## 3rd ASEAN+3 Bond Market Forum (ABMF) Meeting
### 16 – 17 February 2011 / Kuala Lumpur, Malaysia
#### Venue: Securities Commission Malaysia

<table>
<thead>
<tr>
<th>TIME</th>
<th>PROGRAMME</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>16 Feb 2011</strong></td>
<td><strong>DAY 1 : ABMF Sub-Forum 1</strong></td>
</tr>
<tr>
<td>8:30 - 9:00</td>
<td><strong>Registration</strong></td>
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<tr>
<td>9:00 – 9:10</td>
<td><strong>Welcome remarks by Datuk Ranjit Ajit Singh, Managing Director of Securities Commission Malaysia</strong></td>
</tr>
</tbody>
</table>

**Part 1: Proposals to enhance regulations and standards for ASEAN+3 cross-border investment and issuance activities**

| 9:10 – 9:20 | **Introduction by Dato’ Lee Kok Kwan, Vice Chair of SF1 (Deputy CEO & Treasurer of CIMB Group)** |

**Session 1 – Dialogue with leading credit rating agencies (CRAs) in the region**

| 9:20 – 10:50 | **Role of regional CRAs in promoting cross-border investments and primary issuances through higher levels of cooperation, including setting up of a new international CRA that covers global sovereign ratings, regional financial institution and corporate ratings and cross-border issuances**  
**Presentation by selected CRAs from ASEAN countries (in alphabetical order of country name):**  
- **Mr. Ronald T Andi Kasim**, President Director of PT Pemeringkat Efek Indonesia (PEFINDO)  
- **Mr. Chong Kwee Siong**, Deputy CEO of RAM Rating Services Berhad (RAM Ratings)  
- **Dr. Santi Kiranan**, President of TRIS Rating Co. Ltd. (TRIS)  
**Presentation by selected CRAs from Plus3 countries (in alphabetical order of country name):**  
- **Mr. Guan Jian Zhong**, Chairman and President of Dagong Global Credit Rating Co., Ltd. (Dagong)  
- **Mr. Kim Jung-Dong**, General Manager, NICE Investors Service Co., Ltd. (NICE)  
**Facilitator: Securities Commission Malaysia** |

| 10:50 – 11:15 | **Coffee Break** |
## Session 2 – Dialogue with central bank, ACRAA, institutional investors and intermediaries in the region

<table>
<thead>
<tr>
<th>Time</th>
<th>Activity</th>
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| 11:15–12:45| **Linkages required by institutional investors and intermediaries in increasing ASEAN+3 cross-border investment and primary issuance flows, with particular views on mutual recognition of credit ratings and setting up of a new international CRA based in the region**<br>Outline/Presentation by:  
  - **Mr. Adnan Zaylani bin Mohd Zahid**, Director, Investment Operations and Financial Market, Bank Negara Malaysia  
  - **Mr. Wan Kamaruzaman Wan Ahmad**, General Manager, Treasury Department, Employees Provident Funds  
  - **Mr. Santiago Dumlao**, Secretary-General, Association of Credit Rating Agencies in Asia (ACRAA)  
  - **Mr. Takahiro Yazawa**, Sumitomo Mitsui Banking Corporation (Japan’s National Member for ABMF)  
  
  *Facilitator: CIMB Group* |
| 12:45–14:00| **Lunch Break**                                                           |
| 14:00–15:00| **Comments and opinions for other ABMF future project proposals**         |
|            | • ABF 3                                                                    |
|            | • Asian Funds Passporting                                                    |
|            | • Improving Bond Index                                                      |
|            | • Common framework and mutual recognition of bond issuance program          |
|            | **Part 2: Information collection update**                                  |
| 15:00–15:30| **Presentation by Prof. Shigehito Inukai, ADB Consultant on Data and Information collection update** |
| 15:30–15:45| **Coffee Break**                                                           |
| 15:45–16:15| **Information update: Republic of Korea**                                 |
|            | **Presentation by KCMI on Korean Market Guide**                           |
| 16:15–17:30| **Information update by other countries:**                                |
|            | Brunei Darussalam; Cambodia; PRC, Indonesia; Lao PDR; Malaysia; Myanmar; Philippines; Thailand; and Viet Nam |
| 17:30-17:45| **Closing Remarks by SF1 Chair**                                          |
| 19:00      | **Dinner hosted by CIMB Malaysia**                                         |
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<tbody>
<tr>
<td>17 Feb 2011</td>
<td>DAY 2 : ABMF Sub-Forum 2</td>
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<tr>
<td>8:00 - 8:30</td>
<td>Registration</td>
</tr>
<tr>
<td>8:30 – 8:40</td>
<td>Opening Remarks by SF2 Chair, Mr. Jong Hyung Lee</td>
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<tr>
<td><strong>Part 1: How to construct the SF2 Study: Discussion on the draft questionnaires and Q&amp;A</strong></td>
<td></td>
</tr>
<tr>
<td>8:40 – 9:00</td>
<td>Presentation by Dr. Taiji Inui, ADB Consultant Data and information collection update</td>
</tr>
<tr>
<td>9:00-10:30</td>
<td>Presentation by the national members: Explaining market infrastructure and role of CSDs Brunei Darussalam; Cambodia; People’s Republic of China; Hong Kong, PRC; Indonesia</td>
</tr>
<tr>
<td>10:30 – 10:45</td>
<td>Coffee Break</td>
</tr>
<tr>
<td>10:45 -12:15</td>
<td>Presentation by the national members Japan; Republic of Korea; Lao, PDR</td>
</tr>
<tr>
<td>12:15 – 13:30</td>
<td>Lunch Break</td>
</tr>
<tr>
<td>13:30 – 15:00</td>
<td>Presentation by the national members Philippines; Thailand; Viet Nam</td>
</tr>
<tr>
<td>15:00 – 15:15</td>
<td>Coffee Break</td>
</tr>
<tr>
<td>15:15 – 16:00</td>
<td>Information Session Regional custodian business chain and major IT obstacles for HSBC</td>
</tr>
<tr>
<td>16:00 – 16:45</td>
<td>Information Session Pre-settlement matching system (PSMS) by JASDEC</td>
</tr>
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<td>16:45 – 17:00</td>
<td>Closing Remarks by SF2 Chair</td>
</tr>
<tr>
<td><strong>17:10 – 17:40</strong></td>
<td><strong>Closed session only among the SF2 members</strong></td>
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</table>

Evaluation meetings among the Chairs, Vice Chairs, the ADB consultants and ADB: 17 Feb 18:00-18:30: Evaluation meeting
3rd ASEAN+3 Bond Market Forum (ABMF) Meeting

Dato' Lee K. Kwan
Deputy CEO & Treasurer, CIMB Group
Vice Chair of ABMF Sub-Forum 1

16 February 2011
@ Kuala Lumpur
Non-domestic investments of each ASEAN+3 nation’s excess savings (public & private sector) are predominantly lent to the US/European markets.

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.
To significantly increase the non-domestic investments of ASEAN+3 savings (public and private investments) into the ASEAN+3 local currency markets (sovereign and corporates).

To promote local currency sovereign and corporate debt markets to same degree as what ASEAN+3 governments do for their (local currency) equity markets.
Recap of ASEAN+3 Bond Market Forum: Focus & End-Stage

Our Focus

1. To enable ASEAN+3 cross-border investment flows into ASEAN+3 regional local currency markets

2. Need to focus on enabling ASEAN+3 cross border investments; exercise is doomed to failure regardless of how strong the ASEAN+3 cross border issuance pipeline unless cross border ASEAN+3 investment demand is enabled

3. Focus is on ASEAN+3 excess savings and the ASEAN+3 investor base and not international investors
Main Impediments to ASEAN+3 Cross-Border Investments and Primary Issuances (in local currency)
Main Impediments to ASEAN+3 Cross-Border Investments and Primary Issuances
Reliance on Existing International Ratings

- For cross border investments, Asean+3 relies heavily on international ratings
- Most ASEAN+3 banks and corporates are rated “JUNK” or border line investment grade credits by international credit rating agencies
- This is because ratings of Banks and Corporates are mostly capped by the rating of their sovereign
- Resulting in large parts of ASEAN+3 credits rated junk or un-investible credits
- No issue if these international ratings are reflective of relative credit weaknesses of ASEAN+3 sovereign versus European nations
- Unfortunately existing international sovereign ratings do not reflect most Asean+3 sovereign credit fundamentals (much lower leverage, much higher reserves/capital and savings) and credit market prices (CDS and bond prices)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>China</td>
<td>A1/ A+</td>
<td>A1/ A+</td>
<td>Aa3/ AA-</td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>Ba3/ BB-</td>
<td>Ba2/ BB-</td>
<td>Ba1/ BB</td>
<td></td>
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<tr>
<td>Thailand</td>
<td>Baa1/ BBB+</td>
<td>Baa1/ BBB+</td>
<td>Baa1/ BBB+</td>
<td></td>
</tr>
<tr>
<td>Korea</td>
<td>A1/ A</td>
<td>A1/ A</td>
<td>A1/ A</td>
<td></td>
</tr>
<tr>
<td>Portugal</td>
<td>Aa2/ AA-</td>
<td>Aa2/ A+</td>
<td>A1/ A+</td>
<td></td>
</tr>
<tr>
<td>Ireland</td>
<td>Aaa/ AAA</td>
<td>Aa1/ AA</td>
<td>Baa1/ A</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>Aa3/ A+</td>
<td>Aa3/ A+</td>
<td>Aa2/ A+</td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>Aaa/ AAA</td>
<td>Aaa/ AA+</td>
<td>Aa1/ AA</td>
<td></td>
</tr>
<tr>
<td>U.S.</td>
<td>Aaa/ AAA</td>
<td>Aaa/ AAA</td>
<td>Aaa/ AAA</td>
<td></td>
</tr>
</tbody>
</table>

Source: Bloomberg, Moody’s and S&P
## Main Impediments to ASEAN+3 Cross-Border Investments and Primary Issuances
### Reliance on Existing International Ratings

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<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>China</td>
<td>2,847.3</td>
<td>5.0</td>
<td>52,960%</td>
<td>54.0%</td>
<td>2762.8</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>101.7</td>
<td>3.4</td>
<td>2,991%</td>
<td>34.4%</td>
<td>92.1</td>
<td>16%</td>
<td>17%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>96.2</td>
<td>34.6</td>
<td>278%</td>
<td>27.0%</td>
<td>146.9</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>Thailand</td>
<td>165.7</td>
<td>0.7</td>
<td>23,671%</td>
<td>30.0%</td>
<td>89.2</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>Korea</td>
<td>291.6</td>
<td>9.4</td>
<td>3,102%</td>
<td>30.1%</td>
<td>281.1</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>Portugal</td>
<td>2.1</td>
<td>227.9</td>
<td>0.92%</td>
<td>9.3%</td>
<td>22.0</td>
<td>-10%</td>
<td>-1.0%</td>
</tr>
<tr>
<td>Ireland</td>
<td>0.5</td>
<td>168.0</td>
<td>0.30%</td>
<td>11.5%</td>
<td>26.1</td>
<td>-3%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Italy</td>
<td>36.0</td>
<td>2,688.1</td>
<td>1.34%</td>
<td>15.8%</td>
<td>344.0</td>
<td>-3%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Spain</td>
<td>13.4</td>
<td>990.1</td>
<td>1.35%</td>
<td>18.9%</td>
<td>280.1</td>
<td>-5%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>U.S.</td>
<td>Infinite (Own Local Currency)</td>
<td>N/A</td>
<td>-</td>
<td>10.9%</td>
<td>1,533.8</td>
<td>-0.7%</td>
<td>-0.3%</td>
</tr>
</tbody>
</table>

**Source:** Bloomberg, ADB, Eurostat, World-Bank and others
### Main Impediments to ASEAN+3 Cross-Border Investments and Primary Issuances

Reliance on Existing International Ratings – Market Credit Spread Prices

<table>
<thead>
<tr>
<th>Country</th>
<th>5-Year CDS Level</th>
<th>5-Year USD Cash Bond @ Credit Spreads</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 2010</td>
<td>Dec 2010</td>
</tr>
<tr>
<td>China</td>
<td>91</td>
<td>68</td>
</tr>
<tr>
<td>Malaysia</td>
<td>103</td>
<td>73</td>
</tr>
<tr>
<td>Indonesia</td>
<td>187</td>
<td>129</td>
</tr>
<tr>
<td>Thailand</td>
<td>134</td>
<td>99</td>
</tr>
<tr>
<td>Korea</td>
<td>131</td>
<td>94</td>
</tr>
<tr>
<td>Portugal</td>
<td>308</td>
<td>501</td>
</tr>
<tr>
<td>Ireland</td>
<td>265</td>
<td>609</td>
</tr>
<tr>
<td>Italy</td>
<td>190</td>
<td>240</td>
</tr>
<tr>
<td>Spain</td>
<td>261</td>
<td>350</td>
</tr>
<tr>
<td>U.S.</td>
<td>38</td>
<td>42</td>
</tr>
</tbody>
</table>

*3-year USD denominated debt vs 3-year UST

**5-year EUR denominated debt vs 5-year German Bunds

Source: Bloomberg
Main Impediments to ASEAN+3 Cross-Border Investments and Primary Issuances
Establishment of a New International Credit Rating Agency (NICRA)

➢ To establish a New International Credit Rating Agency (‘NICRA’) focusing on global coverage of sovereign ratings encompassing nations in North America, Europe, Latin America and ASEAN+3 nations;

➢ NICRA can play a pivotal role in providing a common platform on credit risk assessment for non sovereigns to institutional investors in the region thereby facilitating cross border investments on Asian currency debt markets

➢ Most critically, NICRA must be based on empirical measures (in assessing probability of default and credit rating of sovereigns):

   ➢ Foreign currency reserves vs foreign currency debt

   ➢ Local currency debt vs savings rate and liquidity in the domestic banking system

   ➢ Current and future deficits, revenue and expenditure streams

   ➢ Ability to print own currency (to conduct quantitative easing)
Main Impediments to ASEAN+3 Cross-Border Investments and Primary Issuances

Immediate Solution:

- Mutual recognition of existing ASEAN+3 local credit rating agencies
- Currently, most regulations and investment policies in ASEAN+3 do not recognize cross-border local credit rating agencies in the region to be used besides their own in-country domestic rating agencies
- Its not about harmonization
- But of mutual recognition - just like how international rating agencies are currently recognized even though different from their own domestic rating agencies
- Quality of Asean+3 local rating agencies are comparable to global rating agencies in credit rating migration and actual default history over the last ten years
Strong Performance of Regional Local Rating Agencies
Straddling Two Major Credit Cycles

**Thailand (1994 – 2009) - TRIS**

<table>
<thead>
<tr>
<th>Rating (From/To) (%)</th>
<th>AAA</th>
<th>AA</th>
<th>A</th>
<th>BBB</th>
<th>BB</th>
<th>B</th>
<th>C</th>
<th>D</th>
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</thead>
<tbody>
<tr>
<td>AAA</td>
<td>75.00</td>
<td>25.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>AA</td>
<td>1.56</td>
<td>89.06</td>
<td>7.82</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>1.56</td>
</tr>
<tr>
<td>A</td>
<td>0.00</td>
<td>3.56</td>
<td>92.89</td>
<td>3.11</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.44</td>
</tr>
<tr>
<td>BBB</td>
<td>0.00</td>
<td>0.00</td>
<td>6.41</td>
<td>86.75</td>
<td>2.56</td>
<td>0.86</td>
<td>0.00</td>
<td>3.42</td>
</tr>
</tbody>
</table>

In Thailand, Malaysia and Indonesia:

- there are ZERO defaults for AAA rated bonds over the last 15 years encompassing the 2008 and 1997/98 credit cycles
- Defaults rates for AA and A rated bonds are low
- This is based on a 15 year time series straddling across two major credit cycles

<table>
<thead>
<tr>
<th>Rating (From/To) (%)</th>
<th>AAA</th>
<th>AA</th>
<th>A</th>
<th>BBB</th>
<th>BB</th>
<th>B</th>
<th>CCC</th>
<th>D</th>
<th>NR</th>
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<tbody>
<tr>
<td>AAA</td>
<td>73.33</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>26.67</td>
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<tr>
<td>AA</td>
<td>4.49</td>
<td>77.53</td>
<td>5.62</td>
<td>0.00</td>
<td>1.12</td>
<td>0.00</td>
<td>0.00</td>
<td>1.12</td>
<td>10.11</td>
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<tr>
<td>A</td>
<td>0.28</td>
<td>6.41</td>
<td>73.26</td>
<td>1.95</td>
<td>0.56</td>
<td>0.00</td>
<td>0.00</td>
<td>2.51</td>
<td>15.04</td>
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<tr>
<td>BBB</td>
<td>0.00</td>
<td>0.54</td>
<td>8.13</td>
<td>48.78</td>
<td>3.52</td>
<td>0.81</td>
<td>1.63</td>
<td>6.50</td>
<td>30.08</td>
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**Indonesia (1996 – 2009) - Pefindo**

<table>
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<th>Rating (From/To) (%)</th>
<th>AAA</th>
<th>AA</th>
<th>A</th>
<th>BBB</th>
<th>BB</th>
<th>B</th>
<th>CCC</th>
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<td>0.00</td>
<td>0.00</td>
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<tr>
<td>AA</td>
<td>1.62</td>
<td>94.65</td>
<td>2.43</td>
<td>0.97</td>
<td>0.16</td>
<td>0.0</td>
<td>0.16</td>
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<tr>
<td>A</td>
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<td>4.05</td>
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<td>0.88</td>
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<tr>
<td>BBB</td>
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<td>0.61</td>
<td>5.73</td>
<td>79.96</td>
<td>9.82</td>
<td>1.23</td>
<td>1.02</td>
<td>1.43</td>
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<tr>
<td>BB</td>
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<td>0.51</td>
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<td>7.69</td>
<td>3.59</td>
<td>10.26</td>
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<tr>
<td>B</td>
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<td>0.0</td>
<td>0.0</td>
<td>6.25</td>
<td>84.38</td>
<td>5.21</td>
<td>4.17</td>
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<tr>
<td>C</td>
<td>0.0</td>
<td>0.0</td>
<td>3.45</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>58.62</td>
<td>37.93</td>
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### S&P Corporate Rating Transition Rates

#### S&P 2009 Corporate Transition Rates for Global Markets

<table>
<thead>
<tr>
<th>From/to</th>
<th>AAA</th>
<th>AA</th>
<th>A</th>
<th>BBB</th>
<th>BB</th>
<th>B</th>
<th>CCC/C</th>
<th>D</th>
<th>NR</th>
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<tbody>
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<td>AAA</td>
<td>87.65</td>
<td>8.64</td>
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<td>0</td>
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<td>0</td>
<td>3.7</td>
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<tr>
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<td>0.36</td>
<td>84.67</td>
<td>7.74</td>
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<td>0.21</td>
<td>6.3</td>
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<td>5.94</td>
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<td>0.53</td>
<td>6.81</td>
</tr>
<tr>
<td>BB</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>3.09</td>
<td>72.95</td>
<td>11.48</td>
<td>0.6</td>
<td>0.7</td>
<td>11.18</td>
</tr>
<tr>
<td>B</td>
<td>0</td>
<td>0</td>
<td>0.16</td>
<td>0</td>
<td>2.29</td>
<td>69.34</td>
<td>8.42</td>
<td>10.14</td>
<td>9.65</td>
</tr>
<tr>
<td>CCC/C</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>6.32</td>
<td>27.37</td>
<td>48.42</td>
<td>17.89</td>
<td></td>
</tr>
</tbody>
</table>

The S&P corporate ONLY transition rates are comparable.

But need to include the structured finance universe (a USD3.285 trillion asset base).


<table>
<thead>
<tr>
<th>From/to</th>
<th>AAA</th>
<th>AA</th>
<th>A</th>
<th>BBB</th>
<th>BB</th>
<th>B</th>
<th>CCC/C</th>
<th>C</th>
<th>D</th>
<th>NR</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>15.51</td>
<td>2.47</td>
<td>2.12</td>
<td>2.95</td>
<td>4.18</td>
<td>7.98</td>
<td>35.52</td>
<td>9.30</td>
<td>0.00</td>
<td>10.71</td>
</tr>
<tr>
<td>AA+</td>
<td>17.05</td>
<td>2.47</td>
<td>2.77</td>
<td>3.11</td>
<td>6.66</td>
<td>30.62</td>
<td>16.87</td>
<td>0.00</td>
<td>18.99</td>
<td>1.47</td>
</tr>
<tr>
<td>AA</td>
<td>0.02</td>
<td>11.66</td>
<td>1.47</td>
<td>1.51</td>
<td>2.90</td>
<td>4.87</td>
<td>23.92</td>
<td>20.54</td>
<td>0.00</td>
<td>29.79</td>
</tr>
<tr>
<td>AA-</td>
<td>8.89</td>
<td>2.01</td>
<td>1.46</td>
<td>1.56</td>
<td>4.35</td>
<td>20.44</td>
<td>19.65</td>
<td>0.00</td>
<td>39.64</td>
<td>2.01</td>
</tr>
</tbody>
</table>

A triple AAA rating is a triple AAA rating.

ASEAN+3 domestic credit rating agencies potentially may have comparable if not superior default ratios versus international ratings for the same rating (AAA, AA, A etc) over the last two credit cycles.
Main Impediments to ASEAN+3 Cross-Border Investments and Primary Issuances
Intermediate Solution – Mutual Recognition

To qualify for mutual recognition, the ASEAN+3 local credit rating agencies must meet
clear empirical minimum standards perhaps including the following:

- minimum 10-year track record of credit rating history (as most bonds issued to-date are of 5-year tenor, there is then reasonable default and credit rating migration history to evaluate the stability and accuracy of initial ratings and actual default history over a reasonable time period)

- minimum number of solicited local currency rated issues: >= 100 ratings to date

- must be regulated by their domestic regulator

- minimum capital requirement to ensure “going concern”

- shareholding structure should be reasonably diverse to promote independence
Main Impediments to ASEAN+3 Cross-Border Investments and Primary Issuances

Mutual Recognition of Regulations by ASEAN+3 Countries

- **Mutual Recognition of Regulations** - approval in home country (Country A) should be good enough for host country (Country B). No additional approvals should be required for ASEAN+3 issuers.

- **Critical to put the process for ASEAN+3 issuances on par with Eurobond Reg S issuances by ASEAN+3 sovereign and corporates**

- **Regulatory arbitrage is already the reality for Eurobond Reg S issue. This cannot be reversed and Reg S needs to be the minimum standard to make it on par for ASEAN+3 local currency sovereign and corporate issuances**

- **Mutual recognition of information memorandum alone is not sufficient**

- **Need to differentiate ASEAN+3 issuers from non Asean+3 issuers, similar to AFTA for trade flows**
Main Impediments to ASEAN+3 Cross-Border Investments and Primary Issuances
Domestic Investors Vs ASEAN+3 Investors Vs Non ASEAN+3 Investors

➢ There is a need to differentiate category of investors to isolate out “hot-money” into ASEAN+3 local currency markets:

**Domestic Investors**

➢ Mostly long only funds reflecting the nature of high savings rate in country

**ASEAN+3 Investors (new category)**

➢ Mostly long only funds reflecting the nature of high savings rate in each ASEAN+3 country

**VS**

**Non ASEAN+3 Investors (Global Funds)**

➢ Vast majority have leverage and long only funds are the small minority

“hot money”??
Summary: ASEAN+3 Regional Bond Markets

1. Establishment of NICRA but critical that NICRA be based on empirical measures of credit strength and health

2. Immediate solution: mutual recognition (not harmonization) of local ASEAN+3 rating agencies

3. Benchmark to achieve is Reg S for ease of cross border issuances and investments but in regional local currencies

4. Differentiation of ASEAN+3 investors and Non-ASEAN+3 investors – “hot money”

5. Mutual recognition where Asean+3 entities (sovereign, banks, corporates) are allowed to market and distribute their domestic (currency) issuances cross border into other Asean+3 countries; Asean+3 investors (central banks, institutional funds, banks, private banking individuals) are allowed to invest in cross border Asean+3 issuances (in the domestic home currency of the Asean+3 issuer)
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THANK YOU
“Role of regional CRAs in promoting cross-border investments and primary issuances through higher levels of cooperation, including setting up of a new international CRA that covers global sovereign ratings, regional financial institution and corporate ratings and cross-border issuances”

3rd ASEAN+3 Bond Market Forum (ABMF) Meeting

16-17 February 2011
Ronald T. A. Kasim, CFA
President Director
ronald.kasim@pefindo.co.id
Content

- Background
- Cross-Border Issuances
- Role of Regional CRA
Background

- The first credit rating agency in Indonesia
  - Formed in December 1993
  - License issued in Agustus 1994
  - Initiated by Bank Indonesia and Finance Ministry
- Affiliated with Standard & Poor’s
  - Standardization of rating methodology
  - Analyst training program
  - Joint marketing activities
Background

- Market Leader
  - Controls around 85% market share (total outstanding in 2010)
  - Has rated more than 400 companies

<table>
<thead>
<tr>
<th>Outstanding per Dec-2010</th>
<th>New Issuance per Dec-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>85.14%</td>
<td>82.88%</td>
</tr>
<tr>
<td>PEFINDO</td>
<td>Pefindo</td>
</tr>
<tr>
<td>Others</td>
<td>Others</td>
</tr>
</tbody>
</table>

14.86%                   | 17.12%                     |
Background

- Shareholders

<table>
<thead>
<tr>
<th>Entity</th>
<th>Number</th>
<th>Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock Exchange House</td>
<td>1</td>
<td>20.0%</td>
</tr>
<tr>
<td>Pension Funds</td>
<td>26</td>
<td>46.7%</td>
</tr>
<tr>
<td>Securities Companies</td>
<td>56</td>
<td>23.1%</td>
</tr>
<tr>
<td>State-Owned Banks</td>
<td>2</td>
<td>3.5%</td>
</tr>
<tr>
<td>Insurance Companies</td>
<td>7</td>
<td>6.7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>92</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
Cross-Border Issuance

- There are 78 US$ issuances amounted to almost $38 billion issued by Indonesian
  - 22 instruments totaling to $32.4 billion issued by Indonesian government
  - 11 instruments totaling to $220 million guaranteed by US Government for Indonesian Aid
  - 45 instruments (20 issuers) totaling to $3.6 billion issued by corporations
- Current outstanding local debt instruments amounting to $14 billion
Role of Regional CRAs

- Challenges
  - Country’s rating is “low” (Indonesia is rated “BB”)
    - Limited differentiation among issuers
    - BB-, B+, B, B- (only 4 rating categories)
  - International Analyst’s limited local knowledge
  - Differences in methodology
  - Different accounting standards
Role of Regional CRAs

- **Role**
  - Synchronizing methodology
  - Harmonizing the ratings/benchmark
  - Special assignment of local analyst
  - Educating/socializing the new NICRA
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f +62 21 7278 2370
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ASEAN+3 BOND MARKET FORUM (ABMF)

Discussion on proposed New International CRA

Chong Kwee Siong
Deputy CEO
16 February 2011, Kuala Lumpur
ACRAA has done a good job in moving towards harmonisation of credit rating practices.

However, the “ACRAA Best Practices” alone does not address the issue of rating harmonisation.

The goal of rating harmonisation – i.e. making the ratings of one DCRA “comparable” to another DCRA’s ratings, may take much longer time to achieve.

Establishing a New International CRA (NICRA) or Regional CRA to issue international scale ratings or regional scale ratings may be more expedient and a better solution.
Key success factors for the NICRA

For the new International CRA (NICRA) to have a greater chance of success, the following issues need to be considered carefully and thoroughly:

1. **Support from the regulators** of the respective ASEAN countries must be present – via regulatory recognition of ratings issued by the NICRA.

2. To ensure financial viability (and sustainability) of the new ICRA, there must be **mandatory rating requirement** (at least during the formative years of the NICRA) for issuers to obtain an international rating from the NICRA in order to obtain regulatory recognition. This is the same model used in developing successful DCRAs in Malaysia.
3. Any changes in rules and regulations **must ensure that national scale ratings continue to be the domain of the respective DCRA.**

4. Shareholders of the NICRA should include the main users of ratings issued by the NICRA (e.g. institutional investors such as banks, pension funds, insurance coys). These parties have the most to gain from this initiative and have larger financial resources.

5. The NICRA initiatives **should not preclude the DCRAs from assigning international ratings** (if there is demand for the DCRA to provide such services, of course).
ASEAN+3 BOND MARKET FORUM (ABMF)

Thank you
Regional CRAs and Local CRAs: Roles in Cross Border Investment

Santi Kiranand

16 February 2011
Agenda

- Background
- Why domestic CRAs?
- What is regional CRA?
- What needs to establish the RCRA?
- Choices and alternatives
Background

- CRA must be **credible** and **independent**.
- CRA must be a **viable business**. It needs to be profitable to survive and be able to **maintain** and **develop** its quality.
- Competition in this business may increase user’s utility but too much competition will destroy the viability. The introduction of new CRA must balance those conflicts.
- The cooperation among DCRAs in Asia is currently done via the ACRAA.
# Domestic CRAs vs International CRAs

<table>
<thead>
<tr>
<th></th>
<th>DCRAs</th>
<th>ICRAs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of operators</strong></td>
<td>Average 1-3 per country</td>
<td>Big 3: S&amp;P’s and Moody’s shared &gt;80%</td>
</tr>
<tr>
<td><strong>Rating scale</strong></td>
<td>National scale /mostly local currency</td>
<td>Mainly international scale /local currency and foreign currency, with a fraction of regional and national scale</td>
</tr>
</tbody>
</table>
| **Rating focus**       | ● Local corporations  
                          ● Local financial institutions (banks/non-banks)  
                          ● State enterprises (big-to-small size)  
                          ● Local governments                                                                 | ● National government,  
                          ● Big local governments,  
                          ● Major state –enterprises,  
                          ● Big-size corporations,  
                          ● Banks                                                                   |
| **Nationality**        | ● Host countries                                                      | ● S&P’s: American  
                          ● Moody’s: American  
                          ● Fitch Ratings: Subsidiary of a French Company                           |
| **Years of experience**| ● Up to almost 30 years (JCRA/KIS/Phil = 1985) (TRIS → 1996)          | ● S&P’s → 1860  
                          ● Moody’s → 1900                                                             |
Why domestic CRAs?

- To assist domestic business in accessing the local capital market
- To **counterbalance** the influence of ICRAs.
- Better understanding local environment.
- Have we experienced the downgrade of USA by ICRAs?
What is Regional CRAs?

- **Scope of services**
  - Sovereign vs private companies
  - Global vs regional companies

- **Rating scale**
  - International scale

- **Target users**
  - International investors in local-currency debt instruments
  - Local investors in foreign currency debt instruments

- **Expected financial performance**
  - Cost center vs profit center
Why Regional CRA?
What Needs to Establish Regional CRA?

1. Funding and the **viability** of the RCRA
2. Rating methodology
3. Rating expertise ➔ ACRAA
4. Reliability/Credibility
5. Host country
Funding and the viability of the RCRA

Impacts on DCRAs if there exists the RCRA

Rating consistency ➔ same company, different opinions, different rating scale

“More reliable one will survive”

Supports are needed to make it viable given the RCRA does not encroach into DCRAs.
Rating Methodology

- Sovereign vs Corporate

- Corporate ratings
  - Subjective factors : objective factors ➔ 60:40
  - Generally, subjective factors have higher weight.
  - To project future ability to pay of company ➔ management ability, appropriate management structure, **willingness to repay debts**
Ratings Assigned by Regional CRAs

- Free from intervention ➔ guarantee credibility
- Sovereign ratings need both objective factors and subjective factors
- Experiences show subjective factors (willingness to repay debts) might overweighed objective factors (ability to repay debts)
Considerations

- In normal process of rating, the qualitative factors (subjective issues) could not be ignored to obtain the accurate result.
- We have to clearly define the merits in employing the rating from this RCRA rather than the ICRAs.
- Strong supports from many stakeholders are needed.
- Could it be bundled with the setting up of CGIF?
## Choices: Pro. & Con.

<table>
<thead>
<tr>
<th></th>
<th>Pro</th>
<th>Con</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Status quo: using ICRAs’ ratings</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● Ready to use</td>
<td>● Rely on only big 3 ICRAs</td>
</tr>
<tr>
<td></td>
<td>● No need to set up new Regional CRA</td>
<td>● Ratings of companies in ASEAN+3 was compressed by sovereign ratings.</td>
</tr>
<tr>
<td></td>
<td>● Credibility in the eyes of foreign investors</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>New Regional CRAs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● Provide sovereign ratings of ASEAN countries and others</td>
<td>● High costs</td>
</tr>
<tr>
<td></td>
<td>● Cross-checking mechanism of big 3 ICRAs’ sovereign ratings</td>
<td>● Sovereign rating skill</td>
</tr>
<tr>
<td></td>
<td>● Transparency</td>
<td>● Lack of credibility</td>
</tr>
<tr>
<td></td>
<td>● Clear time table and targeted achievement</td>
<td>● Unclear scope of business</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● Products of Local CRAs and Regional CRA may compete each other</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(depends on business focus of Regional CRA)</td>
</tr>
<tr>
<td>3.</td>
<td>Local CRAs offer regional/ international rating scale</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● Using existing facility ➔ lower cost</td>
<td>● Still need sovereign rating skill</td>
</tr>
<tr>
<td></td>
<td>● Adding potential business to existing players</td>
<td>● Time consume</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● No incentives</td>
</tr>
</tbody>
</table>
Alternatives

- Mutual recognition of credit rating from DCRAs.
- Rating mapping among ASEAN+3 DCRAs. Caution is that it is not the simply linear mapping.
TRIS RATING’S PROFILE
Over 15 Years of Experience

- **Accumulated 290 issuers** since 1993, with total issue size of approximately **Baht 1,500,000 million**
- **98 outstanding clients** as of Dec 2010
- Customers include both Thai companies and multinational firms
- Ratings assigned to diverse sectors

<table>
<thead>
<tr>
<th>Sector</th>
<th>No. of clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Institutions</td>
<td>28</td>
</tr>
<tr>
<td>Property</td>
<td>18</td>
</tr>
<tr>
<td>Contractor</td>
<td>6</td>
</tr>
<tr>
<td>Telecom</td>
<td>5</td>
</tr>
<tr>
<td>Energy</td>
<td>11</td>
</tr>
<tr>
<td>Commerce</td>
<td>2</td>
</tr>
<tr>
<td>Hotel</td>
<td>3</td>
</tr>
<tr>
<td>Agri</td>
<td>5</td>
</tr>
<tr>
<td>Transportation</td>
<td>7</td>
</tr>
<tr>
<td>Others</td>
<td>13</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>98</strong></td>
</tr>
</tbody>
</table>

*As of Dec 2010*
Distribution of Rated Issuer’s

- Financial Institutions: 30%
- Property: 19%
- Telecom: 5%
- Contractor: 5%
- Energy: 11%
- Commerce: 3%
- Hotel: 3%
- Agri: 5%
- Transportation: 5%
- Others: 14%

TRIS: The Value of Independence
TRIS Rating’s Credit Rating Distribution (Issuer ratings)

December 2010

Case

AAA  AA+  AA  AA-  A+  A  A-  BBB+  BBB  BBB-  BB+  BB  BB-  B  C

The Value of Independence
It Takes Innovative Thinking to Reform the International Credit Rating System

Guan Jianzhong

Feb. 16, 2011

The world’s biggest debt system is made up of developed countries and accounts for 90% of the total amount of the global government debt; using their say in international rating, this debt system is under its control. They assign themselves the highest grade of credit rating against their actual solvency; as they concealed their credit risks for the world investors, they ignited this biggest credit bomb in the globe, ultimately resulting in this unprecedented global credit crisis. It has been more than three years since the eruption of the credit crisis, yet the world has not yet entered the post-crisis era, while the credit crisis is still ongoing along its inherent track, it has evolved from the debt crisis in the financial field to the economic crisis and sovereign crisis in the wealth creation sector, heading for the overall global economic crisis. Since the crisis originated from the disruption of the credit system by the current international credit rating system, to end the crisis should also begin with the construction of an international credit rating system and recovering world credit. The traditional understanding of the cause of the crisis and the measures taken to save the crisis have put the international community in an extremely passive position in dealing with the most serious non-traditional security threat. In order to end this long-drawn-out global credit crisis as soon as possible, we must abide by the essential requirements of the development pattern of the credit economic society, set up innovative thinking to reform the international credit rating system, and speed up the process of building a new international credit rating system that safeguards lasting order for the international financial system.

I. The development of the world economic situation since the eruption of the crisis increases the urgency for reforming the international credit rating system
The world economic situation in the past three years can be seen as follows:

The fifteen developed debtor countries that account for 59% of the global GDP, namely the US, Japan, Germany, France, the UK, Italy, Spain, Austria, Belgium, Portugal, Ireland, Greece, Iceland, Canada, and the Netherlands, are the economies that have suffered the most serious damage by the crisis. In order to rescue the crisis, these developed creditor economies all adopted relaxed monetary policy of nearly zero interest rate and their fiscal stimulus policies were also rarely ever utilized in history. The expected economic recovery has not occurred yet when the means of economic regulation have been nearly exhausted. The aggregate statistics of the fifteen developed debtor countries in 2010 indicate:

(1) The GDP was 42.3 trillion USD, indicating a slight increase of 16.4% only compared with that of pre-crisis 2006; the total volume of government debts was 40.2 trillion USD, showing a drastic increase of 45.1% compared with that of pre-crisis 2006. (2) The total volume of government debts was 94.9% of GDP, 262.2% of fiscal revenues; while in 2006, they were 77.0% and 92.4% respectively.

In the developed debtor countries, the economic growth fell short of the debt growth, finance was unable to make both ends meet and the government debts rose instead of decreasing, as for the debt income which is the basis of the state operation, the financing cost tended to rise due to the increase in national debt repayment risk. In a word, the driving force to restore the economic growth was not clearly visible in the most developed economies, presenting a gloomy prospect. Under this circumstance, as the world biggest debtor country, the United States, while confronted with the irresolvable sovereign debt crisis, made a reckless move to expedite the running of its banknote printing machine, flagrantly launching a world credit war; such a move will definitely risk triggering an overall global economic crisis.

In comparison, the fifteen major emerging creditor countries and regions that account for 25% of the global GDP, namely China, Russia, Saudi Arabia, Taiwan China, Hong Kong China, India, South Korea, Brazil, Thailand, Indonesia, Singapore, Malaysia, Argentina, Algeria and Iran, though greatly suffered the harm of the crisis
too, their strong wealth creating capabilities demonstrated the ability to withstand the external credit crisis:

(1) As of the end of January, 2010, the foreign exchange reserve was 5.5 trillion USD, indicating an 89% increase compared with that at the end of 2006. (2) At the end of 2010, the estimated GDP was 15.5 trillion USD, showing a 41% increase compared with that at the end of 2006.

While maintaining the stability of the international credit system by relying on their own strength, the emerging creditor countries and regions continued to provide funds and commodities in support of the developed debtor countries that suffered the most serious crisis, which helped avoid a complete breakdown of the international debt system.

The development of the world economic situation since the eruption of the crisis proves that this crisis is different from any of the previous ones that human society has experienced, that it is the first global credit crisis to happen in the background of credit socialization and globalization. The current international credit rating system takes the debtor’s position, sets up the rating standard that is favorable for debtors by taking advantage of having a say in credit rating, assigns the developed countries the highest grade of credit rating without considering the real solvency of the debtor countries, and conceals their credit risks; consequently the developed debtor economies exhausted their credit capabilities. Thus, such a rating system becomes the root of the deepening and continuation of the credit crisis.

From the credit ratings of the major creditor and debtor countries and regions assigned by the three US credit rating agencies one can see their responsibilities in creating the credit crisis.

**Table 1 Comparison of the ratings of the major creditor and debtor countries by S&P before and after the credit crisis (local currency)**

<table>
<thead>
<tr>
<th>No.</th>
<th>Developed debtor country</th>
<th>2006</th>
<th>2010</th>
<th>Emerging creditor country and region</th>
<th>2006</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The US</td>
<td>AAA</td>
<td>AAA</td>
<td>China</td>
<td>A</td>
<td>A+</td>
</tr>
<tr>
<td>2</td>
<td>Japan</td>
<td>AA-</td>
<td>AA</td>
<td>Russia</td>
<td>A-</td>
<td>BBB+</td>
</tr>
<tr>
<td>3</td>
<td>Germany</td>
<td>AAA</td>
<td>AAA</td>
<td>Saudi Arabia</td>
<td>A+</td>
<td>AA-</td>
</tr>
<tr>
<td></td>
<td>Country</td>
<td>Rating</td>
<td>Country</td>
<td>Rating</td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>-------------</td>
<td>--------</td>
<td>-------------</td>
<td>--------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>France</td>
<td>AAA</td>
<td>Taiwan China</td>
<td>AA-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>The UK</td>
<td>AAA</td>
<td>Hong Kong China</td>
<td>AA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Italy</td>
<td>A+</td>
<td>India</td>
<td>BB+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Spain</td>
<td>AAA</td>
<td>South Korea</td>
<td>A+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Austria</td>
<td>AAA</td>
<td>Brazil</td>
<td>BB+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Belgium</td>
<td>AA+</td>
<td>Thailand</td>
<td>A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Portugal</td>
<td>AA-</td>
<td>Indonesia</td>
<td>BB+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Ireland</td>
<td>AAA</td>
<td>Singapore</td>
<td>AAA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Greece</td>
<td>A</td>
<td>Malaysia</td>
<td>A+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Iceland</td>
<td>AA</td>
<td>Argentina</td>
<td>B+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Canada</td>
<td>AAA</td>
<td>Algeria</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Netherlands</td>
<td>AAA</td>
<td>Iran</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: S&P has not rated Algeria and Iran.

The US openly violated the interests of the world creditors by the so-called quantitative easing monetary policy, which not only reflects the collapse of its real national solvency, but also indicates the dramatic decline in the government's willingness to repay the debts. An international CRA should respond to this move, and it is another test to the existing international credit rating system. However, the three US CRAs chose to be silent, supporting the US government to plunder the interests of creditors by manipulating the right to issue international reserve currency. Such international CRAs have completely betrayed the interests of international investors, proving once again that they are faithful representatives of the interests of the biggest debtor country.

From the analysis of the entire process of the crisis, we find such a law: the credit system which consists of creditors and debtors constitutes the economic basis of the modern society, whether the CRAs can correctly reveal the default risks of debtors concerns the security of the credit system; social funds cannot start to flow efficiently unless the creditors are confident in the investment when credit ratings make objective and impartial judgment of the credit risks of debtors. If we make no change to this way of thinking to perceive the nature of the crisis, if we continue to cherish fantasy about the existing international credit rating system, if we don’t take action to build a new international credit rating system, human society will have difficulty choosing the right roadmap for economic recovery. Undoubtedly, this would result in the
repetition of the previous mistakes.

Dagong Global Credit Rating Co., Ltd has been actively promoting the reform of the international credit rating system and launched its important research results of the past five years on 11 July 2010, namely *New Sovereign Credit Rating Standard* and credit ratings of 50 countries. This event changed the pattern of international credit rating system, promoting the international credit rating development toward a rational direction. Within half a year after Dagong issued sovereign credit ratings, Moody’s, Stand & Poor and Fitch adjusted 12 times their rating grades for 10 countries and these adjustments converge to the ratings assigned by Dagong, which further demonstrates the impartiality of Dagong’s credit ratings.

Table 2 indicates the convergence of the sovereign credit ratings by the three CRAs toward Dagong ratings since 11 July 2010 (on local currency)

<table>
<thead>
<tr>
<th>Country/region</th>
<th>Dagong Rating grade</th>
<th>Dagong Rating time</th>
<th>Adjustments by three CRAs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rating grade</td>
<td>Rating time</td>
<td>Rating grade change</td>
</tr>
<tr>
<td>Argentina</td>
<td>B</td>
<td>2010.07.11</td>
<td>Upgrading to B from B-</td>
</tr>
<tr>
<td>Portugal</td>
<td>A-</td>
<td>2010.07.11</td>
<td>Downgrading to A1 from Aa2</td>
</tr>
<tr>
<td>Estonia</td>
<td>A</td>
<td>2010.07.11</td>
<td>Upgrading to A from BBB+</td>
</tr>
<tr>
<td>India</td>
<td>BBB</td>
<td>2010.07.11</td>
<td>Upgrading to Ba1 from Ba2</td>
</tr>
<tr>
<td>Ireland</td>
<td>BBB</td>
<td>2010.07.11</td>
<td>Downgrading the outlook to negative from stable</td>
</tr>
<tr>
<td>Russia</td>
<td>A/stable</td>
<td>2010.07.11</td>
<td>Upgrading the outlook to positive from stable</td>
</tr>
<tr>
<td>Argentina</td>
<td>B</td>
<td>2010.07.11</td>
<td>Upgrading to B from B-</td>
</tr>
<tr>
<td>Spain</td>
<td>A</td>
<td>2010.07.11</td>
<td>Downgrading to Aaa from Aa1</td>
</tr>
<tr>
<td>Hong Kong China</td>
<td>AAA</td>
<td>2010.10.21</td>
<td>Upgrading to Aa1 from Aa2</td>
</tr>
<tr>
<td>China</td>
<td>AA+</td>
<td>2010.07.11</td>
<td>Upgrading to Aa3 from A1</td>
</tr>
<tr>
<td>Ireland</td>
<td>BBB</td>
<td>2010.12.06</td>
<td>Downgrading to BBB+ from A+</td>
</tr>
<tr>
<td>Ireland</td>
<td>BBB</td>
<td>2010.12.06</td>
<td>Downgrading to BBB+ from AA</td>
</tr>
</tbody>
</table>

II. The guiding principles of reforming the international credit rating system

To reconstruct the international credit rating system, attention should be given to
drawing lessons from the global credit crisis, following the development patterns of credit economy and credit rating and taking the holistic interest of human society into consideration; the fundamental principles are as follows:

1. The globality principle. The internationalization of risks triggered by globalization of credit makes it extremely likely to escalate a local credit risk into a systematic risk, which, after quickly spread, might start a worldwide credit crisis. Therefore, how much the credit risks are disclosed in each country is closely connected with the credit security of other countries; the credit rating system in every country should be an integral component of the global credit rating system. Objectively speaking, in the time of globalization of credit risk information, it is impossible for a CRA in any country to independently own the credit information for risk analysis, and this alone will affect the precision of credit rating. The credit system had integrated human society into an entirety; every country or societal member constitutes a joint of the global credit chain. Every member who assumes the important historical responsibility of constructing the new international credit rating system should plan the international credit risk management system that can truly guarantee the safe development of humankind from the global perspective.

2. The independence principle. The duties of the international credit rating system are to resolve the problem of risk information asymmetry that is exacerbated in the process of credit globalization, to provide early warning of credit crisis and to safeguard the security of the international credit system; the independence of the international credit rating system is the prerequisite to fulfill this mission. The independence that is emphasized here refers to the non-national character, non-profit-orientated character, non-political character, non-competitive character, and impartiality of the international credit rating system.

Non-national character. The international credit rating system represents the interest of all the members of the international community, instead of satisfying the interest appeal of some countries; it should never be controlled by certain countries; thus, ultra-sovereignty status is the precondition for constructing the new international
credit rating system.

Non-profit-orientated character. CRAs are the carrier of the international credit rating system. A CRA is not an ordinary market player, its foremost responsibility is to maintain the public interest, and it should not be the agent of some interest groups. Certainly a CRA is an enterprise, so it should be profitable to maintain sustainable development like an ordinary enterprise; however, its own interest should be pursued when the public interests are guaranteed, which should be realized by design of the system’s mechanism.

Non-political character. The international credit rating system discloses risks via sustained study into the evolution patterns of factors of credit risks formation; never should some ideological factors and values be utilized as causes for measuring and judging credit risks, otherwise ratings would become a tool of a political group, which would lead to a disastrous consequence.

Non-competitive character. History has proven that trying to require the credit rating system to perform the public responsibility through a competitive system would result in competition in rating grade and price that damages the investors’ interests and become the trading terms between CRAs and issuers. Thus, credit rating must be a government-chartered business recognized by the market, it should by no means be a product of free competition of the market. At the same time, the regulatory authorities should design the development objective of a rating standard for CRAs, encouraging the CRAs to compete in rating technologies, so that superior enterprises will prosper and inferior ones be eliminated.

Impartiality. With ensuring conditions of a correct rating system mechanism a series of regimes such as technical and professional codes should be implemented to constrain the behavior of CRAs, so that they will perform their functions impartially.

3. The consistency principle. Credit rating standards is the core component of the international credit rating system; it is only through studying the particularities of factors of credit risk formation that an internationally unified credit rating standard can be established and accurate risk comparison can be made. If the consistency
principle on credit rating standards is not observed, there will be no way to form a consistent rating language; consequently it will be difficult to realize the globalized application of the credit rating information.

4. The international regulation principle. An international credit rating regulation system should be established, and unified regulatory rules and specifications should be developed; national regulation cannot substitute for international regulation and national regulation must be subject to international regulation.

III. Exploring the new international credit rating system model

I delivered a speech entitled Constructing New International Credit Rating System on Bo’ao Forum in April 2009; looking back I think the logic in conceiving the new international credit rating system model remains rational. It is still necessary to continue exploring the credit rating system model that is coming into being when the idea of reform is becoming a world mainstream consciousness.

The new international credit rating system consists of three parts, namely an international credit rating regulatory organization, an international credit rating agency and an international credit rating standard.

1. The international credit rating regulatory organization. Within the International Organization of Securities Commissions, “International Credit Rating Regulatory Commission” can be created, which should be made up of the national credit rating regulatory body in each country. This organization should be responsible for planning the development of the international credit rating system, working out global regulatory rules over credit rating, giving guidance to the construction of regional credit rating systems, normalizing the behavior of CRAs, and promoting the upgrade of credit rating standards. This commission should be governed by the world creditor countries.

2. The international credit rating agency. This organization is composed of the CRAs recognized by the government of each country, responsible for: setting unified international rating standards, rating on multi-national institutions, participating in the
rating business in every country so that a dual rating mechanism is established for each country, aiming at checking and preventing credit rating risks.

3. The international credit rating standard. Rating standard is directly related with the rationality of rating results, so the construction and management of rating standards should be incorporated in the rating system. Under systematic and scientific planning supervision of rating standards is carried out by CRAs, instead of being performed by the CRAs on their own accord. The international credit rating regulatory organization can formulate the rating standard development plan, encourage CRAs to implement and improve. The international CRA should focus on setting up and improving the credit rating standard, which is guaranteed by the system's mechanism.

Determined by the inherent development pattern of the credit crisis, 2011 will remain an eventful year, multiple uncertainties of the world debtor economies will push the global credit crisis to spread even further. CRAs with a sense of social responsibility should take action and achieve something to help the human society ultimately get rid of the calamity of credit crisis. Then it will be the best reflection and summary of the global credit crisis as well as a milestone for the mankind to explore the development laws of a credit economic society to expedite the reform of the international credit rating system and build a new international credit rating system that reflects the development laws of credit economy and rating; one that can assume the responsibility of safe development of overall human society. This is the common expectation of the human society, and no doubt, this goal will be achieved.
Introduction to NICE Investors Service

1. Company Overview
2. History
3. Business
4. Rating Scope
5. Rating Performance
6. Competitive Position
7. Building Global Networks
8. Sovereign Rating
For the last 25 years, NICE Investors Service has been leading Korea’s credit rating market by providing differentiated credit rating service based on its expertise and credibility. NICE Investors Service was spun off from NICE (National Information and Credit Evaluation) in November 7, 2007. It is a wholly owned subsidiary of NICE and a total of 120 highly qualified professionals work for NICE Investors Service.

NICE Investors Service Co., Ltd."
2. History

NICE Investors Service has contributed to the development of Korea’s financial market as a leading financial infrastructure provider. As a result, NICE Investors Service is being recognized as the most credible provider of professional and objective credit rating service.

1986. Foundation of NICE (National Information & Credit Evaluation)

1987. Designated as authorized CRA by the Ministry of Finance and Economy

1989. Launched corporate analysis service for financial institutions

1990. Designated as a feasibility study agent for overseas investment projects by BOK (Bank of Korea) and KEXIM (Export-Import Bank of Korea)

1996. Designated as an authorized CRA for foreign issuers by MOFE

2000. Signed strategic alliance with R&I of Japan

2007.5 Established strategic alliance with Dagong of China

2007.7 Recognized as an External Credit Assessment Institution (ECAI) by the FSS (Financial Supervisory Service)

2007.11 Foundation of NICE Investors Service
3. Business

[NICE Investors Service] provides securities credit rating service based on 25 years of experience.

Korea introduced credit rating system in the late 1980’s and the market expanded under the IMF program in 1997. Since then, NICE Investors Service has made great contribution to the fast growth of Korea’s bond market.

NICE Investors Service is the only locally invested company in the Korean credit rating market, in which three local credit rating agencies operate.

- Direct financing from bond issuance soared from $64bn in 1998 to $162bn in 2009.
- Such growth of the bond market was possible as credit rating closed information gap between issuers and investors.

- Jumped from 102 in 1998 to 306 in 2010
- Established more sophisticated and systematic rating methodologies as coverage of companies widened
We cover major rating sectors and meet the global rating standards. We provide most credible rating by fully analyzing local economy and financial markets.

### 4. Rating Scope

We cover major rating sectors and meet the global rating standards. We provide most credible rating by fully analyzing local economy and financial markets.

<table>
<thead>
<tr>
<th>Active Participation</th>
<th>New Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuer Rating</td>
<td>Municipal Rating</td>
</tr>
<tr>
<td>Bond Rating</td>
<td>Sovereign Rating</td>
</tr>
<tr>
<td>CP (Commercial Paper) Rating</td>
<td>Fund Rating</td>
</tr>
<tr>
<td>Structured Finance Product Rating</td>
<td></td>
</tr>
<tr>
<td>Insurer Financial Strength Rating</td>
<td></td>
</tr>
<tr>
<td>Project Finance Loan Rating</td>
<td></td>
</tr>
</tbody>
</table>
5. Rating Performance

1. We have rated annual average of over 2,000 bonds, CPs and ABS for the past three years. As of June 2010, some 300 major local companies have been rated by NICE Investors Service.

Credit Rating Performance for the past 5 years (Unit: issues)

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corp Bond (a)</td>
<td>336</td>
<td>550</td>
<td>468</td>
<td>226</td>
<td>474</td>
<td>286</td>
<td>469</td>
</tr>
<tr>
<td>Financial Bond (b)</td>
<td>828</td>
<td>641</td>
<td>764</td>
<td>985</td>
<td>1,030</td>
<td>1,384</td>
<td>968</td>
</tr>
<tr>
<td>Total Bonds (a+b)</td>
<td>1,164</td>
<td>1,191</td>
<td>1,232</td>
<td>1,211</td>
<td>1,504</td>
<td>1,670</td>
<td>1,437</td>
</tr>
<tr>
<td>ABS</td>
<td>75</td>
<td>99</td>
<td>168</td>
<td>227</td>
<td>282</td>
<td>264</td>
<td>389</td>
</tr>
<tr>
<td>CP</td>
<td>227</td>
<td>241</td>
<td>237</td>
<td>229</td>
<td>256</td>
<td>257</td>
<td>258</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,466</td>
<td>1,531</td>
<td>1,637</td>
<td>1,667</td>
<td>2,042</td>
<td>2,191</td>
<td>2,084</td>
</tr>
</tbody>
</table>

2. In terms of default rate, a key performance indicator of credit rating agencies, NICE Investors Service shows the ideal default rate trend, which means the longer the term and the lower the rating, the higher the default rate.

Our competitors are Korea Investors Service (KIS) and Korea Ratings (KR). In 2009, we enhanced marketing capabilities through organizational change and as a result, we secured the highest coverage ratio in the market and stable revenue growth.

**Coverage Ratio 2009**

- NICE: 67.3%
- KIS: 66.5%
- KR: 64.1%

**Revenue (2006~2009)**

- '06: $14.0 million
- '07: $20.2 million
- '08: $21.3 million
- '09: $24.2 million

Stable revenue growth realized.
7. Building Global Networks

- NICE Investors service is actively expanding our global presence.

1. As the nation’s only locally-owned credit rating agency, we have in-depth understanding of the corporate/financial environment of Korea and Asia based on which we provide the most accurate credit ratings. Unlike our competitors that are affiliated with global credit rating agencies, we sought to globalize our business independently. In line with these efforts, we established strategic relationship with Japan’s R&I and China’s Dagong.

2. We have launched the Korea, China and Japan Credit Rating Forum as an annual event since 2007, and will hold the 4th Forum in Shanghai this year. Going forward, we will first expand to the Asian market by providing sovereign rating service on Asian countries and seeking to be recognized as an ECAI. We will then actively pursue the European and American markets by registering with the CESR (Committee of European Securities Regulators) and SEC (Securities and Exchange Commission).
8. Sovereign Rating

- In 2010, NICE Investors service will launch sovereign rating service.

1. NICE Investors Service set up a team dedicated to sovereign rating in the second half of 2009, completed the rating manual and case study and established rating methodologies. We published our rating methodologies in July 2010.

2. We are closely collaborating with seven countries including Malaysia, the Philippines, Indonesia, Thailand and Brazil as these countries have offered active cooperation. We are currently in the middle of sovereign rating process for these countries.

3. We plan to publish rating results on these countries when our ratings are finalized in early 2011, and continue to expand our activities to cover more countries in the future.
Thank you.
I wish to start with the DISCLAIMER that the views I make here are not the official views of ACRAA but are my own personal views.

Nevertheless I must also declare that these views are not really original with me but have been influenced very much by discussions with colleagues in ACRAA, in the last 10 years of best practices dialogues and forums among ourselves and, on occasion, with regulators.

But I take full responsibility for whatever I say here.
From an ACRAA perspective, the linkage required in increasing ASEAN +3 cross border investments and primary issuance flows is ------

A GOOD CREDIT INFORMATION INFRASTRUCTURE REPRESENTED BY CREDIBLE CREDIT RATINGS.

This is an information linkage that may be translated as a ROLE for DCRAs:

TO PROVIDE A CREDIBLE SYSTEM OF A REGION-WIDE PUBLICLY AVAILABLE CREDIT RISK MEASUREMENT THROUGH CREDIT OPINIONS, for a wide range of lenders, investors and credit users.

Ratings Harmonization is the unifying theme for this credible system of credit risk measurement. Ratings Harmonization links the different DCRAs and their ratings into a convergent common ratings measurement language.

Ratings Harmonization makes possible a region-wide credible system of publicly available credit risk measurement through credit opinions.
As an action program for ACRAA, ratings harmonization is the effort to make the credit ratings of all member DCRAs comparable as a basis for investment decisions.

COMPARABILITY means that the ratings are the result of some MINIMUM RATING PROCESSES following rating methodologies and rating practices applied in a consistent manner to assure a competent, objective, independent and fair assessment of creditworthiness, characterized by transparency and accountability.

Ratings harmonization is that condition in which one DCRA’s ratings in one jurisdiction are comparable to another DCRA’s ratings in another jurisdiction and are both equally credible and reliable because they are the result of the consistent observance of some minimum standards of quality and integrity in the rating process, applied by competent analytical staff using consistently a publicized basic rating methodology.
Credibility anchored on comparability through ratings harmonization is the key element to establishing a region-wide credit risk measurement system, on the basis of which credibility regulators may accord mutual recognition to DCRA ratings issued in other national jurisdictions.

A Visual Framework of
The Development of LINKAGES in the Credit Ratings Information Infrastructure Region-wide

Present Status: DCRAs (national jurisdictions)
Ratings recognized in their domestic markets.

Action to be pursued: Ratings Harmonization

Consequences: DCRA ratings credibility enhanced region-wide
Mutual Ratings Recognition among DCRAs and by Regulatory Authorities

Desired result: Increased cross border transactions
**A Visual Framework of the Development of LINKAGES in the Credit Ratings Information Infrastructure Region-wide**
(with details)

**Action to be pursued:** Ratings Harmonization
- through strict observance of Code of Conduct Fundamentals and Best Practices
- through continuing ratings harmonization training workshops and agreements on basic methodologies
- ratings validation through default studies and ratings transition matrices

**Consequences:** Ratings Credibility Region-wide
- Mutual Ratings Recognition among DCRAs and by Regulatory Authorities

---

**Areas of Cooperation, at the ACRAA level to improve DCRAs’ credibility and comparability of their ratings –**


2. Continuing conduct of training Workshops on Ratings Harmonization which should result in binding agreements on basic rating principles and methodologies for proper common application in the rating process.

3. Development and adoption of a common standardized agreed upon system of determining defaults, computing default rates and calculating ratings transition matrices.
A Parenthetical Observation

Identifying the External Pressures
- that promote good performance by DCRAs; that in turn reinforce credibility; that in turn sustain comparability; that in turn paves the way for mutual recognition region-wide; that in turn facilitates cross border transactions

- The pressure of COMPETITION
- PEER PRESSURE
- The pressure of REGULATORY AUTHORITY

There is a need for some PARALLEL HARMONIZATION IN THE REGULATORY FRAMEWORK that is supportive of ratings harmonization by DCRAs

- Action required:

  A more explicit official policy and declaration requiring minimum standards of accreditation, of performance and of continuing qualification applied/enforced uniformly in all jurisdictions region-wide.
A summarized CHECKLIST for a regulatory harmonization of rules:

- Qualifications for DCRA licensing: Management; Analytical Staff; Financial Capability;

- Minimum transparency requirements on basic rating methodologies and observance of essential best practices on independence, objectivity and avoidance of conflicts-of-interest.

- Minimum reporting and other performance monitoring practices.

On the proposal for a New International Credit Rating Agency (NICRA)

Some antecedent questions:

1. Where would the NICRA be incorporated? What country’s laws will govern its creation and operations as a legal entity?

2. Who shall exercise regulatory authority over NICRA?

3. Notwithstanding any previous declaration of non-competition how can we effectively prevent NICRA from conducting ratings in competition with existing DCRAs?
4. If the need is refocusing or even changing credit rating methodology, to make sovereign ratings more neutral, can we not get the existing credit rating agencies to do this?

5. Is it an issue of improper rating methodology? Or is it an issue of undue bias in the application of rating methodology? Or both?

6. Does widespread ownership really guarantee better neutrality in assigning credit ratings?

In sum, I reiterate these items in an Agenda for Cooperation that will improve the credit information linkages represented by DCRA credit ratings region-wide:

*Agenda for Cooperation*
(at the ACRAA level)


2. The conduct of joint Training Workshops on RATINGS HARMONIZATION that should result in agreed-upon basic rating principles and methodologies for proper common application.

3. The development and adoption of a common agreed upon system of DETERMINING DEFAULTS, COMPUTING DEFAULT RATES and CALCULATING RATINGS TRANSITION MATRICES; and their regular publication.
Agenda for Cooperation
(at the Regulatory Level)

4. Pursue some PARALLEL HARMONIZATION in the REGULATORY FRAMEWORK supportive of ratings harmonization.

Agenda for Cooperation
(for all Stakeholders)

5. Pursue discussions on the creation of an international credit rating agency or other options to promote cross-border transactions in the Asian region.

Thank you for your attention.

Santiago F. Dumlao, Jr.
Secretary-General
ACRAA
Agenda

- Japanese financial institutions in ASEAN bond market
- Comments from ABMF-J members on ABMF future project
  - Credit Rating
  - Asian Bond Fund (ABF) 3
  - Asian Fund Passporting
  - Improving Bond Index
  - Common framework and mutual recognition of bond issuance program
Japanese financial institutions in ASEAN bond market

Financing for Japanese Corporations operated in ASEAN countries
- Wholesale
  - purchase corporate bonds (by private placement) and hold them to maturity.

Financing for local Corporations in ASEAN countries
- “ Samurai Bond”
  - purchase Samurai bonds and hold them to maturity.
  - underwrite and distribute Samurai Bonds.
- Local Bond (local currency)
  - purchase local bonds and hold them to maturity.
  - underwrite and distribute local bonds.

Distribution to Japanese retail investors of mutual funds invested in ASEAN countries’ bonds
- Retail
  - Mutual funds invested in the sovereign bonds
  - Widely accepted by retail investors
  - For further promotion, there are issues to be addressed such as liquidity, price transparency, diversification, etc.
  - Mutual funds invested in local corporate bonds (in local currency)

Comments from ABMF-J members on ABMF future project

Overall comments
- “Proposed themes on ABMF future project may suggest that having further cooperation of regulators and market participants (investors, intermediaries, SROs, Rating agencies etc.) is critical to achieve the common objective for ABMI. ABMF might be able to play a key.”

- “We need to effectively utilize the data and information being collected through our existing information collection procedures, for the next stage of ABMF.”
Comments from ABMF-J members on ABMF future project

Credit Rating

- Establishment of a new International Credit Rating Agency (CRA) owned by ASEAN+3 stakeholders
- Mutual recognition of existing ASEAN+3 local CRAs

[comments]

- “The methodology applied by the International CRAs to assess sovereign ratings of ASEAN countries should be improved further. The continuous and detailed discussions among investors, issuers, intermediaries and the International CRAs may be the critical first process.”

- “The establishment of a new International CRA would be subject to the above-mentioned initiatives and it possibly becomes the second process.”

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Comments from ABMF-J members on ABMF future project

Credit Rating (continued)

- Establishment of a new International Credit Rating Agency (CRA) owned by ASEAN+3 stakeholders
- Mutual recognition of existing ASEAN+3 local CRAs

[comments]

- “It may be worthwhile to conduct a “workshop” (the working group of the designated ABMF members) to discuss CRA-related issues and challenges.”

- “In consideration of the strict regulations recently enforced upon the existing local CRAs as a result of the global financial crisis, we should examine and evaluate such regulations cautiously in order for us to achieve the “mutual recognition of existing ASEAN+3 local CRAs.”
Comments from ABMF-J members on ABMF future project

Asian Bond Fund (ABF) 3

[comments]
- “We need to address and discuss the following issues which are different from the issues resolved at the previous ABF2:
  - liquidity, price transparency, diversification of local corporate bonds
  - criteria for the bonds invested by ABF3
  - impact on the local bond market (local bond issuers would prefer ABF3 eligible bonds)

- “First, having discussions with EMEAP on this issue would be necessary as they have extensive knowledge and expertise through their ABF initiatives.”

- “ABF2 is said to have limited private participation. To promote diverse private sector participation in the Asian bond markets, there is still room for improvement for ABF2 prior to advancing to ABF3.”

Asian Fund Passporting

- Cross-border fund vehicle recognized in the region

[comments]
- “This particular idea, which may be worth exploring its feasibility, may give investors opportunities to invest in ASEAN domiciled fund products.”

- “Two themes of
  (1) “fund passporting” on investors'/intermediaries' perspectives, and
  (2) “common issuance program” from issuers' perspectives are closely related, therefore we may need to discuss both themes.”

- “The harmonization among ASEAN countries to allow implementation of this framework under the current regulations should be challenging.”

- “For institutional investors, the “Asian Inter-regional Professional Securities Market” would be more effective and efficient infrastructure for the common platform rather than the “Asian Fund Passporting.”
Comments from ABMF-J members on ABMF future project

Improving Bond Index

[comments]
- “The introduction of a new bond index or improvement of existing bond index is subject to the needs of the market participants such as investors and intermediaries, therefore the initiatives to establish the common platform or create new products should be thoroughly discussed and planned prior to the actual implementation of such bond index. Discussions related to such bond index should be done in the final stage of ABMF future project.”

- “The criteria for eligibility for the index may be challenging.”

Comments from ABMF-J members on ABMF future project

Common framework and mutual recognition of bond issuance program

[comments]
- “The Japanese corporate clients operating in more than two ASEAN countries may often feel burden to make their local bond issuance in compliance with each local regulations and taxation, etc. The establishment of a common framework for the bond issuance program should be well accepted by both issuers and intermediaries.”

- “Establishment of a common platform’ may be an appropriate theme especially for ABMF future project, as the data and information being collected through our information process may be more effectively utilized for such establishment.”
Disclaimer

- This presentation was prepared by SMBC for discussion purpose only. Nothing in this document constitutes an offer, recommendation, advice or solicitation to any person to enter into any transaction or adopt any fund raising strategy; nor does it constitute any prediction of future or likely movements in rates or of market trends or any representation that any such future or likely movements will not exceed or fall below those shown in any illustration.

- The views expressed in this material are subject to change based on market condition and the development of relevant regulatory framework thereafter.

- All information has been obtained from sources believed to be reliable, but the accuracy is not guaranteed and SMBC have no responsibility to update the contents.

- This presentation should not be forwarded, copied nor circulated to any other person. SMBC does not accept any liability whatsoever for the actions of any party in this respect.
Current Status related to SF-1 Information Collection Exercise

16 February 2011
Prof. Shigehito Inukai
Waseda University, Faculty of Law
ADB Consultant - Financial Legal Expert for the Harmonization of Bond Standards in ASEAN+3

SF-1 Status Quo

- ABMF-K/J Meeting was held in TOKYO on the 17th of January. Korean Bond Market related presentations were executed by the 7 Korean delegates.
- We have received QA submissions from China (in Chinese). Need to revise and procure necessary translation for Chinese submission.
- We have received QA submissions from Hong Kong, PRC in English.
- We have received QA submissions from Thailand SEC/BMA in English respectively.
- Korean members are going to show their QA related explanatory materials.
- ABMF-J is revising Japan submission (A8 for Islamic Finance related information and others).
Questionnaire ITEMS

- Questionnaire 1: High Level Structure, Type & Characteristics of the Bond Market
- Questionnaire 2: Primary and secondary market related regulatory frameworks
- Questionnaire 3: Trading of Bonds and Trading Market Infrastructure
- Questionnaire 4: Possible item of impediments / restrictions for the realization of a cross-border inter-regional market
- Questionnaire 5: High level description of the securities settlement system
- Questionnaire 6: Costs and charging methods
- Questionnaire 7: Market size / statistics
- Questionnaire 8: Presence of an Islamic Finance (Islamic bond (Sukuk)) market
- Questionnaire 9: Next Step → Future Direction
- Others 10

List of answers for the questionnaire from SF-1 National Members (tentative draft as at 12Feb)

<table>
<thead>
<tr>
<th>Country</th>
<th>1</th>
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<th>5</th>
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(P: Answered, PA: Partly Answered)
Worksheet for Answering the Questionnaire SF-1

The First Page

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<th>Name of the Economy</th>
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<td>Name of the Bond Market</td>
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<td>Produced person or organization and contact</td>
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<tr>
<td>Produced Date and Version</td>
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</tbody>
</table>
Market Materials in Member’s Library

3rd ABMF Meeting
Kuala Lumpur
Sub-Forum 1, 16 February 2011

Contents of Members’ Library – SF1
(as of 1 Feb 2011)

<table>
<thead>
<tr>
<th>ASEAN+3 Market Materials for SF1</th>
<th>Laws &amp; Regulations</th>
<th>Market Make-up (or similar)</th>
<th>Official / National Market Guide</th>
<th>Commercial Market Guides (min. 3 submissions preferred)</th>
<th>Remarks</th>
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<tr>
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<td>Viet Nam</td>
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</table>

Materials kindly provided by: Citi - Citibank  CS - Clearstream  DB - Deutsche Bank  HSBC  RBC - RBC Dexia  SSB - State Street
Review of Market Materials – SF1

• Limited materials on structure, regulations so far; some information superseded
• Contributions from International Experts are very much appreciated – many thanks!
• Some materials expected anytime soon
• Nascent markets encouraged to send status, masterplans

Market Materials in Member’s Library

3rd ABMF Meeting
Kuala Lumpur
Sub-Forum 2, 17 February 2011
Contents of Members’ Library – SF2
(as of 1 Feb 2011)

Review of Market Materials – SF2

- Details relevant for SF2 to be extracted from market materials to supplement national member information
- Contributions from International Experts are very much appreciated – many thanks!
- International Experts working on comparable template (detail level) for transaction flows
- Consent from nascent markets desired to define status quo
Korea Treasury Bond Market & KRX

Kuala Lumpur, Feb. 2011

Hyeonhee Kim
Government Bond Operation
Korea Exchange

Contents

I. Overview of Korea Treasury Bond Market (KTB)

II. Primary Market of KTB

III. Secondary Market of KTB (KRX)

IV. Bond Trading on KRX

1. Overview of KRX Bond Market
2. KRX Bond Market: Transparency & Liquidity
3. KTS
4. Ordinary Bond Market
5. Bond-linked Products: Futures & ETF
6. KRX Bond Trading System
I. Overview of Korea Treasury Bond Market (KTB)

1. KTB : The Core of the Korean Bond Market

**Outstanding Amount of KTB**

<table>
<thead>
<tr>
<th>Year</th>
<th>Outstanding amount of KTB</th>
<th>% of GDP</th>
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<tbody>
<tr>
<td>1999</td>
<td>14.3%</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>16.3%</td>
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</tr>
<tr>
<td>2003</td>
<td>18.6%</td>
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<td>2005</td>
<td>20.8%</td>
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<td>2007</td>
<td>23.4%</td>
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<td>2009</td>
<td>26.7%</td>
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**KTB Product Line**

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<th>Type</th>
<th>3 year</th>
<th>5 year</th>
<th>10 year</th>
<th>20 year</th>
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<th>Floating Rate</th>
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<td></td>
<td></td>
<td></td>
<td>10 year</td>
<td>Not yet issued</td>
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<tr>
<td>Inflation Linked</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</tbody>
</table>

* KRW 310 tri. ➔ around USD277 bil. (as of 2010)

* Reviewing about short-term KTB (less than 1 year)

2. KTB Market Structure

- Electronic automated system (BOK-Wire) for primary market auction
- DVP arrangement to reduce settlement risks
  - Exchange : DVP through multi-lateral netting settlement
  - OTC : DVP through Gross settlement
## II. Primary Market of KTB

### Policies for Korea Treasury Bond Market (Primary Market)

#### Raise the Liquidity
- Fungible issue
- Unifying the maturity date and coupon rate of KTB as 6mth
- Buyback program
- Conversion Offer
- Improving the liquidity of treasury bonds by exchanging the treasury bonds that have been issued a long time ago with new ones

#### Market-Friendly Access
- Computerization of issuance
- Handling the bidding and settlement electronically through the Bank of Korea’s network (BOK-wire)
- Regular issuance (Monday event)
- Market based Auction system

## III. Secondary Market of KTB (focused on KRX)

### Policies for Korea Treasury Bond Market (Secondary Market)

#### Transparency & Efficiency
- Establishment of KTS market
  - Inter-dealer market that specializes in trading KTB
  - KTS (KRX Electronic Trading System for Government Bonds)
- Transparency
  - Screen Based trading

#### Market Infrastructure
- PD (Primary Dealers) system
  - KTB underwriting, market making, and policy dialogue
- Market-making functions
  - PD provide the quote that transactions in KTS and possess more than a certain level of KTB
- KTB future market
  - Providing an effective hedge tools by establishing a 3-year futures market

#### Move toward Long-term Bond
- Facilitator of long-term bonds
  - Giving more weight on long-term bond transactions when evaluating the performance of primary dealers
IV. Bond Trading on KRX

1. Overview of KRX Bond Market

- Structure of KRX Bond Markets

**Ordinary Bond Market**
- “Small Lot Gov’t & Public Bonds” (1996)
- “Retail Market” (2007)

**Institutional Market**
- “KTS” KGB Wholesale (1999)
- “Repo” (2002)

2. KRX Bond Market: Transparency & Liquidity

- The position among Exchanges

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Exchange</th>
<th>Bond Trading Value (2009, USD bil.)</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>BME Spanish Exchanges</td>
<td>8,181</td>
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<td>2</td>
<td>London SE</td>
<td>6,943</td>
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<td>3</td>
<td>NASDAQ OMX Nordic Exchange</td>
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<td>10</td>
<td>Oslo Bors</td>
<td>225</td>
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</tbody>
</table>

* Source: WFE (inc. all kind of bonds)
3. KTS (KRX Trading System for Government Bonds)

**Market Structure**

- **Primary Dealers**
- Market making quotes/Market-taking quotes
- KTS: KTBS, MSBs, DIFBs
- Market-taking quotes
- Dealers
- Orders
- Investors

**Key Features**

- Market making by PDs
- Wholesale market for government bond dealers, esp. KTB
- Screen-based electronic trading environment
- Easy access through internet
- Fast execution: 20 milliseconds (0.5 second from order-placement to trade-confirmation)

*Source: ADB, Asian Bonds Online, as of 2009*
Trading and Settlement Arrangements

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<tr>
<th>Trading</th>
<th>Types of securities</th>
<th>KTBs, MSBs*, DIFBs*</th>
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<td>Trading lot</td>
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<td>Order type</td>
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<td>Settlement method</td>
<td>• Multilateral-netting by KRX</td>
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<td>• Deliveries: KSD’s Book-entry system</td>
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<td></td>
<td>• Payments: BOK-Wire</td>
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<table>
<thead>
<tr>
<th>Market Participants (65)</th>
<th>By member type</th>
<th>• 39 regular members, 25 bond members</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>By Function</td>
<td>• 20 primary dealers, 45 dealers</td>
</tr>
</tbody>
</table>

* MSB: Monetary Stabilization Bonds
* DIFB: Deposit Insurance Fund Bonds

4. Ordinary Bond Market : Small Lot Gov’t-Public Bonds & Retail Bond Market

Ordinary Bond Market Structure

- OBM including SGPB - Key Features
  - Retail market
  - Special arrangement for trading of Small-lot gov’t & Public bonds (Administratively placed bonds with KRW 50 mil. or less)
  - Liquidity concentration for CBs
Retail Bond Market - Any bonds worth less than KRW 5 Billion
- Specific market for investors (individuals & corporations) who wish to trade small size bonds
- Individuals and corporations can participate through member firms (by opening account)
- To enhance liquidity ‘Retail Primary Dealer System’ is operated

Retail Bond Market – Key Features
- Primary Dealers submit market making and market taking quotations
- Non-Primary Dealers can only submit market taking ask quotes
- Currently there are 12 Primary Dealers

5. Bond-linked Products: Futures & ETF (exchange-traded-fund)

KTB Futures
- Three KTB Futures listed
  * 3-year futures (Sep. 1999), 5-year futures (Aug. 2003), 10-year futures (Feb. 2008)
- Currently 3-year gov’t bond futures is dominant instrument
- 3-year gov’t bond futures are playing the role of an efficient risk management tools

* 3-yr KTB futures ranked the 10th among exchanges

![Graph of Total Trade Volume of 3-yr KTB futures vs. Avg. Daily Trade Volume of 3-yr KTB Futures from 2000 to 2010]
■ ETF linked to KTB (July, 2009)

- ETF traded in the exchanges is a mutual fund that tracks the return rate of specific index. KTB ETF is an ETF tracking the return rate of KTB index.

- ETF linked to the index comprised of 3 types of KTBs was listed in Korea Exchange for the first time
  • It will provide efficient investment instruments to individuals & foreign investors thanks to its viable small investment & real time daily trading
  • Its facilitation will contribute to an increase in KTB liquidity

* KTB ETF has a market capitalization of about KRW1 tri.(as of 2010)

6. KRX Bond Trading System

■ Key Features

Internet Based System
- Only the designated dealers and institutional investors directly participate in Government Bonds Market of KRX.
- KRX supplies the in-house developed KTS Browser System to the market participants.
- Participants directly connect to the KTS through KTS browser without any additional cost, provided the Internet access is available.

Structured program
- Modularization of system development by function allows efficient program management.
- Program maintenance and upgrading made easy and the time required for new program development shortened.
- System development cost reduced.

Open System
- Significant cost saving achieved by changing Main Frame System to Open System
- Use of RDB simplified programming
- Flexibility built in for system expansion
- Recruitment of system engineers and adoption of latest technology made easy

System Stability
- Establishing of HA Clustering and adoption of Oracle RDBMS RAC
- Service load sharing and distribution using middleware TMAX
- All devices, including the storage and network system, are backed up.
- Through real-time monitoring of SW and HW, the system failure prevented.
Export of KRX Bond System : Bursa Malaysia

- In 2006, Bursa Malaysia (BM) invited international bidding for the development of Electronic Trading Platform (ETP) as part of its plan to encourage trading of government and public bonds in the BM, which used to be traded in the OTC.

- KRX submitted a bid and upon chosen as the successful bidder, entered into a development contract in January 2007. After 12 months of development, KRX successfully delivered the system to BM in January 2008.

- BM highly valued the excellent performance and proven reliability of KTS, which is the core infrastructure of KRX government bond market that is known globally for its high liquidity and transparency.

- In view of the favorable responses of market participants and efficient operation of ETP, BM asked the KRX to upgrade the system capacity, which the KRX effectively accomplished (January 2008~January 2009).

Thank you!
Country visits schedule

3rd ABMF meeting in KL
Feb 16-17, 2011

Purpose of country visits and preparation

• Make sure the understanding of the consultants is correct and valid.
  – Before conducting the country visits, the consultants must prepare the questionnaire answers before the visits.
  – Hopefully, we can have a correspondence on the draft outputs before the country visits.

• Share information with the members
  – Organize a workshop
## Country visits schedule proposal

<table>
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<th>Feb 2011</th>
<th>Information collection from the members and experts</th>
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<td>9-20 May</td>
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<td>11 May KL</td>
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<td>12-13 May Bangkok</td>
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<td>16-17 May Hanoi</td>
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<td>18 May HK</td>
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<td>19-20 May Manila</td>
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<td>30 May-3 June Workshop + meeting</td>
<td>30 May Brunei</td>
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<td>1 June Lao</td>
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<tr>
<td></td>
<td>2 June transit</td>
</tr>
<tr>
<td></td>
<td>3 June Cambodia</td>
</tr>
</tbody>
</table>

## Work plan after the country visits

<table>
<thead>
<tr>
<th>22 June</th>
<th>Circulation of the first draft reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>28-29 June</td>
<td>Meetings in Seoul</td>
</tr>
<tr>
<td>30 June-1 July 4th ABMF meeting in Jeju Island, Korea</td>
<td>• Validation of the first draft reports.</td>
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<tr>
<td></td>
<td>• Discussion on how to disseminate the reports; website as well as other means.</td>
</tr>
<tr>
<td>July-August</td>
<td>Possible follow-up country visits</td>
</tr>
<tr>
<td>5-6 September</td>
<td>5th ABMF meeting in Manila</td>
</tr>
<tr>
<td></td>
<td>• Approval of the reports</td>
</tr>
<tr>
<td>Dec 2011</td>
<td>6th ABMF meeting</td>
</tr>
</tbody>
</table>