

**The 2<sup>nd</sup> ASEAN+3 Bond Market Forum (ABMF)  
Edsa Shangri-la, Manila, the Philippines, 13 and 14 December 2010**

**Meeting Minutes**

**I. Summary**

1. The second ASEAN+3 Bond Market Forum (ABMF) meeting was held in Manila, the Philippines on 13 and 14 December 2010. The main objective of the second meeting was to agree on the scope of the studies and questionnaires for Sub-Forum 1 (SF1) and Sub-Forum (SF2) to start data and information collection. The ABMF members and experts endorsed the proposed scope of studies and the questionnaires with minor revisions. The members and experts also agreed to start providing data and information as soon as possible.
2. In principle, ADB and the ADB consultants will compile answers to the questionnaires based on the data and information provided by the members and experts. Then, the members and experts are asked to validate the answers. However, the national members and experts are strongly encouraged to try answering the questionnaires first, as some of the questionnaires may not be suitable or easily answerable due to particular conditions in the respective markets. The ADB and consultants will assist how to interpret the questionnaires, and will make changes in the questionnaires if necessary.
3. The national members and experts are expected to provide at least some information and data in line with the questionnaires by the next meeting on 16-17 February 2011. The consultants will accept any form of information. To avoid unnecessary duplicated works, the members and experts may provide existing information in any forms and information provided to international organization, ASEAN, or others. If English documents are not available, the consultants may be able to accept local languages. The members and experts acknowledged that it is not possible for some of the countries to answer all the questionnaires because markets are not yet developed. In such case, it is advisable to answer the questionnaires as much as possible.
4. There may be a case that regulations, laws, and market infrastructure are under review or under construction. In such case, it is expected that the present condition should be reported. If a plan is clear with fixed schedule, the information based on the new plan should be reported. The consultants will keep updating the data and information until they start writing the final draft, probably in early July 2011. To provide indication regarding the possible and future regulatory changes, it is advisable to include such information in the questionnaire 9 of the SF1 questionnaire as next steps for the market development.
5. As for SF2, the national members are asked to make presentations on the questionnaire 1 and 2 at the next meeting to share the information on their market infrastructure and role of CSDs. To do so, the national members and experts are requested to update the country comparison matrix compiled under the GoE study.
6. The international experts are expected to provide relevant information such as market guides, diagrams and charts to explain the ASEAN+3 markets. The information will contribute to expedite the data and information collection.
7. At the next meeting, ADB will report progress of data and information collection for each market. The members and experts will be updated and should be able to monitor the progress of data and information collection.
8. The SF1 members discussed possible agenda items under the ABMF after the current information collection exercise. The further discussion will be made at the next meeting. The members and experts are encouraged to propose additional topics to be discussed at the meeting.

9. As a new SF1 national member from the People's Republic of China (PRC), National Association of Financial Market Institutional Investors (NAFMII) joined.
10. The SF2 members nominated Mr. Hiroshi Ikegami of Japan Securities Depository Center (JASDEC) as another Vice Chair.
11. The SF2 members disqualified Tata Consultancy Service (TCS) as an international expert because they did not participate the first and second meetings, and they may not contribute to the ABMF as originally expected.
12. The third ABMF meeting will be held in Kuala Lumpur, Malaysia, on 16-17 February 2011, kindly hosted by Securities Commission Malaysia. ADB as the Secretariat will send a formal invitation to the ABMF members and experts. The fourth meeting is expected to be held in July 2011, kindly hosted by the Korean national members.
13. All presentation materials, as well as the final versions of questionnaires and supporting documents are available at the members-only section of the website (<http://asean3abmf.adb.org>).

## **II. Sub-Forum 1 Part 1: How to construct the SF1 Study**

### **A. Introductory Remarks and Review of Work done since Tokyo**

14. The SF1 Chair, Mr. Yutaka Ito, welcomed members and experts, and explained the program.
15. He also welcomed NAFMII as a new national member from the PRC.
16. Mr. Satoru Yamadera, ADB secretariat, explained the work done since the first ABMF meeting in Tokyo. He thanked for kind contribution from the members and experts as well as the ADB consultants to produce significant amount of documents before the meeting.
17. As for the work plan, he explained that the information collection will start once the members and experts agree on the scope of the studies and questionnaires. After collecting information from the members and experts, the ADB and consultants will visit the member states between April and June. The country visits are intended to facilitate understanding the markets and validate the answers compiled by the consultants.
18. He announced that the Malaysia has kindly offered to host the 3<sup>rd</sup> ABMF meeting in Kuala Lumpur on 16 and 17 February 2011. One of main objectives of the third meeting will be to finalize a list of potential projects and future priorities for ABMF. The list will be reported to the ABMI Task Force 3 (TF3) at the ABMI meeting in early March in Bali, Indonesia.
19. The 4<sup>th</sup> ABMF meeting will be kindly hosted by the Korean national members in July. By the 4<sup>th</sup> meeting, the information collection exercise should be completed. The discussion at the 4<sup>th</sup> meeting should focus on how to present and disseminate the information collected.
20. After the 4<sup>th</sup> meeting, the consultants will draft reports for SF1 and SF2 respectively, and submit them to the 5<sup>th</sup> ABMF meeting in early September 2011, tentatively planned to be held in Manila. After the approval by the members and experts, the draft reports will be submitted to the ABMI TF3, by early October 2011. After the approval by the ASEAN+3 Deputies, the reports should be published, and the next round work under the ABMF should commence from 2012.
21. Mr. Yamadera welcomed the ABMF members and experts to participate in the weekly consultant calls normally scheduled on Friday.

## **B. Review of the scope of SF1 Study and questionnaires**

22. Prof. Shigehito Inukai, ADB consultant, explained the scope of the study and questionnaires with reference to the ABMI Group of the Expert (GoE) Report<sup>1</sup>.

23. The SF1 questionnaires not only cover the scope which the GoE Report, but also cover trading conditions and regulatory environment. The ADB consultant explained the links between the GoE Report and the questionnaires, and pointed differences. Particularly, he pointed the differences with respect to legal structure and regulatory environment. For example, he explained that physical certificates which are identified as a settlement barrier in the GoE report may need to be examined with reference to legal structure, which will be examined under the SF1 study. The ADB consultant strongly encouraged the members to check the GoE report and use the GoE market matrix in the appendix 3 of the Part 3 of the report as a checklist for information to be included.

24. The consultant explained some technical issues which may not be easily solved. For example, some legal terminologies may not have definite English translations; hence, some confusion may be caused. There may be a case that definition of bonds may be different, so it may not be easy to make comparable statistics. The consultant will accept such differences, but the members and experts should provide explanation sufficiently.

## **C. Comments: Sharing experiences by the Japanese members on how to collect information for the SF1 Questionnaires**

25. Mr. Ryuichi Shiina from Japan Securities Dealers Association (JSDA) explained the roles of JSDA as an industry association as well as a self-regulatory organization (SRO) also functioning as statistics office and data center. These functions and roles enable them to lead the securities market in Japan. He pointed such role and function of the association is very helpful and facilitative to gather data on the Japanese securities market particularly in light of the most of bond trading in Japan being executed on OTC market (namely off-regulated exchange). He recommended having similar kind of association (which might be a regulated exchange itself in the absence of OTC market) in every market in the region. In fact, JSDA made a lot of contribution to compile the Japan's sample draft answer to the questionnaires, supplemented by the basic and regular research activities on overall Japanese securities market by its affiliated research institute, Japan Securities Research Institute (JSRI).

26. Mr. Shuji Yanase, Tokyo Stock Exchange Legal Counsel for ABMF, shared his view how to examine the legal and regulatory issues. He emphasized aspects to be included in the study, i.e., 1) Protection of Investors from Fraud or Misrepresentation; 2) Establishment of Legal Rights of Bondholders; 3) Secondary Market for Exit of Investment before Maturity of Bonds; 4) Protection of Bondholders in Financial Difficulty of the Issuer; 5) Costs of Finance by Issue of Bonds; 6) Supervision of Financial Institutions; 7) Professional Investors or Professional (Wholesale) Market; and 8) Use of Independent Accountants and Lawyers.

## **D. Q & A and discussion**

27. The members from Brunei Darussalam, Cambodia, and the Lao, PDR mentioned that the information collection should consider the differences with respect to the market developments. The ADB and ADB consultants agreed and reiterated that the answer should be on the best- efforts basis.

28. A member from the PRC asked who would compile the actual report to be published. In principle, the ADB and ADB consultants will compile the answers to the questionnaires and report based on the information and responses provided by the members and experts. In this regard, the members and experts are asked to provide information as soon as

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<sup>1</sup> The ABMI GoE Report can be downloaded from the ABMF website.

possible to expedite the information collection exercise. After compiling answers for the markets respectively, and correspondences with the national members and experts, the ADB and the consultants will make country visits. The ADB will contact members individually to organize the visits.

29. A member from the PRC questioned how to answer if regulatory reviews are ongoing. The ADB and the consultants responded that the members are asked to provide information and answer the questionnaires under the current regulatory and legal framework. However, they will keep tracking and updating the information. Practically speaking, the 4<sup>th</sup> meeting will be the cut-off time as the consultants will start drafting reports after the meeting. To provide indication regarding the possible and future regulatory changes, the national members and experts are encouraged to answer the questionnaire 9 of the SF1 questionnaires to indicate future market developments.

30. A member from Indonesia enquired on the timeframe for the statistics requested in Q7. If data is available, it is advisable to provide for the past 3 years.

31. A member from Japan proposed to include questions on Islamic finance (more specifically, on Islamic bonds or *Sukuk*) and securitized products. The questionnaires are revised accordingly.

32. Korean members supported the scope of the study and proposed questionnaires.

33. A member from Malaysia questioned how to synchronize the existing market guide and ABMF information. As this is related to the issue how to disseminate and publish the information collected, it will be discussed at the 4<sup>th</sup> meeting. With regard to the information collection, the ADB consultants accept existing market guides as reference documents.

34. A member from Thailand asked for clarification on the questionnaire on costs. The ADB consultant responded that it is better to have individual fees per market action, and suggested the use of a sample bond issue (size and conditions) to normalize fee levels.

35. ADB Secretariat stressed that the consultants would accept any form of information, and asked members to submit raw materials in local language if these are only available information sources.

36. Based on the discussion, the ADB consultant will include questions on securitized and structured products, besides, sections for the Islamic Finance and next step which allow explaining future market developments.

## **E. Presentation on the Japanese Government Bond market developments**

37. Mr. Kohei Noda, Deputy Director, Dept Management Policy Division, Financial Bureau, Ministry of Finance, Japan, shared experiences of Japan to develop the Government Bond (JGB) market.

## **F. Report on ABMF-Korea**

38. Dr. Suk Hyun from Korea Capital Market Institute (KCMI) explained the establishment of ABMF-Korea, a preparatory national working group for ABMF. He provided its vision and encouraged other national members to establish a similar national body. He stressed importance of the public-private partnership. ABMF-K will coordinate and assist information collection exercise domestically and support regional works. Its function may be expanded in the future.

## **III. Sub-Forum 1 Part 2: Possible Next Steps for ABMF and SF1 after the information collection exercise**

### **A. Recent bond market developments in the Philippines**

39. Mr. Roberto Tan, Treasurer of the Philippines Treasury, explained recent developments in the Philippines bond markets. He explained Global Peso bond, which is a local currency note issue placed in the international market, and multi-currency government bond issues targeting overseas Filipino workers.

40. The members expressed their strong interests as they may be able to learn more from the experience by the Philippines.

## **B. TOKYO PRO-BOND Market: New bond market for professional investors**

41. Mr. Yutaka Ito of Tokyo Stock Exchange (TSE), and Chief Operating Officer of TOKYO AIM, Inc., explained the recent initiative by TSE to create a new bond market for professionals. The market is expected to be a new platform to attract issuers and investors who are facing problems with the existing bond issuance rules. The new market is expected to provide more flexibility in terms of documentation and choice of currency and settlement. TSE, which is the regulator of the market, will accept English documentation as well as foreign currency issues.

## **C. Brainstorming session**

41. Mr. Lee Kok Kwan (Kwan), Deputy CEO & Treasurer of CIMB Group, and President of Financial Markets Association of Malaysia, outlined his aspirations in promoting cross-border investments and issuances of local currency bonds among the ASEAN+3 countries.

42. In enabling ASEAN+3 cross border investments in local currency bonds, he proposed the establishment of a New international credit rating agency (ICRA) as a means to ensure that more objective rating criteria would be used to reflect global sovereign ratings for all major countries in the world, including the ASEAN+3 countries. Sovereign rating criteria should rightfully focus on current and forward-looking balance sheet and income statement strength of a sovereign, rather than on subjective considerations. He therefore stressed that this New ICRA, to be jointly owned by ASEAN+3 stakeholders, has never been more urgent for ASEAN+3 countries in order to effect a more efficient capital allocation across the region. He also pointed out that most ASEAN+3 funds are not hot money as they are long-only funds reflecting the high savings rate of each ASEAN+3 country and should therefore be perceived as more stable than other global funds which are mostly leveraged funds.

43. While the establishment of this New ICRA is being deliberated, he suggested that ASEAN+3 countries should proceed with mutual recognition of local CRAs in the region. To qualify for mutual recognition, the local CRAs would be required to meet clear minimum empirical standards. He justified the merits of mutual recognition for credit ratings on the fact that the performance of our local CRAs, as measured by default probabilities and rating migration, has been strong compared to the existing ICRA's.

44. In enabling ASEAN+3 cross border issuance of local currency bonds, he explained the importance of achieving mutual recognition of regulations whereby approval and offering documents from host country should be accepted in another member country. He proposed to put the approval and offering process for ASEAN+3 local currency bond issuances on par with Eurobond Regulation S issuances which are widely accepted by regulators and investors in the region. This could help to expedite the ASEAN+3 cross border issuance of local currency bonds in a cost-efficient and timely manner.

45. Mr. Kwan also proposed that an Asian Bond Fund 3 (ABF3) be set up to identify and resolve impediments in cross border investments and issuances of local currency bonds in the region. Finally, he outlined an implementation plan and timeline for all these proposals, including New ICRA, mutual recognition approach and ABF3, to be tabled to ABMI Task Force Meeting in March 2011 and to be accomplished by ABMF by end-2011.

46. Mr. Yeow Boon from Securities Commission Malaysia recommended that all proposals which are raised in the brainstorming session should be adequately analyzed and considered by ABMF members. It is important that expertise of ABMF members is optimized

and consensus is built among ABMF members before any proposal is tabled to ABMI Task Force. On this consideration, he proposed establishment of a number of review committees (RC) comprising members from ABMF to evaluate each of these proposals. The members are encouraged to contribute their expertise by participating in the discussions of at least one RC which could take place through e-mail or conference calls.

47. Mr. Satoru Yamadera, ADB Secretariat, explained other possible agenda items which may be discussed at the next meeting. One is creation of a new bond index and the other is creation of a single regional investment license through mutual recognition, or “Asian funds passporting”, which is proposed by State Street. He explained the concepts and backgrounds. He also encouraged the members to read the paper provided by State Street on the Asian funds passporting.

48. Many of the members acknowledged importance of the subjects proposed, and agreed to discuss continuously in the next meeting. The members recognized importance of collecting opinions from various stake holders relevant to the issues proposed, such as institutional investors, pension funds, and rating agencies.

49. Some of the members commented that it is necessary that new agenda items should have link or continuity to the current discussion. Some also mentioned that it is also necessary to consider the roles and divisions of responsibility with other ABMI Task Forces as there may be an issue of efficient resource allocation.

50. A member from Japan referred to a ‘bond valuation agency’ in Korea (which is usually called as ‘bond pricing agency’ in Malaysia, Indonesia and the other countries) as a leading example to enhance price discovery and market transparency, as a potential study subject.

51. A member from KOFIA, Korea, commented that KOFIA launched an online bond trading system, *FreeBond*, Apr. 2010. *FreeBond*, operated by KOFIA, enables financial investment firms and market participants to discover quotes easier, and supports trade negotiations. The success of *FreeBond* in the market with its wider use by market participants is expected to become a turning point in the advancement of the OTC bond market in Korea. *FreeBond* not only improves security of bond trading but also integrates the market. Information asymmetry will be reduced, and price discovery and search of trading counterparts become easier. *FreeBond* was designed by and for bond traders, thus, it is market-friendly and convenient for users. The system can execute all the requirements needed for trading, such as various trading methods and analyses. In addition, use of bond market information concentrated in *FreeBond* makes it possible to calculate real-time bond indices and facilitates development of new products, such as bond ETFs.

52. An international expert commented that emergence of a professional market in the region is a good sign, but there is a need for harmonizing the definition of the professional. If possible, it may lead a way to create much less restricted markets. This may be a way to consider in the future discussion.

53. ADB secretariat welcomes any further comments and a new proposal for possible agenda items to be discussed at the meeting. The secretariat appreciates earlier inputs from the members and experts, hopefully by 13 January 2011.

#### **IV. Sub-Forum 2 Part 1: How to construct the SF2 Study**

##### **A. Opening by the Chair and Vice Chair**

54. Mr. Jong-Hyung Lee, the Chair of SF2 and Head of International Relations and Planning Team of Korea Securities Depository (KSD), welcomed the members and experts. Mr. Lee stressed the objective of SF2 to reduce transaction costs and increase efficiency in the ASEAN+3 bond markets. He strongly encouraged the members and experts to contribute to SF2 work to achieve the objective.

55. He also invited Ms. Margeret Mutiara Tang, Director of Indonesia Central Securities Depository (KSEI), as the SF2 Vice Chair for her remarks.

56. To facilitate communication with ABMI TF3 Co-Chairs, Japan and Malaysia, the Chair proposed to have another Vice Chair from Japan. The members agreed to nominate Mr. Hiroshi Ikegami of JASDEC as another Vice Chair. JASDEC has been a very active member of GoE, and is expected to contribute continuously.

## **B. Outline of SF2 Study and Work plan**

57. Dr Taiji Inui, ADB consultant, outlined objective of SF2, issues and vision behind the work, possible scope of the work, and work plan.

58. The ADB consultant suggested that the members and experts can refer to Japanese and Indonesian draft sample answers as references. The ADB and ADB consultant thanked KSEI for their prompt response to the draft questionnaires.

59. To identify business transaction processes and compare them across the ASEAN+3 markets, the consultant stressed importance of prioritizing steps to be followed because the tasks ahead are not only enormous but also there has not been any precedent. In other words, the work must take a building-block approach to reach the ultimate objective to have more harmonized markets.

60. Therefore, by the next ABMF meeting, the national members are asked; first to update the GoE market comparison matrix<sup>2</sup>; then, to draw settlement infrastructure chart for their respective markets, which is Questionnaire 1; and provide information on national CSD, which is Questionnaire 2. It is desirable to answer questionnaire 3 if possible.

61. To expedite the study, the international experts are requested to provide information and charts to explain the markets in the region.

## **C. Q&A and discussion**

62. The members and experts agreed with the scope of the study and the questionnaires, though the works involved may be demanding. The ADB and consultants gave their assurance that the consultants are primarily responsible for compiling answers based on information provided by the national members. However, in comparison to SF1, the SF2 national members may be requested to provide information which may be necessary to be compiled by the members, such as diagram and charts to explain the markets. To reduce the burden, if some of information is available only in local language, the consultants would accept the information.

63. Some members questioned that the scope of the study would be limited to bond markets. The ADB and consultants responded that, to tackle enormous tasks involved, it is better to take a building-block approach. Therefore, the study will first focus on trade transaction, and that of government bonds. Then, the scope should be expanded to, for example, investors registration, issuance, interest payment, and redemption. The scope should also be expanded to corporate bond and equity. However, if the market is very early stage of development and only equity market is available, it is better to provide information on the equity market. The information would facilitate the consultants to understand the market and market infrastructure in the particular country.

64. A member from the PRC supported general framework of the questionnaires and intention to focus on market infrastructure. The study would facilitate better understanding of market infrastructure by the regulators and support their early detection of potential risks.

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<sup>2</sup> Under the discussion process, the GoE compiled market comparison matrix to examine the differences. The previous matrix only covers the PRC; Hong Kong, PRC; Indonesia; Japan; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam. Therefore, the new template which includes Brunei Darussalam; Cambodia; Lao, PDR; and Myanmar is also uploaded at the ABMF members-only website.

65. A member from Indonesia questioned possible overlap of the SF1 and SF2 questionnaires. The ADB consultants responded that they will make sure to share the information, so unnecessary duplication can be avoided.

66. A member from Cambodia proposed to have a workshop, and possibly a training course, as the SF2 study involves highly technical issues. As for this proposal, SWIFT and JASDEC kindly offered their cooperation and support. ADB will consider and plan the workshops in the most effective and efficient manner for the member states. For example, the workshop and country visits by the consultants may be organized back-to-back. In the meantime, if some technical assistance is necessary, ADB can arrange a conference call to support working level staff which is requested to answer the questions.

67. Some of the international experts expressed their strong support for ABMF, and offered to provide their internal documents which explain the Asian markets with charts and diagrams. This was very much welcomed as the information will expedite the study.

68. An international expert proposed to clarify central bank or commercial bank money flows in the diagrams because they may differ considerably.

69. An international expert questioned the relationship between the regional settlement intermediaries (RSI) examined in the GoE report and work under the SF2. The ADB Secretariat responded that ABMF will not discuss and choose what needs to be built as RSI. This decision should be made by the other ABMI Task Force. However, the work under the ABMF will contribute to the discussion regardless of the choice of RSI. In addition, the work should contribute and improve existing transaction channels.

70. An international member commented the establishment of ABMF is positive sign of growing regional cooperation and it is expected to contribute to international forum discussion such as SMPG.

71. An international member suggested making the questions and documents in more plain language to avoid possible misinterpretation and misunderstanding.

72. ADB Secretariat requested the national members to make presentations on the questionnaire 1 and 2 at the next meeting. The presentations should enable us to share the information on market infrastructure and role of CSDs in the region. To do so, the national members and experts are requested to update the country comparison matrix compiled under the GoE study.

## **V. Sub-Forum 2 Part 2: Information session**

### **A. Will transaction costs be high in Asia – a global custodian’s view**

73. Mr. Masayuki Tagai, Executive Director of Global Market Infrastructure, JP Morgan, explained the global custodian business model based on his institution. He highlighted transaction costs as proxy for market efficiency. In this regard, he supported the findings by the GoE.

74. Given complexities of the markets in Asia, it is inevitable to utilize sub-custodians, and sub-custodians can accommodate and reduce some inefficiency. However, it is desirable to increase transparency in the market transaction procedures; hence, it may become possible to streamline inefficiencies for both global and local custodians. In addition, it may be necessary to consider integration of depositories. Though CSD transaction fees may be negligible as the GoE study shows, co-existence of different depositories for different securities may increase transaction costs.

### **B. How to make an efficient and effective discussion to set standards – lessons from the EU and SMPG and tips for a successful international discussion**

75. Mr. Alexandre Kech, Securities Standards Development, SWIFT, explained what is necessary to make market standardisation successful. He stressed importance of mutual



understanding and mindset of the participants. Particularly, he pointed importance of accepting differences; ensuring good communication even among non-English natives; and sharing views and culture. He also added patience may be necessary for successful negotiation.

76. He also emphasized importance of standardization and benefit of standardization. In the future, it is desirable ABMF functions like a Regional Securities Market Practice Group for Asia.

### **C. How to make international IT developments successful**

77. Mr. Todd Slater, Director, Asia Pacific, Sun Gard, shared his experience in Asia as a guest speaker. He highlighted the complete STP practices are already evident in the repo markets and mentioned the use of a central counterparty (CCP) is a global trend. He also suggested importance of common formats because most transactions are concentrated into only a few typical data elements.

### **VI. Other issues**

78. The SF2 members discussed the membership of Tata Consultancy Services as an international expert. The SF2 members agreed to disqualify Tata Consultancy Service (TCS) as an international expert because they did not participate the first and second meeting, and they may not contribute to the ABMF as originally expected. However, the members also agreed to invite Tata as a speaker for the next ABMF meeting because ABMF should not be seen as exclusive.

79. The SF2 members will discuss whether they would like to nominate another IT vendor as an international expert at the next meeting.