#### ASEAN+3 Bond Market Forum ( ABMF ) Meeting (28 September 2010 )

TIME	PROGRAMME			
8:15-8:45	Registration			
8:45-9:45	ASEAN+3 Bond Market Forum (ABMF) Meeting			
8:45-8:55	Opening remarks by MoF, Japan			
8:55-9:15	ABMF: its function and organization (Presented by ADB)			
9:15-9:45	Introduction of the national members, national experts, and international experts of Sub-Forum 1 and 2			
9:45-10:00	Coffee Break			
10:00-12:15	ASEAN+3 Bond Market Forum (ABMF) Meeting (Sub-Forum 1)			
10:00-10:10	Selection of the Chair			
10:10-10:45	Outline of Sub-Forum 1 Study and work plan Presentation by ADB consultants			
10:45-10:55	Q&A			
10:55-11:05	Regional bond market development Presentation by Malaysian national member			
11:05-12:00	Expectation for the Sub-Forum: opinion from the participants			
12:00-12:15	Wrap-up of the Sub-Forum 1			
12:15-13:15	Lunch			
13:15-15:10	ASEAN+3 Bond Market Forum (ABMF) Meeting (Sub-Forum 2)			
13:15-13:25	Selection of the Chair			
13:25-14:05	Outline of Sub-Forum 2 Study and work plan Presentation by ADB consultants			
14:05-14:15	Q&A			
14:15-14:55	Expectation for the Sub-Forum: opinion from the participants			
14:55-15:10	Wrap-up of the Sub-Forum 2			

## ASEAN+3 Bond Market Forum (ABMF): Functions and Organization

Satoru Yamadera Economist, OREI, ADB 28 September, 2010 First ABMF meeting in Tokyo, Japan





- Asian Bond Markets Initiative
  - □ What is ABMI?
  - Recent bond markets developments
- ABMI Group of Experts Report and TA Report on Harmonization of Bond Standard in ASEAN+3
  - □ The background studies of ABMF
- Purpose, function, and organization of ABMF



## Asian Bond Markets Initiative (ABMI)





#### What is ABMI?

- Endorsed by ASEAN+3 Finance Ministers endorsed in 2003
  - ABMI aims to develop efficient and liquid bond markets in Asia, which would enable better utilization of Asian savings for Asian investments. The ABMI would also contribute to the mitigation of currency and maturity mismatches in financing

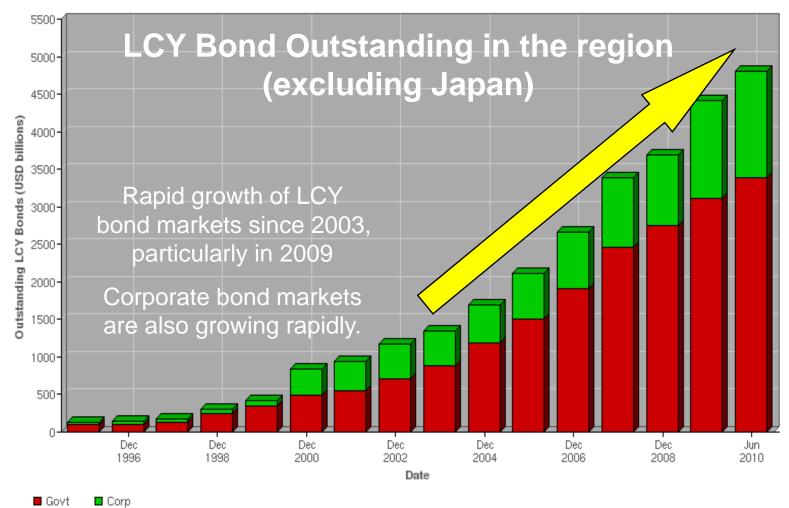
(source: Chairman's Press Release on the Asian Bond Markets Initiative, Aug 2003)

- Why bond markets?
  - Lessons from the Asian Currency Crisis
    - Double mismatch of currency and duration

One of important symbols of ASEAN+3 regional cooperation



#### Recent bond markets development







## Resilience of Asian LCY Bonds

- Strong issuance and growth despite difficult global conditions in 2008 and 2009
- National reform and liberalization efforts are paying off
- Regional efforts, such as ABMI and ABF, complement and support national efforts
- LCY bonds—truly a "spare tire"



## LCY Bond Outstanding in Major Markets

	3Q09		4Q96	
	LCY Bonds Outstanding (USD billion)	% of World Total	LCY Bonds Outstanding (USD billion)	% of World Total
United States	25,105	40.0	10,926	42.8
Japan	9,831	15.6	4,456	17.4
France	3,188	5.1	1,303	5.1
Germany	2,927	4.7	1,888	7.4
United Kingdom	1,566	2.5	678	2.7
<b>Emerging Asia</b>	4,873	7.8	537	2.1
of which: China, P.R. of	2,415	3.8	62	0.2
of which: Korea, Rep. of	1,001	1.6	283	1.1
of which: India	664	1.1	81	0.3
of which: ASEAN-6	665	1.1	158	0.6
Indonesia	90	0.1	7	0.0
Malaysia	181	0.3	81	0.3
Philippines	59	0.1	28	0.1
Singapore	150	0.2	25	0.1
Thailand	172	0.3	18	0.1
Viet Nam	13	0.0	_	<del>-</del>
Memo Items:				
Brazil	1,227	2.0	299	1.2
Russia	43	0.1	43	0.2

<sup>— =</sup> data not available, LCY = local currency. Source: Asia Capital Markets Monitor May 2010.

## Foreign Holdings of LCY Government Bonds (% of total)







- Stronger regional cooperation is necessary.
  - We may be able to expand the efforts of ASEAN Capital Market Forum (ACMF) to the Plus Three countries, or participation of the Plus Three countries in some initiatives by ASEAN may facilitate integration of capital markets in the region.
  - We need a policy framework to utilize knowledge and expertise in the region.



# ABMI Group of Experts Report and TA Report on Harmonization of Bond Standard in ASEAN+3: The background studies of ABMF





- An independent group under the ambit of the ASEAN+3 countries to discuss key issues related to cross-border bond transactions and settlement issues.
- private sector entities or individuals with expertise in cross-border bond or foreign exchange transactions and settlements issues, nominated by each ASEAN+3 member country
  - □ 17 national member institutions and 9 international member institutions including CSDs, local custodians, global custodians, ICSDs

#### Outline of the GoE Report

http://asean3goe.adb.org or http://asianbondsonline.adb.org/

#### Background findings (Part 1):

Cross-border bond transaction costs in ASEAN+3 region are higher and vary significantly among the countries, possibly due to:

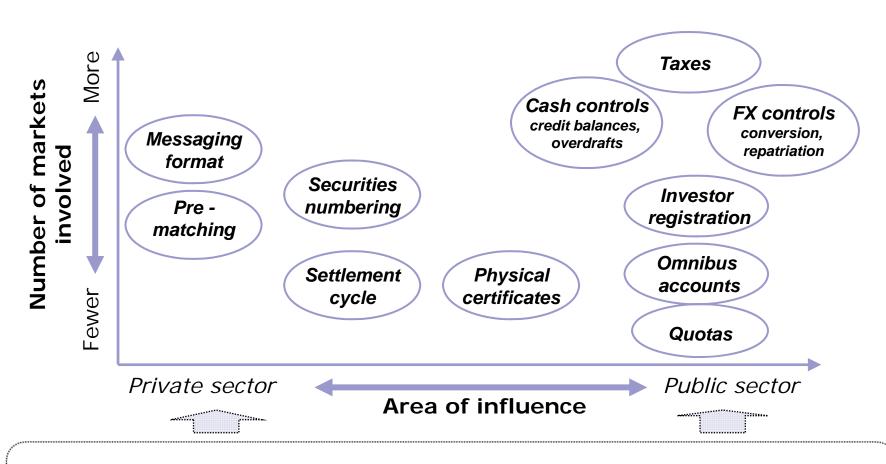
- Less transaction volume
- Country specific factors such as regulations and restrictions, etc.

#### Recommendations

- Specific approach (Part 2): assessments on feasibilities of Regional Settlement Intermediaries to improve cross-border bond settlements.
- General approach (Part 3): recommendation to reduce market barriers.



#### Identification of Major Barriers



#### Improve information flows in the markets

Timely information, uniform disclosure, price transparency, market statistics, information on corporate actions and legal information such as bankruptcy and insolvency laws.

### TA report on Harmonization of Bond Standard in ASEAN+3

- Need for much closer regulatory information sharing among the markets
  - Strengthening the role of market associations and SROs in the region
- Proposal of dual approach towards regional harmonization
  - Gradual and bottom-up approach focusing on the onshore secondary market
  - Holistic and top-down approach focusing on the offshore wholesale primary corporate bond market limited to professionals
- Partial harmonization through common standards and mutual recognition among agreeable member states





- Gradual and bottom-up approach
  - Harmonization and standardization of domestic regulations and practices one by one
  - □ Taking stock of the GoE report
  - Starting from settlement-related barriers
- Holistic and top-down approach
  - Creation of Asian international market
  - □ However, many issues to be cleared.



## Outline of ASEAN+3 Bond Market Forum (ABMF)





- We (ASEAN+3 Finance Ministers) took note of the Group of Experts' findings and suggestions on facilitating crossborder bond transactions and settlement,
- and welcomed the establishment of the technical working group on Regional Settlement Intermediary (RSI) to further evaluate the policy recommendations.
- We endorsed the establishment of 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.



#### Purpose and function of the ABMF

- The ABMF will be established as a common platform to foster standardization of market practices and harmonization of regulations
- The ABMF will provide a framework to support a regional dialogue between the public and private sectors
- The agenda items to be discussed under the ABMF will be decided by TF3



#### The Organizational structure of **ABMI** after the GoE report

**ASEAN+3 Finance Ministers** 

Meet annually

**ASEAN+3 Deputy Finance Ministers** 

Meet semi-annually

**ABMI Steering Group** 

-Monitor progress and coordinate future plans

#### TASK FORCE (See next slide for details)

TF1

#### **Promoting Issuance of Local** Currency Denominated **Bonds**

- -Credit guarantee and investment facility
- -Promotion of Asian Currency Note Programme
- -Promoting issuance of structured finance instruments

TF<sub>2</sub>

#### Facilitating the **Demand of Local** Currency-**Denominated Bonds**

- -Development of investment environment for institutional investors
- -Development of repo markets
- -Enhancing crossborder transactions
- -Information dissemination

TF3

#### Improving Regulatory Framework

- -Strengthening regulatory and supervisory framework for securities
- -Facilitating collaboration among SROs in the region
- -Improving bankruptcy procedures related to bond transaction
- -Promoting application of international accounting and auditing standards

TF4

#### Improving Related Infrastructure for the **Bond Market**

- -Infrastructure for securities settlement
- -Increasing liquidity of bond markets
- -Fostering credit culture
- -Developing professional services

**TACT** 

Working **Team** 

Technical Assistance

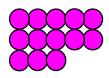


ABMF

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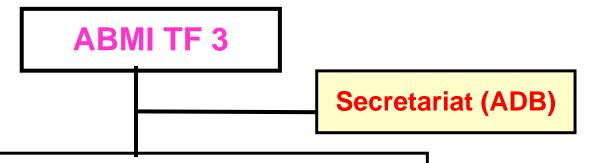
#### Organizational Structure of ABMF

National Members

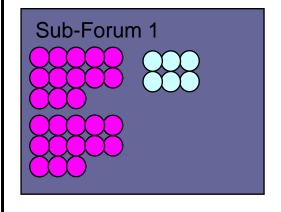


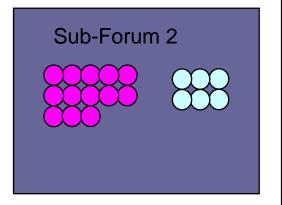
National and International Experts





#### **ASEAN+3** Bond Market Forum (ABMF)





Multiple forums may be established if issues need to be discussed separately





#### Members of ABMF

#### National Members (NM)

Nominated by each country of TF3. In principle, the number of NM should be limited to 1-2 persons.

□ NMs nominate Chair, NE, and IE, i.e., the core members of a sub-forum

#### National Experts (NE)

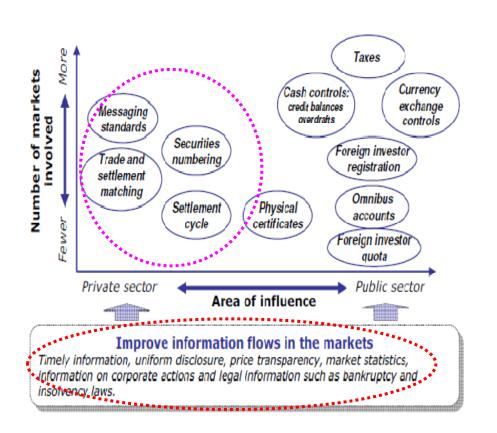
With the consent of other NMs and the endorsement of TF3, a NM may nominate NE.

The number of NMs needs to be limited for fair and efficient decision making, however, the forum should be able to utilize various experts in the markets.

#### International Experts (IE)

With the consent of other NMs and the endorsement of TF3, a NM may nominate IEs.

#### **Agenda Items for Discussion**



**Sub-Forum 1**: Collecting information on regulations and market practices

#### Sub-Forum 2:

Enhancing regional Straight-Through-Processing (STP)



#### Sub-Forum 1

#### Objective: Close the information gap

- 1. Collect all relevant information on regulations as well as market structures and practices in the region
  - Issuance procedures (auction, primary dealer system, etc)
  - Requirements for investors (registration, documentation, etc)
  - Trading rules (Repo, etc.)
  - Tax procedures (income and capital gain tax, etc)
  - Redemption procedures
  - Investment rules for domestic investors
- 2. Once all of the relevant information has been collected, a compendium of regulations and market structures and practices in the region will be published through the ADB-sponsored Asian Bonds Online website.

#### Sub-Forum 2

- Objective: Reduce cross-border transaction costs by enhancing STP
- Identify custodians' procedures which lead to higher costs
- Clarify all transaction procedures involved in cross-border transactions from one end-user to the other end-user
- Ideally, all transactions should be operated straight-through by using common standards and the same messaging



### Working schedule

- Quarterly meetings
  - □ First meeting in Tokyo
  - □ Second meeting in mid-December (9-10 or 13-14)
     2010 in Manila
  - □ Third meeting in Feb or March 2011
    - First reporting to TF3
  - □ Fourth meeting in June or July 2011
  - ☐ Fifth meeting in Sept 2011
    - Second reporting to TF3
  - □ Sixth meeting in Dec 2011
  - □ Submission of the final reports by the end of 2011.
- Sub-Forum 1 and 2 will be held back to back.





#### **ABMF Website**

http://asean3abmf.adb.org

Information dissemination to the public

- Information sharing among the ABMF members and experts
  - Members only section





#### **Future work of the ABMF**

- Various regulatory issues
- Outcomes from the discussion of the Sub-Forums

- TF3 will discuss and adopt the next agenda items
  - □ TF3 meeting in Feb or March 2011
  - □ TF3 meeting in Sept or Oct 2011



ADB

Confidential (participants only)

The first ABMF meeting 28 September 2010 in Tokyo

## ASEAN+3 Bond Market Forum (ABMF): Sub-Forum 1 Work plan and schedule

#### **Prof. Shigehito Inukai**

Waseda University, Faculty of Law ADB Consultant - Financial Legal Expert for the Harmonization of Bond Standards in ASEAN+3



#### **BACKGROUND**



#### (FYR) Summary of PART III – GoE Barriers Report

The main overall findings of the study can be summarized as follows:

- There are important barriers to cross-border investment and settlement in many of the ASEAN+3 bond markets.
- Some markets have made significant and rapid progress in recent years towards reducing their barriers.
- There are perception gaps. In particular, market participants may not always be aware of the progress made.
- Gaining and retaining cross-border investors' confidence in a market is critical.
  - A negative perception about a market may survive for a long time.
- Reducing the barriers requires a combination of regulatory and private sector initiatives.



#### PART III – GoE Barriers Report



These barriers to some extent discourage cross-border investment.

This in turn may hold back the development of vibrant, liquid and economically beneficial local bond markets in these countries.

There would therefore be benefits in removing, or at least reducing, these barriers.

#### Ref: Appendix III: Market Assessments



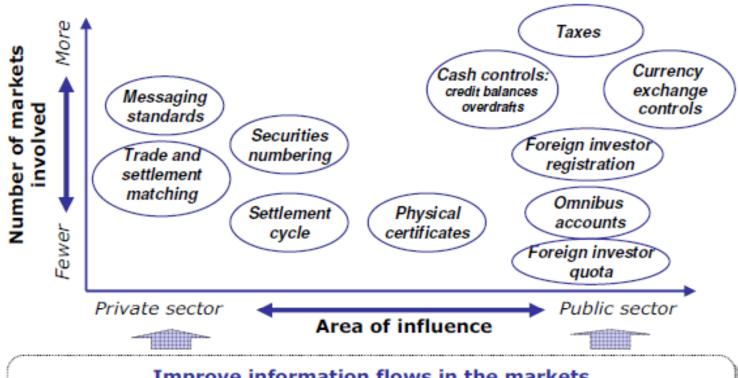
#### **GoE Report Recommendations**

- Improving information flows to foreign investors
  - to narrow the information gap
     by facilitating access to information on regulations
- Starting discussions on
  - the settlement barriers among private sector experts
  - □ the regulatory barriers

(with a perspective of Market Vision; see P.7-9)

#### **Major Barriers**

#### to Cross-Border Investment and Settlement in ASEAN+3



#### Improve information flows in the markets

Timely information, uniform disclosure, price transparency, market statistics, information on corporate actions and legal information such as bankruptcy and insolvency laws.



## Vision How to harmonize the Markets?

Sequence of Bond Markets Development in Asia

How can we establish an Asian common set of standards and regulation to promote Cross-Border...

Inter-Regional (wholesale) Market in Asia?.....

- ABMF
- Asian SRO
- -( Asian Supervisory Authorities)

#### Heterogeneity

Local Bond Markets
(Domestic Bond Market)

- Foster government bond market
- Create the benchmark yield curve
- > Foster corporate bond markets
- > Circulate domestic savings

#### Cross-Border Bond Markets (Foreign Bond Markets) A Part of Domestic Market

- Outward issuance by residents, inward issuance
- by non-residents and cross-border investmentsSubject to home country or host country
- rules and regulations
- Different stage of economic development and heterogeneity in legal and institutional systems and infrastructure

Japan – Samurai Bond

Korea – Ariran Bond

China – Panda bond

#### **Eurobond Market**

Private Placement Market and Public Offering Market for professionals with common standard format

Homogeneity

➤ Used to be a Self-Regulated Market by professional market players

### Cross-Border Inter-Regional (wholesale) Bond Market In Asia

- ➤ Harmonization of heterogeneous rules and regulations for professionals in Asian region
- > Facilitate inter-regional circulation of savings within Asia
- Creation of self-regulated Asian Inter-Regional (wholesale) Bond Market for professional market participants
- For instance, Asian Exchange regulated market

**Domestic** 

**Inter-Regional** 

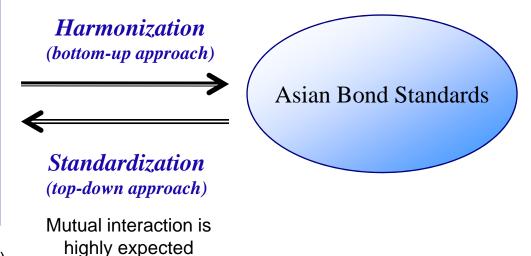
Source: Inukai & Hyun (2010)



# Asian Bond Standards as a Common Platform

- Fragmented financial markets in Asia (each domestic market)
  - different regulatory and legal systems
  - different stages of market development and economic size
  - different taxation, capital control and currency restriction, etc.
- Asian common set of rules and standards
  - in line with global best practices
  - facilitate cross-border capital flows and financial integration
    ex) ASEAN and Plus Standards, Harmonization of Bond Standard in ASEAN+3
    (we would like to refer the effort of ASEAN Capital Market Forum, particularly, ASEAN and Plus Standards)

# Market characteristics Issuing procedures Syndicate Rules Governing law Settlement Withholding tax Accounting standards Disclosure (filing/listing) Electronic Disclosure Documentation Credit rating etc...



Source: Hyun & Inukai (2010)



# Harmonization & Standardization of Market Practices

- After the information-collection exercise,
- OPINIONS towards Harmonization & Standardization of Market Practices are open to the Forum members.
  - The forum should provide the basis for future coordination among Market related associations and SROs.
  - □ A Forum for Regulators may be organized under the framework of ABMF in the future...
  - Dialogue & Cooperation between public & private sectors in the region is highly expected...



### **FIRST STEP**



# **Collecting Information**

### on regulations and market practices

The Role of Sub-Forum 1

- Before harmonizing Market Practices & Regulations,
- First, it is necessary to collect
  - □ all relevant information on regulations, market structures & practices in the region,
  - □ with a perspective of Market Vision.
- Then, share this information among members,
- And act to close the information (perception) gap within market participants in the region.



### Information to be collected

- Collect all relevant information on regulations as well as market structures and practices in the region. For instance,
  - 1. Disclosure rules for the issuer and financial institutions
  - 2. Issuance procedures (auction, primary dealer system, etc)
  - 3. Requirements for investors (registration, documentation, etc.)
  - 4. Trading rules (Repo, etc.)
  - 5. Tax procedures (income and capital gain tax, WH-tax, etc.)
  - 6.Redemption procedures
  - 7. Investment rules for domestic investors
  - 8.etc.



# Outputs of Information-Collection

- "GoE Report Appendix III: Market assessments" and other guides would form a great foundation for members.

  https://wpgr1.adb.org/LotusQuickr/asean3goe/Main.nsf/h Toc/4A2E7BF718270DBF48257729000C4CE5/?OpenDocument
- We may re-structure the form of Barrier Report and other reports to produce.
- Once all of the relevant information has been collected and re-structured, A compendium of regulations and market structures and practices in the region will be published through the ADB-sponsored Asian Bonds Online website.

http://asianbondsonline.adb.org/

### ITEMS FOR INVESTIGATION

# (Proposal of Questionnaire - format of the information gathering)

Items for investigation on each market is purely depend upon the nature and the status quo of each market. Despite that we are showing relatively comprehensive form of questionnaires proposal from the page 16 to 24, we do not expect to receive the full answers to all the items of questionnaires.

# ŊΑ

# ITEMS for Investigation

(Tentative: Subject to discussion)

- Disclosure & Investor Protection Rules
- Credit rating System
- Issuance Procedures (Auction, Primary Dealer System, etc)
- Electronic Trading Platform and Mandatory Trading Requirements
- Trading Rules (Repo, etc.)
- Redemption Procedures
- Requirements for Investors (Registration, Documentation, etc) / QIB / Professional Investor
- Taxation & Tax Procedures (Income and Capital Gain tax, WH-tax, Stamp Duty, etc.)
- Investment Rules for Domestic Investors
- Foreign Investor Quota / Foreign Investor Registration / Currency Exchange Controls
- Cash Controls—Credit Balances / Overdrafts
- Utilization of Omnibus Accounts (Security Account Holding Structure)
- Settlement & Clearing Systems / Custody Systems
- Legal Framework / Governing Law
- Bankruptcy Procedures related to Bond Transaction
- Regulatory Framework / Self-Regulatory Framework / Market Practices
- Role of Investment Exchange / Industrial & Market Association / Dealers Association / Regulators



# **Proposal of Questionnaire 1**

related to High Level Structure, Type & Characteristics of the Market

(Tentative: Subject to discussion)

Narrative answer will be required to the following items.

- Breakdown or Segmentation of the Market
  - ☐ For Instance, By Market Type, Government Bond, Public Bond, Other Bonds / Corporate Bond.
  - □ By Market Category, Public Offering Market / Private Placement Market
  - ☐ Exchange Listed Market / Non listed Market
  - □ Professional (wholesale) market / Retail Market
  - Mutual relations of above markets type / category
- Definition of Professionals / Professional Investors
- Degree of Opening of Domestic Bond Markets to Foreign Investors
- Degree of Opening of Domestic Bond Markets to Foreign Issuers
- Degree of Segregation / Relation between Domestic Market and Inter-Regional (Eurobond) Market
- Bankruptcy Procedures and Governing Law
- Legal and Regulatory issues + Self-Governing Rules behind the Market



# Proposal of Questionnaire 2 related to Regulatory and Tax Framework

(Tentative: Subject to discussion)

_	
SS	uing debt instruments (Issuer's regulation / rule)
	Registration / filing approval requirements
	Disclosure requirements (filing, prospectus, etc.)
	Credit rating requirements
	Exemptions for private issues
	Exemptions for specific instrument type, e.g. MTN, CP
	Minimum lead time (number of business days) for registration approval
	Availability of shelf registration and associated documentation requirements
	Regulated suspension period (this may relates to investor protection)
	Other requirements (Including currency denominations)
Bu	ying debt instruments (Investor's regulation / rule) (Primary
Ma	rket / Secondary Market)
	Restrictions for investors (investment grade, etc.)

Definition of Qualified Institutional Investors, Professional Investors, if exist

How to ensure market functions for the finding of Fair Price

Non-resident requirements / restrictions



# **Proposal of Questionnaire 2**

### related to Regulatory and Tax Framework

(Tentative: Subject to discussion)

(continue from the above)

- Taxation Framework and Tax requirements
  - □ Withholding tax for CP, Bonds and other instruments (wholesale, retail)
  - Tax reporting requirements for issuer / paying agent
  - Tax exemption requirements for non-residents
- Regulatory reporting requirements
  - Reporting requirements in case of direct deal between issuers and investors
  - Reporting requirements in case of cross boarder deal
  - Reporting requirements in the Foreign Currency denominated instruments
- Challenges / Expected changes
  - Issues on current regulations / rules
  - Expected regulatory reforms

# **Proposal of Questionnaire 3**

related to Possible Item of Impediments / Restrictions for the realization of a cross-border inter-regional (wholesale) market (Tentative: Subject to discussion)

#### Possible Item of Impediments / Restrictions

Taxation (Withholding Tax on Interest Income, Stamp Duty, Tax Report Requirement, etc.)
Disclosure & Investor Protection Rules for Issuers
Underwriting Rules for Financial institutions
Impediments for Timely issuance (suspension period, disclosure requirements, etc.)
Restriction of Investors (qualified institutional investors, private placement)
Registration Requirement for Foreign Investors
Reporting requirements (non-resident trade report, foreign currency denominated instruments etc.)
Non-resident requirements (identification requirement, restricted stocks, etc.)
Restrictions on OTC Transactions by Residents
Restrictions on OTC Transactions by Non-residents
Credit Rating System and its relation to Regulations
Utilization of Shelf-Registration System / MTN
Prohibition on the Use of Omnibus Accounts for Settlement of Securities Transactions
Availability of Information in English
Restrictions in Accounting Standard
Limited Opportunities to Utilize Bond Holdings / Repo Market
Degree of Lack of Liquidity in the Secondary Market

Narrative answer will be required to some of the above from the point of how to realize the Market Vision. S-F1 will study significantly deeper into some of the important GoE findings, so there will be no repetition, but revisiting or re-iterating (which is accepted as a project management and/or research concept).



# Proposal of Questionnaire 4 related to Securities settlement system

(Tentative: Subject to discussion)

Legal	definition	of	debt	instrume	nts

- Existence of uniform legal framework for all types of securities
- □ Dematerialization / Immobilization vs. Physical securities
- Legal ownership structure of dematerialized / immobilized securities
- ☐ Legal ownership transfer mechanism

#### Securities settlement infrastructure

- Existence of CSD and Book entry system for debt instruments
- Existence of DVP and RTGS mechanism
- ☐ Existence of post-trade matching mechanism
- Existence of execution matching mechanism
- Settlement scheme (Gross-Gross, Gross-Net, Net-Net) for CP, Corporate Bond,
   Government Bond and other debt securities
- □ Settlement cycle for CP, Corporate Bond, Government Bond and other debt securities

#### Challenges / Expected changes

- Issues on current settlement infrastructures
- Expected changes on settlement infrastructures



# Proposal of Questionnaire 5 related to Costs and Charging methods

(Tentative: Subject to discussion)

Average issuing costs for Corporate Bonds and CPs
□ Registration fee at CSD
□ Transfer fee (CSD, Bank)
□ Underwriting fee
□ Fiscal Agent fee
□ Other fees
Average on-going costs for Corporate Bonds and CPs
□ Maintenance fee at CSD
Interest payment / redemption fee at CSD
□ Interest payment / redemption fee at Paying Agent

Brokers commission (if applicable)

Other fees

Although the issuing costs section contains Transfer Fee (CSD/Bank), both of which may not be charges due to the issuer; the party charged will treat these as transaction costs, not specific to issue.

Likewise, ongoing costs combine issuer expenses with charges to market participants (e.g. broker commission). Please list examples of these cost and the charging methods if possible.



# Proposal of Questionnaire 6 related to Market size and its growth history

(Tentative: Subject to discussion)

 Market size from the following point of view (by Local Currency / with the exchange-rate to USD)

(outstanding amount end of the year and yearly issuing amount)

- □ Direct financing vs. In-direct financing (bank loans)
- □ Direct financing instruments and their outstanding amount
- Domestic financing vs. International financing
- Public placement vs. Private placement
- Primary market vs. Secondary market (with roll-over volume)

#### Main players in the market

- Type of issuers (domestic vs. international, financial vs. non-financial)
- Type of investors (banks, institutional investors, etc.)
- Underwriters (banks, investment bankers, etc.)
- ☐ Fiscal Agents (banks, custodians, etc.)
- Other participants

#### History of Debt Market development

- Historical growth by instrument type
- Major events which trigger the market growth

# **Proposal of Questionnaire 7**

#### Example of Matrix Analysis of the Market Structure

(Tentative: Subject to discussion)

By Market Type / Market Category	Disclosure Duties	Disclosur e Level	Listing / registration place & role of Listing / registration	Target Investor s	Governing law & Related Regulatio ns	Primary Market Governanc e provider (Regulators / Self- Governing organizatio ns / Exchange)	Secondary Market Governanc e provider (Regulators / Self- Governing organizatio ns / Exchange)	Trading System	Settleme nt System

Even though some/most of the data could be collected through the answer of the previous 6 questionnaires, in order to be aware of the market structure correctly, understanding for mutual relations of the items in a matrix like this will be essential. Abbreviated responses will be appreciated as long as it is clear and understandable.



### **WORK PLAN & WORK SCHEDULE**

### Work Schedule for Sub-Forum 1

In between the quarterly meetings, each country should make necessary arrangements to make progress of the work.

Time of Meetings	Status, Remarks and Contents	Place
28 September 2010	ABMF First meeting •Discuss about the preliminary format of the information gathering	Tokyo
Mid-December 2010	ABMF Second meeting •Commencement of the actual information gatherings	Manila
February or March 2011	ABMF Third meeting  First Report to TF3  (ABMI TF meeting)	( Manila )
June or July 2011	ABMF Fourth meeting	( Manila )
September 2011	ABMF Fifth meeting	( Manila )
End of 2011	Final Report to TF3 (ABMI Task Force meeting)	26
Early 2012	(ABMI Task Force meeting)	20



#### Agenda items for the ABMF:

Collecting Information on regulations and market practices in each bond market in ASEAN+3 (sub-forum 1)

Time of Meetings	Status, Remarks and Contents
Late Sep. 2010 to Dec. 2011  The meeting will be held quarterly. In addition, teleconferences	<ul> <li>First, the sub-forum members need to agree on the scope of information to be collected.</li> <li>The information needs to be comprehensive to understand each market in the region.</li> <li>As the information will be published in comparable manner, it is desirable to show commonalities and differences among the markets.</li> </ul>
can be held in between the meetings.	Second, the members need to collect information in their respective markets.  •The progresses will be checked through the quarterly sub-forum meetings.
	Third, the members need to agree on publication structure of the information.
	Lastly, all the information will be published through the AsianBondsOnline website.



## Request to the members/experts

- In order to facilitate the investigation process,
  - □ Please provide a market guide if available,
  - □ Please provide a useful information sources related to the market.



### **Contact Address**

#### Prof. Shigehito Inukai

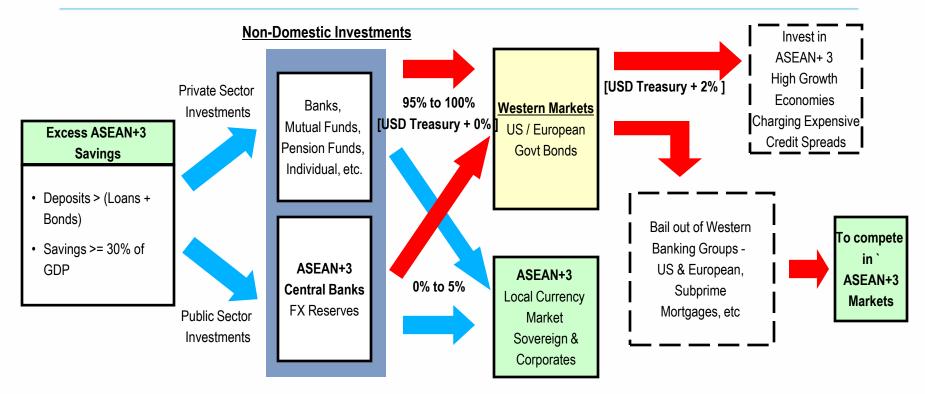
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### **Asean+3 Bond Market Forum**

by K. Kwan Lee, Deputy CEO, CIMB Group



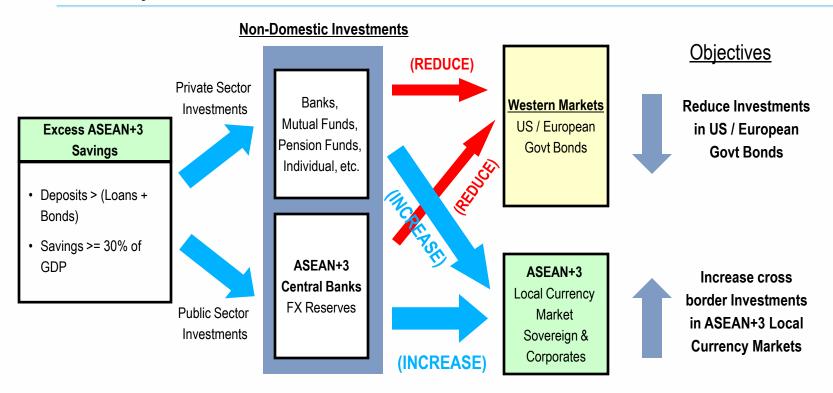
#### Underdevelopment of ASEAN+3 Local Currency Sovereign & Corporate Bonds Market



- Non-domestic investments of each ASEAN+3 nation of its excess savings (public & private sector) are predominantly lent to the US/European markets at the lowest possible yields (Treasuries flat) and reinvested back into High Growth ASEAN+3 economies at much higher credit spreads or to bail out their banks so that they can continue to compete in Asean+3
- ➤ Non-domestic investments of each ASEAN+3 nation of its excess savings are seldom ever directly invested in the ASEAN + 3 region outside its domestic border, relying on Western institutions to do so, funded mostly by Asean+3 savings



#### Main Objectives to Be Achieved



- ➤ To significantly increase the direct non-domestic investment of ASEAN+3 excess savings (public and private investments) into the ASEAN+3 local currency markets (sovereign and corporates) as opposed into USD/Euro Markets.
- > To promote local currency sovereign and corporate bond markets to same degree as what Asean+3 governments do for their (local currency) equity markets



#### Development of ASEAN+3 Local Currency Bond Markets – Focus Areas

- Currently the effort is too focused on cross border issuance
- What is more important is enabling ASEAN+3 cross-border investment flows into the ASEAN+3 regional local currency markets
- ASEAN+3 Investors must be enabled to invest in regional currency sovereign and corporate credits across ASEAN+3 countries beyond its domestic borders
- The focus should not be about Western or Global investors; its about Asean + 3 excess savings and its investor base to better enable and redeploy ASEAN+3 excess savings from USD/Euro markets into the ASEAN+3 domestic currency markets



#### Asean+3 Cross Border Investment from an Investor's Perspective

	Asean+3 Local Currency Bonds	Eurobonds/Reg S Issues
	Issuance by the same Asear	+ 3 Sovereign or Corporate
Witholding Tax	10-15%	No Witholding Tax
Credit Rating	<ul> <li>No international/Asean Rating</li> <li>Most investment policies (central bank, fund managers) in Asean+3 countries do not recognize cross border local rating agencies</li> <li>Have to map local rating to international rating which is biased against Asean+3 countries (explained in later slides)</li> </ul>	No restriction as most western credit are highly rated, inflated or otherwise (explained in later slides)
Hedging	Hedging against currency and interest risk within Asean+3 currencies subject to exchange control rules, in addition to home country rules.	No rules for hedging against G3 currencies apart from home country rules.

So much more expensive and difficult to invest cross border in Asean+3 local currency sovereign or corporate bonds vs USD/EUD Reg S bonds issued by the same Asean+3 sovereign and corporate issuer



#### Key Obstacles for intra-ASEAN Investment

#### 1. Withholding tax

- Many countries are still imposing withholding tax for interest income on corporate bonds in local currency while the Eurodollar issuance by the same Asean+3 issuer are exempted
- This is the number one hurdle compared to other minor issues such as transaction & clearing costs

#### 2. Minimum rating requirement using S&P/Moody's rating

- Most sovereign wealth funds, global funds, regional funds and domestic funds still impose a minimum investment rating threshold based on S&P/Moody's rating framework e.g. minimum rating of A+.
- This effectively precludes most ASEAN sovereign and most of Asean+3 corporate credits (as corporate credits are mostly capped by their sovereign rating). Even though domestic ratings are investment grade, the international ratings are not as there is an inherent bias against Asean+3 credits (explained in next 2 slides)

#### 3. Access to Hedging

- The absence of deep hedging markets for currency and interest rate hedging
- In some jurisdictions, proof of hedging is required based on real trade (import export flows) which does not work for portfolio management



#### Required: A More Balanced & Neutral Credit Rating Agency Framework

Country	FX Reserves (US\$ bn) (A)	FX Reserves (% of GDP)	Current Account (% of GDP)	Trade Balance (% of GDP)	Foreign Currency Debt ** (US\$ bn) (B)	Foreign Currency Debt Collateral Cover (A/B)	5-year CDS	Rating	5-year CDS	Rating
	2009	2009	2009	2009	2009	2009	2009	2009	Current	Current
China	2,399.2	48.1%	6.0%	3.9%	25.5	9410%	73	A1/A+	76	A1/A+
Malaysia	96.7	50.1%	16.5%	17.4%	24.5	395%	90	A3/A-	87	A3/A-
Thailand	138.4	52.5%	7.7%	7.1%	8.5	1630%	96	Baa1/BBB+	108	Baa1/BBB+
Indonesia	66.1	12.3%	2.0%	3.7%	19.1	350%	188	Ba2/BB-	150	Ba2/BB
Italy	34.5	1.6%	-3.2%	-0.3%	2114.0	1.6%	109	Aa2/A+	191	Aa2/A+
France	27.7	1.0%	-2.0%	-3.1%	1601.0	1.7%	32	Aaa/AAA	77	Aaa/AAA
Spain	12.8	0.9%	-5.1%	-0.4%	664.8	1.9%	113	Aaa/AA+	229	Aaa/AA
Greece	0.2	0.1%	-11.2%	-1.0%	375.5	0.1%	283	A2/BBB+	862	Ba1/BB+
Ireland	0.5	0.2%	-2.9%	1.9%	122.6	0.4%	158	Aa1/AA	392	Aa2/AA-
Portugal	0.8	0.4%	-10.1%	-1.0%	160.3	0.5%	158	Aa2/A+	350	A1/A-
U.S.	Infinite (Own Local	Infinite (Own Local Average Lev	-0.7%	-0.3%	NA	-	38	Aaa/AAA	47	Aaa/AAA

Average Leverage
Ratio

Major Malaysian Banks
11 times

Major Indonesian Banks
11 times

Major Thailand Banks
11 times

Major European Banks
33 times



<sup>\*\*</sup> Definition of Foreign Currency Debt is whether the sovereign has direct control over money supply

<sup>\*\*\*</sup> In 2008, Leverage Ratio of major European banks was 49 times

# Why Does Sovereign Rating Matter to ASEAN+3 when most of ASEAN+3 nations DO NOT depend on Foreign Funding after the 1997/98 Crisis?

		Probability of
S&P Rating	Risk Weights	Default
AA	14%	0.00%
Α	14%	0.02%
BBB	52%	0.28%
ВВ	91%	0.95%

Banks and corporates are generally capped by their sovereign rating. Assume a European sovereign with a rating of AA and their banks asset base averaging two credit notches lower at A+; similarly assume an Asian nation with a sovereign rating of A and their banks' asset base averaging two credit notches lower at BBB+

Based on S&P Risk Weights, Asean+3 banks need 300% more capital to support the same amount of Asean+3 loans or bonds (52% / 14% S&P risk weights) vs European banks taking on higher rated European credits. Put in another way, for the same amount of capital, Asean+3 banks can support an asset base that is 1/3 the size of its competitor European bank unless of course Asean+3 banks takes on higher rated European credits whether in loans, bonds or inter-bank assets vs lower rated Asean+3 credits

Reliance on international ratings by ASEAN+3 nations is dangerous. Instead of reducing the portfolio allocation of Asean+3's excess savings into European and American credits, it will actually further increase the allocation as balance sheets of Asean+3 banks will now be captured encompassing loans, bonds and inter-bank assets in addition to Asean+3 central banks' FX reserves and fund manager investments.

This is the impact of Basel 2 and still in Basel 3 which is how some banks were able to leverage up to 70 times and still be deemed well capitalized because most of their assets were "low" risk weight "AAA" assets

As 2008 has illustrated, larger companies do not necessarily mean safer companies; just that their blow ups are more spectacular



#### Cross Border Issuance by Asean+3 Issuers

	Same Asean+3 Sovereign/Corporate Issuer					
	Asean+3 Local Currency Issuance	Eurobonds/Reg S Issuance				
Selling Restriction	Cannot sell cross border	Can sell to all markets including into every Asean+3 country				
Cost	1 Book Runner + 4 sets of lawyers for <b>each</b> local currency. A 3-currency MTN program will need 3 Bookrunners + 6 to 12 sets of lawyers	1Book runner + 4 set of lawyers				
Approvals	1 approval for each country where target investors domicile or for each MTN program.	No approval required most of the time.				
Rating	1 rating for each country where target investors are domiciled or for each MTN program.	Normally 1 international rating is sufficient.				

So much more restrictive and expensive selling into Asean+3 markets of local currency denominated bonds vs USD/EUD Reg S bonds issued by the same Asean+3 sovereign and corporate issuer



#### Key Obstacles for intra-ASEAN Issuance

#### 1. Approval process

- For the same Asean+3 sovereign or corporate issuer, its USD/EUD denominated offering under Reg S can be sold to the whole world including into every Asean+3 country while its local currency offering can only be sold in-country of the sovereign or corporate issuer
- Approval process in many host countries make issuances in regional currencies unattractive compared to Reg S USD EUD denominated issuances
- Approval process also makes distribution of home country currency based bonds into another country less attractive as the issuer will need another set of approvals
- Multiple approvals from home and host country regulators require multiple set of professionals and the attendant escalation in costs and turn around time
- No mutual recognition of Asean+3 regulators for regional currency denominated cross border issuances

#### 2. Domestic rating requirement

- The need to get a credit rating from each host country adds additional work and costs to issuers who might already have ratings from a reputable home country rating agency
- No mutual recognition of cross border rating agencies in Asean+3
- Rating scale varies across Asean+3 countries making comparisons difficult



#### Key Proposals for Asean+3 Bond Market Forum

- 1. The benchmark to achieve for Asean+3 local currency issuances and cross border selling restrictions is the Eurobond/Reg S framework for USD/EUD issuances of the same Asean+3 issuer:
  - The ability of Asean+3 investors to invest in cross border Asean+3 local currency bonds must be no inferior to investing in cross border Eurobonds by the same Asean+3 issuer
  - The ability of Asean+3 issuer to sell local currency bonds cross border into Asean+3 markets must be no inferior versus issuing Eurobonds by the same Asean+3 issuer
- 2. Remove withholding tax for cross border investment by Asean+3 investors. This can be part of the Asean Free Trade Area framework rather than leaving it to the initiative of each individual country. This is important in leveling the playing field for Asean+3 investors investing in Asean+3 local currency bonds versus investing in Reg S Eurobonds issued by the same Asean+3 sovereign or corporate issuer
- 3. Mutual recognition for approvals and ratings must be allowed for issuers complying with Asean & Plus Standards. Asean & Plus Standards is already in place and should be used as the basis for MUTUAL RECOGNITION
- 4. Onshore currency and interest rate hedging should be made available to ASEAN+3 end investors where ASEAN+3 end investors should be allowed to do portfolio hedging. The benchmark to achieve is the G3 bond markets. Asean+3 investors should not face more obstacles than hedging against G3 currency risks. This will also improve the liquidity of the hedging markets. The availability of liquid hedging markets will make investing in Asean+3 local currency bond markets less risky



#### Key Proposal for Asean+3 Bond Market Forum

- 5. For issuance of Asean+3 local currency bonds selling to Asean+3 professional/sophisticated investors, approvals/lodgment requirements must not be no more onerous than a Reg S Eurobond issuance for the same Asean + 3 sovereign or corporate issuer
- 6. Create a platform for ASEAN MTN program using one single program document based on ASEAN & Plus Standards in English
- 7. The objective must be to expand the local currency bond markets which operates in isolation in each Asean + 3 country to a more integrated Asean+3 cross border regional local currency bond markets. The objective should never be to create an offshore bond market which will be operating in isolation to the Asean+3 local currency markets which we have seen on some of the proposals
- 8. Asean+3 should create a rating platform for Asean+3 local currency markets so that investors do not have to rely on international ratings which are biased against Asean+3 issuers. Absence a pan Asean + 3 rating agency, Asean + 3 should establish transparent minimum standards where upon compliance, these qualifying local credit rating agencies should be mutually recognized and to be used by Asean+3 investors. But, this needs to be reflected in their investment policies
- 9. To better control the behavour of the buy side, Asean+3 based fund managers and investors should be differentiated from global fund managers and given better access to Asean+3 regional local currency sovereign and corporate bond markets as the respective Asean+3 regulators have better control over their own fund managers vs global funds



### Thank you







# ABMF (ASEAN+3 Bond Market Forum) Sub-Forum 2 Work plan and schedule (draft)

The first ABMF on 28 September 2010 in Tokyo

Taiji Inui
NTT DATA Corporation
ADB consultant – Financial Information technology specialist

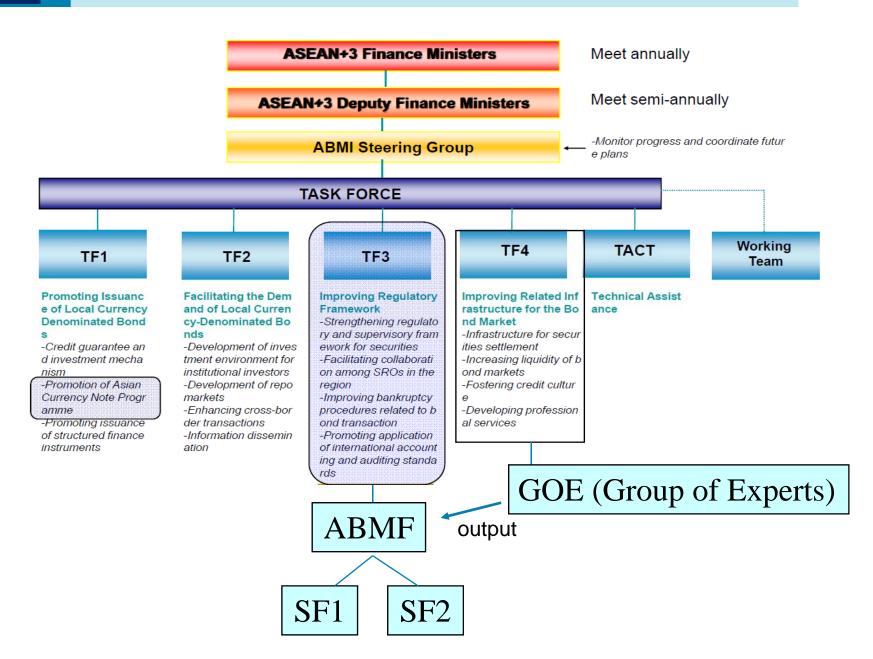
# Objectives: Reduce cross-border transaction costs by enhancing STP

- 1. Identify intermediaries' procedures which lead to higher costs
- Clarify all transaction procedures involved in cross-border transactions from one end-user to the other end-user
- 3. Ideally, all transactions should be operated straightthrough by using common standards and the same messaging

Source: ASEAN+3 Bond Market Forum (ABMF): Functions and Organization

# Backgrounds



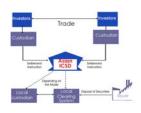


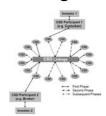


## Outputs of GoE report (TF4)

#### 1. Regional settlement intermediaries (RSI)

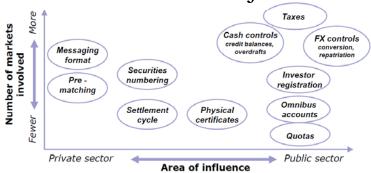
Asian ICSD CSD linkage in Asia





RSI issue will remain as a topic of TF4

2. Identification of major barriers

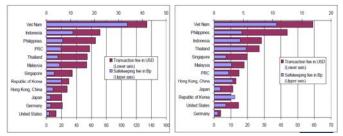


Barrier issue will be discussed as a topic of TF3 by ABMF

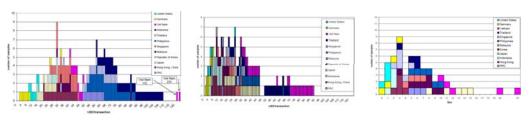
Source: The ABMI GoE report

#### 3. Transaction costs

Level of custodian fees across markets

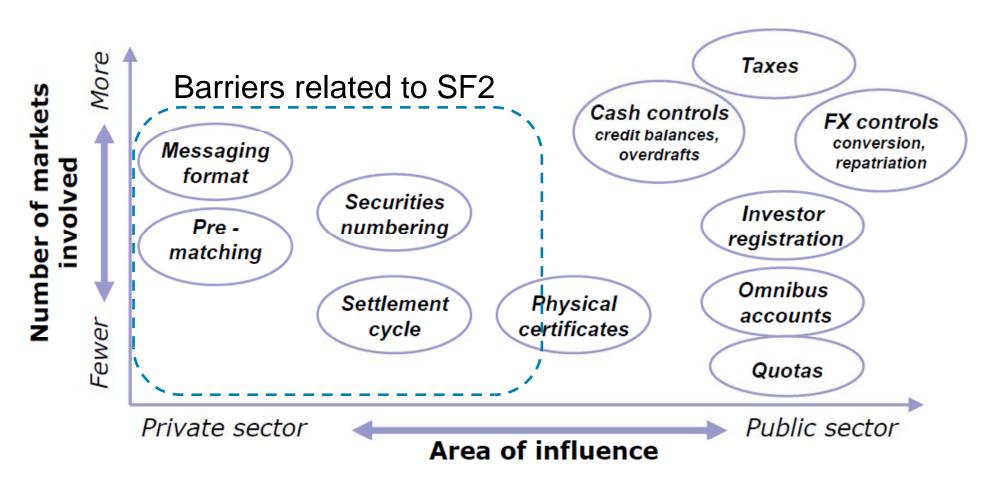


Distribution in each market, relationships between the type of fees and the type of custodians



Cross-border transaction costs in the region will be discussed as a topic of TF3 by ABMF





Source: The ABMI GoE report



#### Settlement barriers related to SF2

#### Messaging standards

- Fit and gap analysis of local practices and international (ISO) standards
  - ① Conforming local standards to international (ISO) standards
  - ② Proposing local standards as ISO standards
  - ③ Converting from local to ISO standards and vice versa

#### 2. Trade and settlement matching

- Conformity of matching between local and ISO standards
  - ① Processes such as one-side entry or both sides entry
  - 2 Transparency of transaction processes

#### 3. Securities numbering

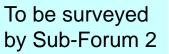
- Conformity and convertibility of coding scheme between local and ISO standards
  - ① ISIN (International Securities Identification Number)
  - ② Other coding schemes including cash account code, securities account code and character code

#### Settlement cycle

- Agreeing settlement cycle for cross-border transactions
  - ① Shortening settlement cycle is discussed in some countries
  - ② Settlement cycle for local transactions could be different from that of cross-border transactions

#### Physical certificates

Dematerialization (book-entry system of securities)etc.

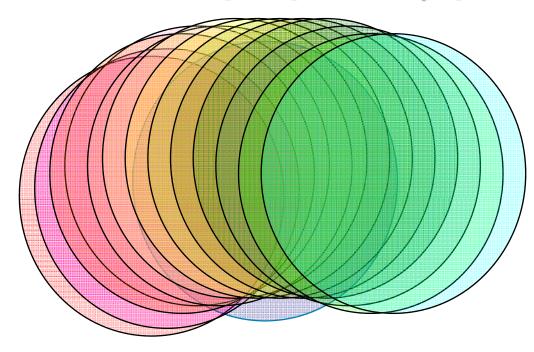


# Vision



# Discrepancies between ASEAN+3 proprietary practices and International standard

# ASEAN+3 proprietary practices



International standard (ISO 20022)

- 1. ASEAN+3 proprietary practices (local standards) have some differences from international standards including ISO20022.
- 2. Proprietary practices of ASEAN+3 countries have some differences country by country.



# Delivery versus Payment transaction (a simplified image without CCP)

An example: JGB DVP (entering transaction from sell side) by using BOJ-NET Case of Japan An unique feature of local transaction procedures

Sell side CSD of JGB (BOJ) **Buy side** request delivery of receipt JGB (DVP) of **DVP** notice of receipt ② notice of receipt transaction 3 advice of delivery of funds **DVP** 4 request of funds Sell side **Buy side** delivery cash a/c cash a/c notice of JGB DVP notice of JGB **DVP** receipt receipt Sell side **Buy side** JGB a/c JGB a/c 6 notice of funds payment

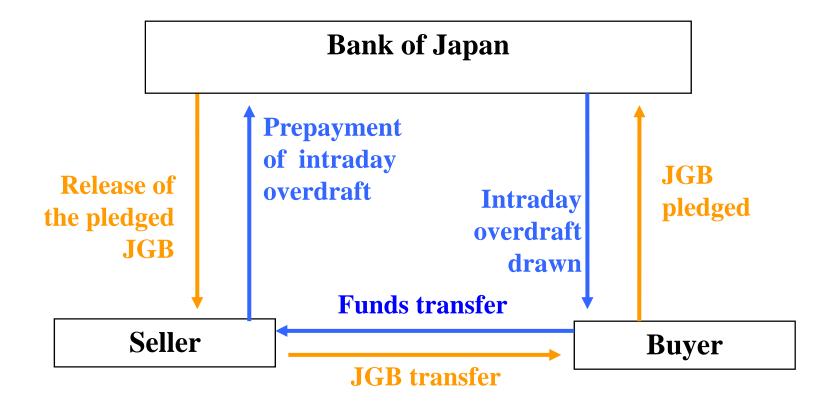
Source: Bank of Japan



# Simultaneous Processing of DVP and Collateralization (SPDC) (a simplified image)

An unique feature of local transaction procedures

Case of Japan



10



## Local standard to be accepted by ISO 20022

Requirements of some countries have been actually adopted as ISO20022 standard.

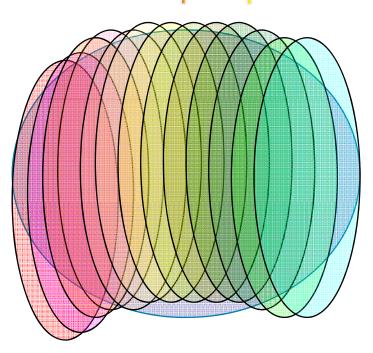
#### Quote:

This revised business justification also reflects the increased interest from other parties (noted below), so in addition to transitioning from ISO 15022 to ISO 20022, the development will also incorporate the requirements of existing formats (i.e. JASDEC, Euroclear) as well as leverage the work performed in the pre-trade/trade space.

http://www.ecb.int/paym/pdf/cons/escb\_cesr/SWIFT.pdf?818b5b08bff342ce8a42c699 2087546e



# ASEAN+3 proprietary practices

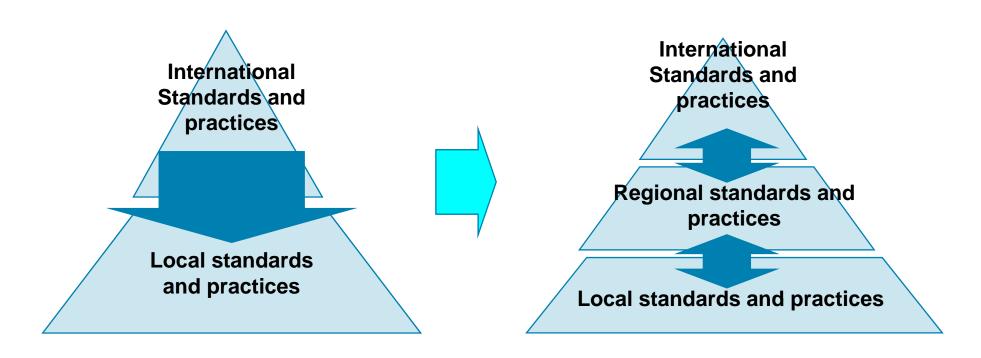


- to be changed to meet International standards and/or
- to be accepted by International standards after conforming in the region

International standards (ISO 20022)

International standards (such as ISO20022) will be the focal point and hub of local standards

# Asia should engage standard setting more closely and should lead discussions in the international forum



International standards (such as ISO20022) will be the focal point and hub of local standards

How to reach the goal



## FIT&GAP analysis (an example)

#### 1. Understanding current situation

- Stock taking (message processes and formats)
- > FIT&GAP analysis (message processes and formats)
- > Communication protocols at each layer (message conversions)
- ➤ Requirements to fit ISO20022



Clarifying user requirements to fit ISO20022

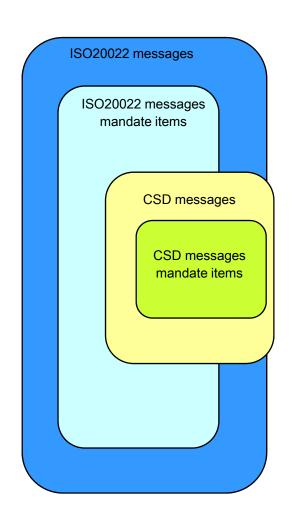
#### 2. Planning implementation

- ➤ Measures to fill in the gaps
  - ①promoting essential parts of local standards to be adopted by ISO
  - ②local specifications (standards) to be conformed among related parties
  - 3 local specifications kept as local standards coexisting with ISO standards
  - 4 change business model itself (BPR)
- > Specify functional requirements of each layer



Clarifying ISO20022 implementation





- 1. Not only message formats but also business processes such as message transactions themselves and message flows need to be surveyed
- 2. Transparency of the message format needs to be considered to implement STP from end-to-end processes though some message items may not be essential for the settlement agency.



# Possible processes of FIT&GAP analyses between ISO20022 and a local standard

# FIT&GAP of message themselves

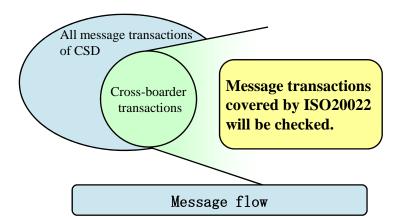
ISO20022 versus Local standard

- 1-to-1
- 1-to-N, N-to-1

Messages ISO20022 covers but CSD does not

Messages CSD covers but ISO20022 does not

#### Message mapping





#### FIT&GAP of formats

ISO20022 versus Local standard

- 1-to-1
- 1-to-N, N-to-1
- items need to be converted

Messages ISO20022 covers but CSD does not

Messages CSD covers but ISO20022 does not

#### Format analysis of each message

A B C D E	F	G	H	
pacs.009.001.01 FinancialInstitution CroditTransferV01	MT 202 General Financial Institution Transfer	Fedwire DTR	CHIPS Dank	Comment
2 GroupHeader				
Messageldentification 3	20: Transaction Reference Number	(1620) NAD	[300] Smill Participant Reference	
4 CreationCaleTime				
6. BatchBacking				
NumberOffransactors 6				MT 202 and Fedwire/CHIPS BTR are single transaction messages.
7 ControlOum	-	-	-	
TotalinterbankSettlerrentAmo una	33A: Yalus Dato/Currency/Interbank Settled Amount Subfield 2: Currency Subfield 3: Interbank Settled Amount	(2000) Amount Currency USD implicit	250] Amount Currency USU implicit	With NumberOffransactions equa to 1. TotalinterbankSettlementAmount repual to the InterbankSettlementAmount.
Intertweek-Settlement/Date	N/A	(1520)	2011	
	Value Date/Currency/Interbank Setfled Amount Subfield 1: Value Date	iMAD"	identification Tag	
9		First Bicharacters	Element 2. Value Date	
1) SettlementInformation				
13 SettlementActhed CLICA 13 SCOVE 14 INDA 15 SINGA	-		-	The MT 202 allows for all settlement methods (albeit implicit For CHIPS and Fedivine, the settlement method is CLRO.
SettlementAccount	53a: Option B Sender's Correspondent	i.		
15	Subfeld 1: Partyldentifer			
CleaningSystem				The message is sent across the Fedure or CHIPS system, so
17				baroparent.
InstructingReimbursement Agent	Sender's Correspondent	Ī	Ī	
	Subfield 2: BIC, Location or Numer&Address			
finstructingReimbursement (\gcnt\ccount	53a: Option A, B or D Sendor's Correspondent		-	
19	Subfield 1: Partyldentifer			

partly quoted from Federal Reserve Bank Services



# Scope of FIT&GAP analyses of local and ISO standards

- 1. Fit and gap analysis of message transactions themselves
  - ① Message mapping: Corresponding messages between local standard and ISO standard are to be surveyed
  - ② Message flow: Transaction flows not only for securities messages but also for payment messages as well as other messages such as notice messages including interlinking messages with other related organizations are to be considered
  - ③ Securities transactions (issuances, investor registration, trades, repo, interest and dividend payments, and redemptions) are to be considered
- Message format: Fit and gap analysis of each message between local and ISO standards are to be conducted
- Code scheme: Code schemes such as ISIN, cash and securities accounts, and character codes between local and ISO standards are to be surveyed

Fit and gap analysis of definition of each terminology may need to be done.

Type of transaction	Messag e mapping	Messag e flow	Messag e format	Code scheme
securities	✓	✓		
payment				
collateral				
Inquirv				

# Work plan



#### Draft schedule of the SF2

1<sup>st</sup> ABMF SF2 (28 September 2010): discuss work plan and schedule of the SF2

Phase 1 (between 1<sup>st</sup> and 2<sup>nd</sup> SF2)

- ➤ Bond transactions to be surveyed will be selected
- Questionnaires (items) for the survey will be drafted

2<sup>nd</sup> ABMF SF2 (Mid-December 2010): discuss bond transactions and questionnaire for the survey (first reporting to TF3)

Phase 2 (between 2<sup>nd</sup> and 3<sup>rd</sup> SF2)

Questionnaire survey will be filled in by the members

3<sup>rd</sup> ABMF SF2 (February or March 2011): present survey results and discuss how to compile them

Phase 3 (between 3<sup>rd</sup> and 4<sup>th</sup> SF2)

- > Survey results will be interpreted and compiled
- ➤ Contents of the report to TF3 will be drafted
- > Supplemental survey may be carried out if necessary

4<sup>th</sup> ABMF SF2 (June or July 2011): discuss contents of the report to TF3

# Draft schedule of the SF2 (cont.)

4<sup>th</sup> ABMF SF2 (June or July 2011): discuss contents of the report to TF3

Phase 4 (between 4<sup>th</sup> and 5<sup>th</sup> SF2)

➤ The report will be drafted

5<sup>th</sup> ABMF SF2 (September 2011): discuss the draft report to TF3 (second reporting to TF3)

Phase 5 (between 5<sup>th</sup> and 6<sup>th</sup> SF2)

➤ The report will be completed

6<sup>th</sup> ABMF SF2 (December 2011): discuss the report to TF3

Report to TF3 by the end of 2011

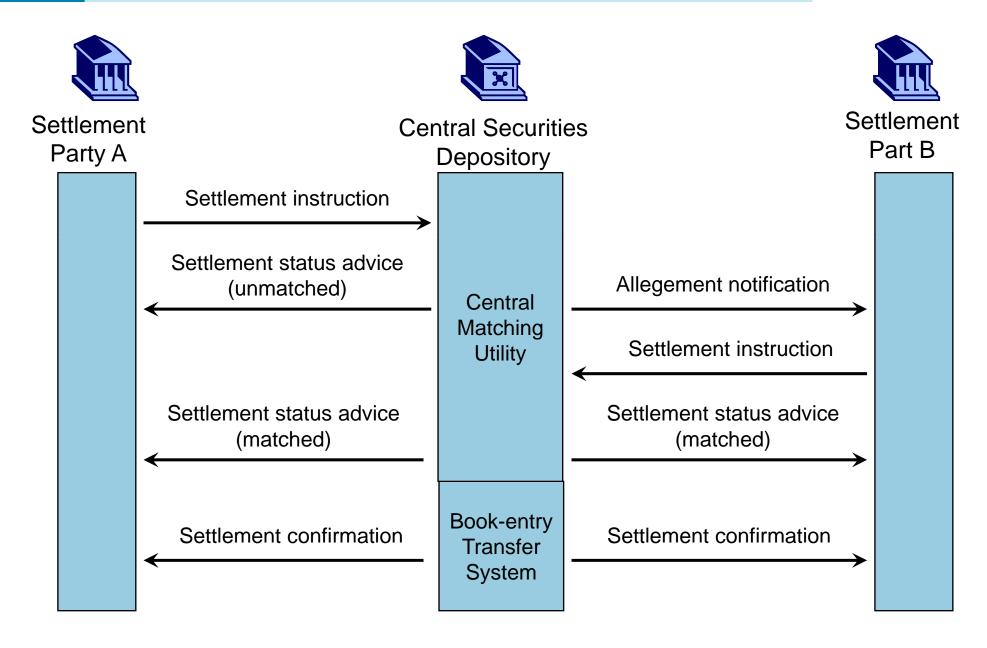


# Scope of information to be collected during phase1

ADB consultants would greatly appreciate it if National Members, National Experts, and International Experts could answer the following questions.

- 1. What kinds of message transactions are to be discussed and which messages are important from cross-border STP perspective if you would have any.
- 2. What kinds of information you would like to know from other countries to promote cross-border STP.
- ➤ Template of the business flow chart of selected business transactions will be distributed to the members and experts with draft questionnaires in November.





# Inputs by the Sub-Forum members

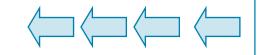
Approach to clarify transaction procedures

International Experts are expected to contribute by providing information on cross-border transaction procedures and possibly related costs in the region

Country A

Cross-border transaction

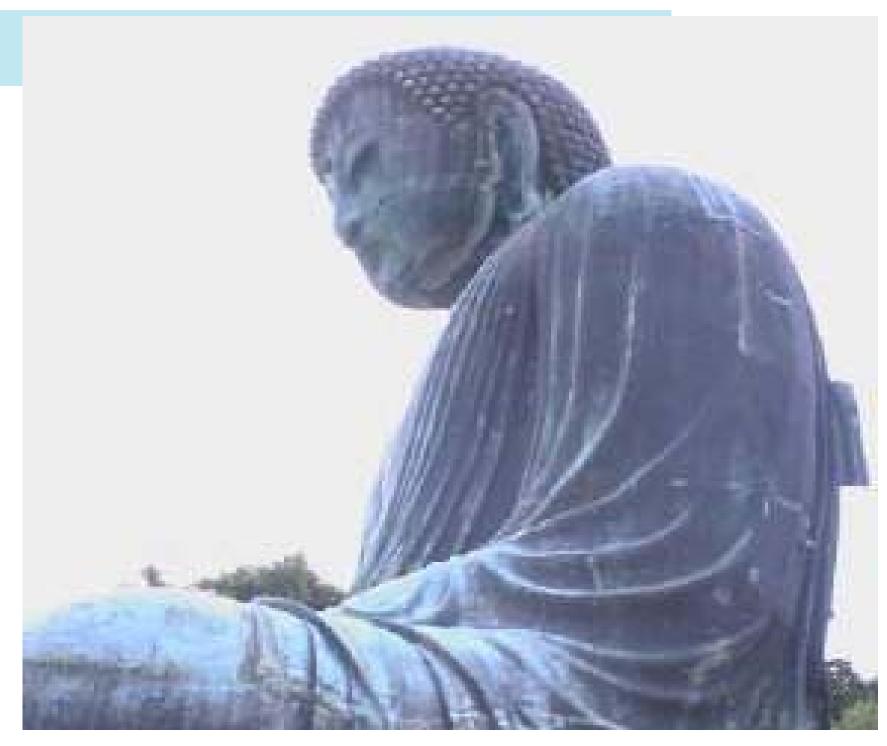
Country B



National Members and Experts are expected to contribute by providing information on transaction procedures in each country

Preaching to Buddha





# Thank you so much



Taiji Inui

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## Messaging standards (formats)

Barrier (refer to page 15 of 24)

Non-use of international standards (including ISO20022) for securities messaging

➤ Without ISO20022, interface and translation for cross-border transactions either at the global custodian or local custodian need to be implemented which will increase costs of development and maintenance as well as risk of error

Recommendations (refer to page 23 of 24)

- Efforts should be made to achieve market-wide use of ISO messaging standards for bond transactions.
- Key market participants, such as the central bank, local securities exchange, clearing house, CCP, CSD and other market utilities should set a lead to the local market by implementing these standards in all communications.
- Market authorities and relevant industry working groups should engage in discussions to identify the key obstacles to the universal use of ISO message standards in the local market, and to produce an action plan to achieve this.
- A target of 5 years is proposed (i.e. by 31 March 2015) for universal implementation of ISO message standards for bond transactions across the ASEAN+3 region.

Fit and gap analysis of local practices and international (ISO) standards

Source: GoE report Part III



# Trade and settlement matching

Barrier (refer to page 16 of 24)
Absence of automated matching and matching not mandate

Recommendations (refer to page 22 of 24)

- Market authorities and the private sector should encourage the use of electronic trade matching and pre-settlement matching systems.
- Where such systems are established, they should use ISO standards rather than proprietary standards for messaging.
- Where such systems are established, consideration should be given to making their use mandatory, especially for pre-settlement matching.

Conformity of matching between local and ISO standards

Source: GoE report part III



### Securities numbering

Barrier (refer to page 15 of 24)

Non-use of ISIN (International Securities Identification Number) for securities numbering

➤ISIN's are not available on the issue date of the bonds

Recommendations (refer to page23 of 24)

- Efforts should be made to achieve market-wide use of ISIN numbering for bond transactions.
- Key market participants, such as the central bank, local securities exchange, clearing house, CCP, CSD and other market utilities should set a lead to the local market by implementing these standards in all communications.
- ISINs should be made available for all existing bonds issued by government and quasi-government entities and by listed companies. ISINs should be available on or before the issuance of new bonds, so that trading can start immediately on issue. ISINs for government bonds and Treasury bills should be published with the auction announcement.
- Market authorities and relevant industry working groups should engage in discussions to identify the key obstacles to the universal use of ISIN in the local market, and to produce an action plan to achieve this.
- A target of 5 years is proposed (i.e. by 31 March 2015) for universal implementation of ISIN for bond transactions across the ASEAN+3 region.

Conformity and convertibility of coding scheme between local and ISO standards

Source: GoE report part III



### Settlement cycle (process)

Barrier (refer to page 16 of 24)
Longer settlement period (T+2 or T+3) being not allowed for cross-border transactions

Recommendations (refer to page 24 of 24)

- Local laws and regulations, settlement procedures and market practices should be reviewed to ensure that there is no market barrier to T+2 or T+3 settlement.
- Restrictions on free-of-payment transfers of securities should be removed.

Agreeing settlement cycle for cross-border transactions



### Physical certificates

Barrier (refer to page 16 of 24)
Some bonds being still in paper certificate form

Recommendations (refer to page 22 of 24)

- Each market should adopt a target of achieving 100% dematerialisation of all bonds issued by government and quasi-government entities and by listed companies. A 3-year target date (i.e. by 31 March 2013) is suggested.
- It should be a regulatory requirement that all new issues of all bonds issued by government and quasigovernment entities and by listed companies, should be in dematerialised form. Possible conflicts between securities laws and companies laws that may hinder this process should be addressed.

Dematerialization (such as book-entry system of securities)

Source: GoE report part III

### **Agenda Items** for SF2

# Enhancing regional Straight-Through-Processing (STP) by harmonization of transaction procedures and standardization of messaging formats

- ① Messaging formats, securities numbering and trade and settlement matching are the major barriers
- ② Cross-border transaction costs in this region are higher than in other developed markets



- ① Clarify all transaction processes related to custodians
- ② Clarify all transaction procedures involved in cross-border transactions from one enduser to the other end-user
  - ✓ national requirements to account for unique circumstance
  - ✓ differences in languages



First, agree upon business procedures to be standardized, then, standardize information to be processed under the framework of ISO20022.

Source: ABMF work plan



# Agenda Items for SF2 (cont.)

- ① By clarifying various cross-border transaction procedures and enhance STP,
- ② By increasing competitions among financial telecommunication networks, cross-border transaction costs can be reduced.
- ① Start the discussion by focusing on government bond transactions first.
- ② Then, corporate bonds, which often involve various corporate actions and other complex procedures
- ① Identifying transaction procedures of securities (issuances; investor registration; trades; repo; interest and dividend payments; and redemptions)
- ② Focus first on investor registration, trades, and interest and dividend payments



After successful launch of regional discussion to identify the transaction processes of custodians and CSDs, the ABMF can expand scope of discussions to other settlement-related barriers such as securities numbering, settlement cycles, and trade and settlement matching to improve settlement procedures.

Source: ABMF work plan



# Scope of the survey at phase 1 (tentative)

- 1. Message related items
  - ① Stocktaking of message transactions (list of messages, message flows, and message mapping tables)
    - ➤ Bond transactions handled by each major player
      - Messages related to issuances, investor registration, trades, repo, interest and dividend payments,
         and redemptions need to be surveyed
      - Frequency, timing, and contents of messages (instructions and confirmations) need to be surveyed
      - Not only normal messages but also other messages such as cancellation need to be surveyed
    - > Payment transactions to settle bond transactions including DVP transactions
    - > Collateral transactions
    - > Inquiries
  - ② Stocktaking of code scheme
    - > Securities numbering (ISIN code), cash account, securities account, language code, etc.
  - ③ Fit and gap analysis
    - Selecting message transactions to be analyzed



# Scope of the survey at phase 1 (tentative)

#### 2. Bond market related items

- ① Major players related to bond trades
  - ➤ Information about CSDs, CCPs, global custodians, local custodians, central bank etc.
- ② Type of bonds
  - > Description about the bonds
  - ➤ Information about transaction patters with CCPs, settling CSDs, OTC or exchange, settlement period, etc.
  - > Transaction volume and value of each bond type
  - Future plan of new bond type issue
- ③ Business flow of each bond type



# Scope of the survey at phase 1 (tentative)

- 3. Technological items (examples)
  - ① Network and system related matters
    - > System configurations (platform, hardware, software and applications)
    - > Network configurations
    - > Communication protocols of each layer (connection with external network)
  - ② Operational related matters
    - > Operation hours for bond related trades
    - > Reliability and availability including back-up policy (contingency plan)
    - > Security requirement including encryption and authentication
    - > Transaction patterns (such as peak hour)
    - > System performance (such as terminal responses and throughput)
    - > System life of current platform



### Securities Settlement Infrastructures

Case of Japan

	Stocks		Corporate	Short -term	Investment	JGSs	
	Street-side	Customer-side	bond	bond	fund		
Order, Execution, Trade	Exchanges,	Order transfer system					
Matching	etc.						
Clearing	JSCC	JASDEC DVP Clearing Corporation				JGBCC	
Book-entry Transfer (Securities)		BOJ					
DVP	Net – net	Gross- net	Gross – gross	Gross – gross	Gross – gross	Gross – gross (RTGS)	
Funds settlement	BOJ • Settlement bank			BOJ			

# End of slides

