

Executive Summary

Background

The ASEAN+3 Bond Market Forum (ABMF)¹ was established in September 2010 and endorsed by the ASEAN+3 Finance Ministers' Meeting as a common platform to foster the standardization of market practices and regulations in bond markets.² The ABMF consists of two forums: Sub-Forum 1 (SF1) and Sub-Forum 2 (SF2).

The mandate of SF1 has been to address the persistent information asymmetry surrounding ASEAN+3 bond markets and to foster harmonization of the region's bond market regulations. Phase 1 (2010–11) of SF1 saw the compilation of the *ASEAN+3 Bond Market Guide*, a comprehensive set of descriptions of the 11 bond markets already established or under development in ASEAN+3 economies, including an overview of their individual regulations and practices.³ The ASEAN+3 Bond Market Guide was

published in April 2012 and is increasingly being referenced in the public domain.

A key finding of Phase 1 was that while individual ASEAN+3 bond markets are heterogeneous in nature, a number of common elements allows opportunities for connecting the markets domestic bond markets across the region. This is based on the fact that in almost all markets, key legal and operational frameworks are already in place.

SF1 members, hence, agreed to develop an intra-regionally standardized bond issuance framework, which would ultimately allow bond issuers in ASEAN+3 to issue bonds in all participating economies with one set of standardized documentation and information disclosure requirements, subject to compliance with the legal and regulatory requirements of each economy. The framework will aim at (i) facilitating intra-regional, cross-border bond issuance and investments; (ii) channelling and circulating regional resources within ASEAN+3 economies; and (iii) helping further develop regional bond markets, considering the high levels of domestic savings in ASEAN+3 economies.

¹ ASEAN+3 refers to the 10 members of the Association of Southeast Asian Nations (ASEAN) plus the People's Republic of China (PRC), Japan, and the Republic of Korea.

² Currently, ASEAN+3 Finance Ministers and Central Bank Governors' Meeting.

³ The full report in PDF format is available at the ABMF Home Page and *AsianBondsOnline*.

As a result of its work in Phase 2 (2012–13), SF1 is now proposing the establishment of the ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF)⁴ as a measure to support local currency (LCY) bond issuance and investment in the domestic markets of ASEAN+3. The intention is to establish AMBIF in a flexible manner to allow as many regional economies as possible to participate in AMBIF at the earliest possible stage. In doing so, SF1 would initially focus more on an expedited regulatory process and a standardization of the AMBIF Disclosure Documentation Framework.

The benefits of AMBIF would be significant and include a new and flexible avenue for regional LCY financing, complemented by limited but focused disclosure requirements via defined documentation. Through agreement among participating economies, the ultimate benefit from AMBIF would be an expedited or fast-track regulatory process for multiple bond issuances by an issuer or issuer groups in ASEAN+3. More immediate benefits would be access to a wider base of investors and a shorter time to market that results in more reasonable issuance costs.

From an investor and market perspective, AMBIF is expected to create significant opportunities for additional LCY-denominated investments and issuances as a distinct asset class. These issuances would broaden and deepen overall market offerings. Investors would also clearly benefit from a common approach across participating markets. A number of challenges may lie ahead during an AMBIF implementation; these are explained in this report.

Basic Approaches

Introducing AMBIF as a regionally standardized bond issuance framework necessarily implies that the participating economies should agree on the key concepts of AMBIF. However, adopting a fully standardized bond issuance framework might

not immediately be practical for many ASEAN+3 economies, due to different degrees of market development and different legal and regulatory frameworks and market practices. In this respect, AMBIF will seek to have economies agree on only the minimum standards that are essential for launching it, while accepting other related regulations for the time being. In considering such practical difficulties, SF1 members adopted a number of approaches in the AMBIF discussion.

Key among them is the step-by-step approach in which AMBIF will start with a meaningful number of ASEAN+3 economies ready for implementation, with the other economies joining later as they become ready. Those economies joining AMBIF later would closely communicate with AMBIF-participating economies until their inclusion in the framework, and would receive appropriate knowledge support. Also, a number of the AMBIF features are proposed to be implemented incrementally, according to each economy's own conditions. The timing and manner of the adoption of AMBIF features would be left to each economy's regulatory bodies.

AMBIF as a concept has been designed not to adversely impact current regulations in participating economies. Rather, AMBIF should generally represent or provide an additional bond issuance option that supplements existing markets, neither displacing nor substituting for them for the time being. At the same time, nothing should prevent policy bodies or regulatory authorities in individual markets from making any beneficial or planned adjustments to their regulatory framework, if they so deem necessary (i.e., a non-exclusion approach).

Ultimately, AMBIF is designed as an initiative to cover all ASEAN+3 economies. Hence, a multilateral agreement among participating economies would be needed for its implementation. However, as a practical step toward a multilateral agreement, the use of bilateral agreements with a regional perspective could also be considered. Depending on the development of and possible actions arising from AMBIF, SF1 recommends ASEAN+3 regulatory bodies to further discuss the issue of intra-regional, cross-border cooperation.

⁴ The ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) was chosen as a name by members for several revisions. It was initially referred to as the Asian Multi-Currency Bond Issuance Program (AMBIP) as a regionally standardized bond issuance program. At a later stage, the members agreed to replace Asian with ASEAN+3, and Program with Framework. The latter decision was taken to specify its purpose of defining a number of conditions under which such issuances would be possible. In contrast, a program typically represents a number of issuances of just one issuer.

AMBIF Components Required for Implementation

AMBIF Markets. Based on their research, SF1 members decided to consider professional markets populated by professional investors, or exempt market regimes, including private placement markets positively recognized by regulators, that require limited disclosure for professional investors but waive the full disclosure requirements typically applicable to ordinary public offerings across jurisdictions.⁵ However, in the interest of allowing the largest possible number of ASEAN+3 economies to participate in AMBIF, the definition of AMBIF Markets is not based on a single professional market concept, but instead represents the most suitable professional market or market segment in each economy. The resulting AMBIF Markets carry strong selling restriction mechanisms to support the regulatory mandate to protect non-professional investors.

AMBIF Instruments and Currencies. AMBIF Instruments would be limited to straight conventional, interest-bearing notes and bonds, and straight common Islamic fixed-income instruments (hereafter referred to as *Sukuk*, including *Sukuk Ijarah*) with due consideration for the necessary underlying transactions for such *Sukuk* and the need for *Sukuk* to be vetted in each market by the responsible Islamic council. These instruments represent the most desired types of issuance in ASEAN+3 markets.

Issuance of AMBIF Instruments is initially proposed to be in the home currencies of participating economies. However, based on the feedback of ABMF members and international experts, and given potential demand by issuers and investors in the region, AMBIF is not designed to prevent the issuance of AMBIF Instruments in other deliverable currencies.

AMBIF Investors. AMBIF Investors are present in all ASEAN+3 bond markets and include banks, securities houses or broker-dealers, insurance companies, investment advisory businesses, and government entities. All such entities are already

established and licensed under the relevant laws and regulations of individual ASEAN+3 economies. At the same time, these investors represent the most experienced and active bond market participants. A number of candidate AMBIF Investors have also been identified for subsequent consideration. Foreign institutional investors (FIIs), which are effectively investors from any jurisdiction other than the jurisdiction of issuance, will also be able to participate in AMBIF Markets.

AMBIF Issuers. AMBIF Issuers are entities of multi-national corporations or banks and other financial institutions domiciled in ASEAN+3 economies, as well as large domestic companies in ASEAN+3 economies. Supra-national institutions, such as the Asian Development Bank (ADB), may consider new issuances under AMBIF in support of regional efforts. In addition, government agencies should also be considered as issuers under AMBIF since they face similar challenges in cross-border bond issuance as the other proposed issuer types.

AMBIF Disclosure Documentation. AMBIF Disclosure Documentation is intended to cover both the actual disclosure documents that are expected to be required for bond issuance under AMBIF and the various possible approaches through which these disclosure documentation could be defined, organized, and harmonized. Disclosure documents are to be in English where acceptable, although SF1 recognizes that this may not be possible in some jurisdictions where it contravenes existing laws. In such cases, disclosure documentation in the local language can be used. A list of relevant issuance and disclosure documents is presently being considered by a volunteer group of SF1 members.⁶

Implementation Process of AMBIF

Because AMBIF is aiming to introduce an intra-regionally standardized bond issuance framework, it necessarily requires a bond issuance regulatory

⁵ Limited disclosure refers to a certain level of disclosure information that can be accepted as the minimum required information by professional investors.

⁶ The recently formed AMBIF Documentation Recommendation Board (ADRB) is presently studying issuance documentation in regional, as well as intra-regional (cross-border) markets, in order to recommend to ABMF the suitable standardized and streamlined documentation framework to be used among professionals for AMBIF.

process⁷ that is agreed upon by participating regulatory bodies.⁸ The ultimate objective for AMBIF is to achieve an expedited regulatory process that generates benefits for all stakeholders on the basis of the existing processes in participating economies. Among the various options considered by SF1, the so-called Substituted Compliance Approach (SCA), already in use in Asia, was found to best support this objective.

SCA. Under an SCA, both the Home Regulator⁹ and Host Regulator¹⁰ cooperate in processing a bond issuance by incorporating the results of the regulatory process conducted by one regulator into the regulatory process of the other regulator, doing so in an expedited manner.

Mutual cooperation among regulators under an SCA. Assuming an SCA as being a basic methodology for implementing AMBIF, SF1 members discussed and consulted with regulatory authorities on specific ways of mutual cooperation for AMBIF bond issuance. This resulted in the following two options for the implementation of AMBIF.

Option 1: Notice on AMBIF bond issuance. In essence, an SCA for AMBIF requires both the Home Regulator and Host Regulator to cooperate to achieve an expedited regulatory process for bond issuance across the relevant markets. For this purpose, it is proposed that the regulators issue a notice detailing their regulatory process for an AMBIF bond issuance to other regulators. By doing so, information on AMBIF bond issuances could be shared among the regulators and utilized for the purpose of an expedited regulatory process. This is perceived to be an appropriate method for the actual implementation of AMBIF, but it is also understood that some regulators could question the increased

regulatory burden and possibly dispute the legal authority of the notice.

Option 2: Posted information on AMBIF bond issuance. Rather than requiring regulators to issue a notice on an AMBIF bond issuance to other regulators, an SCA could also be implemented by requiring regulators to post or publish the results of the regulatory process on their own or a common website. The objective of such a posting is to share information on bond issuance with other regulators and market participants, but it is not intended to satisfy legal or liability requirements in other regulators' markets. For additional bond issuance in other economies, the issuer or its agent may be required to submit AMBIF bond issuance information to the Host Regulator(s) so that the Host Regulator(s) could cross-check the submitted information with posted ones. Establishing a Common AMBIF Information Platform where information on bond issuance and investors could be collectively posted by participating regulators and shared with others is seen as a pragmatic approach.

However, nothing should prevent pilot issues while the above options are being discussed and decided upon.

Other Issues for Consideration in the Context of AMBIF

Elements for later consideration. SF1 also identified in its work a number of elements that are expected to have a bearing on the quality and success of AMBIF. These could be considered by the relevant authorities at a later stage, although they are not directly included in the components to be immediately addressed for implementation of AMBIF. Key among these elements would be the continuous disclosure of material information beyond initial documentation and information disclosure, and selling restrictions, which are one of the most important principles of investor protection. Other elements include the lack of common financial reporting standards and tax treatment, the due consideration of credit ratings and foreign exchange (FX)-related transactions, and language and legal considerations. Members also put forward the issue

⁷ In the context of AMBIF, regulatory process refers to the process that allows an issuer to issue 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, as the case may be; here, this term does not relate to the acceptance of civil liabilities. It is not the intention of AMBIF for regulatory authorities to effect major changes to the current regulations or adopt new regulations.

⁸ Regulatory bodies, or regulators, refers to the regulatory authorities, listing and registration places, and other institutions that are directly involved in the bond issuance regulatory process specific to individual markets.

⁹ Home Regulator is the regulatory body at the domicile of the issuer.

¹⁰ Host Regulator refers to the regulatory body for bond issuance if the country is not the domicile of the issuer.

of enforcement across home and host markets from a medium- to long-term perspective.

Conclusion and Recommendations

Submission of the report to ABMI TF3. ABMF SF1 would like to submit this report to the Chairs of the Asian Bond Markets Initiative (ABMI) Task Force 3 (TF3) as the key output of ABMF Phase 2.

Decision on AMBIF and its implementation. ABMF SF1 recommends that the ASEAN+3 policy bodies and regulatory authorities represented in ABMF to make a decision on AMBIF on the basis of the proposal contained in this report, or in an amended form still to be determined. ABMF SF1 would also like to recommend the implementation of AMBIF as defined in this report or as ultimately decided in the course of a subsequent ABMF Phase 3.

Recommended actions for regulators. ABMF SF1 would like to suggest that the policy bodies and regulatory authorities interested in participating in AMBIF should start discussions on its implementation based on the approaches, regulatory processes, and considerations detailed in this report, including

- identifying the appropriate market(s) or market segment(s) for AMBIF in their respective economies;
- reviewing key AMBIF Components to be supported and agreed upon among participating regulatory bodies for implementation of AMBIF, including AMBIF Investors, AMBIF Instruments, AMBIF Issuers, and Disclosure Documentation;
- reviewing the proposed implementation approach and processes of AMBIF; and
- driving or facilitating potential procedural changes in their respective markets or market segments, as needed for AMBIF implementation, in close cooperation with delegated authorities and market participants.

Recommendation of ABMF Phase 3 and timeframe. In order to bring to fruition the potential benefits inherent in the AMBIF proposal, SF1 recommends the continuation of its work in a Phase 3, which would focus on the implementation of AMBIF and supporting activities, including the active consideration of pilot issues. The timeframe for the implementation of AMBIF will depend on the consultation results among regulatory bodies and the readiness of individual markets, issuers, and investors. Although it would be difficult to set a specific date, SF1 hopes for a final agreement on AMBIF by the regulatory bodies to be achieved by the end of 2013 so that implementation could occur during the course of 2014, including the consideration of pilot issues.

Proposed Phase 3 activities and SF1 work plan. Through the remainder of Phase 2 and into the proposed Phase 3, SF1 will continue to work on refining AMBIF toward the goal of implementation. SF1 will provide additional materials, information, and analysis as needed for the discussions among the regulatory bodies, as well as knowledge support for the economies that may not be able to accommodate AMBIF at the initial stage. In addition, SF1 members and the ADB Secretariat will continue to collect feedback from market participants—potential issuers, investors, and intermediaries—on AMBIF and assess the feasibility of pilot issues. Other activities are expected to include consultations with SROs to streamline market practices that can support successful implementation.

In addition to continuous knowledge support activities for the individual needs of BCLMV countries (Brunei Darussalam, Cambodia, Lao People's Democratic Republic [Lao PDR], Myanmar, and Viet Nam), one key output of the proposed Phase 3 will be the updating of the *ASEAN+3 Bond Market Guide* since the fast-developing nature of ASEAN+3 bond markets has resulted in many changes to legal, regulatory, and other market aspects since the guide's initial publication in April 2012.