, which contained information on 11 economies, ABMF is planning to add new bond market guides for Brunei Darussalam, Cambodia, and Myanmar, which would provide a complete set of guides for all jurisdictions in ASEAN+3.

Proposed Update Process

The compilation of the *ASEAN+3 Bond Market Guide* was a very successful exercise in cooperation between members and experts from both the private and public sectors. Consequently, a large body of work has been created. Since much of the original information—such as legal frameworks, market structures, and institutions—remains valid, the focus will be on adequately reflecting recent bond market developments.

With kind support from ABMF member SWIFT, an updated template has been developed that members are encouraged to use when submitting information on specific developments or changes in their markets. Necessary changes to the guide will be made by SWIFT on the basis of these submissions and then sent for review by the ABMF members, in order to confirm their accuracy.

Once the activities of Phase 2 have come to a conclusion, members and experts will be requested to begin reviewing the original *ASEAN+3 Bond Market Guide* and provide market updates and necessary revisions, preferably by the end of December 2013. This will enable the task of updating the guide to start immediately upon the commencement of the proposed ABMF Phase 3. A publication of the updated *ASEAN+3 Bond Market Guide* is envisaged in the early part of Phase 3, depending on the actual start of Phase 3 activities and the volume of change requests to be processed.

BCLMV Knowledge Support

Knowledge support for the markets of Brunei Darussalam, Cambodia, the Lao People's Democratic Republic (Lao PDR), Myanmar, and Viet Nam (collectively known as BCLMV) was one of the central activities under ABMF Phase 2. The ADB Secretariat and interested members and experts conducted a number of market visits and knowledge support seminars, in line with the particular needs and expectations of individual markets. It is recommended that knowledge support activities be continued in Phase 3 to build on the foundation laid in Phase 2.

At the same time, the continuation of BCLMV knowledge support in the proposed ABMF Phase 3 will depend on participating markets' specific requests for further support activities, and the amount of time to be set aside by AMBIF for such activities.

In any case, SF1 proposes for the ADB Secretariat and ABMF members from BCLMV economies to compile individual bond market guides based on available information on existing practices and future market developments as part of the proposed ABMF Phase 3 output.

Increasing Convergence of SF1 Activities

One of the most significant findings by the ADB Secretariat in writing this report and outlining potential activities for a proposed ABMF Phase 3 is the realization that the proposed activities are increasingly converging toward the development of domestic bond markets in the region. While some ASEAN+3 economies may choose not to participate in AMBIF at its inception, due to their level of market development, these markets will nevertheless remain party to the ongoing discussions in SF1. It remains the commitment of ABMF that all markets will continue to receive the support necessary in making decisions on ABMF proposals. This will undoubtedly lead to improvements in individual bond market environments, regardless of whether an economy participates in AMBIF from the beginning, at a later stage, or not at all.

The same is valid with regard to BCLMV knowledge support activities. With two successful rounds of general and topical support activities completed, ABMF can now focus on the individual needs of each economy. This support for BCLMV economies could ultimately translate into the eventual joining of the AMBIF framework at a later stage, if an economy so decides, while presently focusing on the immediate needs and development of each market. In this context, the creation of additional bond market guides for the BCLMV economies will help address information asymmetry and improve perceptions about these markets while presenting these markets to new groups of issuers, investors, and intermediaries.

The continuous efforts to standardize and streamline bond issuance documentation and the expected lessons and experiences from pilot issues across AMBIF Markets will benefit all economies and allow a further refinement of the support for domestic bond markets. Such advances in regional bond markets would then be communicated to the investor and issuer universes through the bond market guides that, in turn, could lead to more feedback from market participants and stakeholders on how to further improve the markets. This feedback loop will be an important step on the path to developing ASEAN+3 domestic bond markets in line with the mandate bestowed by ABMI and the ASEAN+3 Finance Ministers.