

**1st ASEAN+3 Bond Market Forum (ABMF) - Third Meeting
Securities Commission Malaysia, Kuala Lumpur, Malaysia, 16 and 17 February 2011**

Meeting Minutes

I. Summary

1. The third ASEAN+3 Bond Market Forum (ABMF) meeting was held in Kuala Lumpur (KL), Malaysia, on 16 and 17 February 2011. The objectives of the meeting were to (i) update current status of information collection and encourage the members and experts to provide more information; (ii) share basic information on market infrastructures in each market; (iii) determine the level of granularity of information which identifies transaction flows for SF2; and (iv) discuss potential future projects for ABMF. We had a special morning session on the first day to discuss credit rating issues in the region.
2. In the special morning session, establishment of New International Credit Rating Agency (NICRA) for the region was proposed. Also, several regional rating agencies as well as experts in the region expressed various views and opinions on credit rating. Overall, the need for improving credit rating emerged as a consensus. Later, the meeting agreed that there should be further studies conducted, especially in assessing the feasibility of the proposed NICRA, as well as means of improving the capacity of local CRAs.
3. In addition to the credit rating issue, the members discussed other proposals, namely, (i) regional common bond issuance program; (ii) Asian fund passporting; (iii) a new bond index; and (iv) public fund project as Asian Bond Funds 3 (ABF3). The members and experts discussed potential benefits of these projects.
4. As a sign of increasing recognition of ABMF, several new members and experts were nominated. From People's Republic of China, Shanghai Clearing House (SHCH) and China Foreign Exchange Trade System (CFETS, Chinamoney) joined; from Indonesia, Indonesia Stock Exchange (IDX) joined; from Viet Nam, Hanoi Stock Exchange (HNX) joined, though unfortunately HNX could not attend the meeting. It is also expected that Singapore Stock Exchange (SGX) will join from the next meeting. In addition, Malaysian Electronic Clearing Corporation (MyClear) kindly gave a presentation on Malaysian settlement system.
5. The ADB consultants reported the progress of information collection and the current status of responses from the members regarding the SF1 and SF2 questionnaires. Thanks to strong support and cooperation from the members and experts, the information and answers have been collected smoothly. Particularly, ADB and the consultants expressed their sincere appreciation to the international experts for their kind and generous contributions. As the result, huge volume of information has gathered and uploaded to the ABMF library.
6. The SF2 session provided a very good opportunity to share basic information on market infrastructures as well recent developments in each market openly and frankly. There is a growing sense among the participants that this kind of regular face-to-face contact like ABMF will build up confidence among the key stakeholders in the region; hence, it would lead to important regional infrastructure action and changes.
7. To complete the information exercise, ADB asked further support and cooperation. As the interim result of information collection will be reported to the ABMI Task Force Meeting on 9 March 2011 in Bali, Indonesia, the members and experts are strongly encouraged to provide more information as much as possible.
8. ADB Secretariat proposed schedule of country visits through April to May to validate information and data collected. In addition, workshops for Brunei Darussalam, Cambodia, and Lao PDR were proposed to share information as well as support their market infrastructure building. ADB asked those countries to provide their wish-lists for possible topics to be discussed at the workshops.

9. The fourth ABMF meeting will be held in Jeju Island, Korea, on 30 June and 1 July 2011, kindly hosted by Korean ABMF members and experts. ADB as the Secretariat will send a formal invitation to the ABMF members and experts later. The fifth meeting is currently scheduled on 6 and 7 September 2011 in Manila, the Philippines.

10. All presentation materials, as well as the final versions of questionnaires and supporting documents are available at the Members Library section of the website (<http://asean3abmf.adb.org>).

II. Sub-Forum 1 (Day1)

A. Welcome remarks by Datuk Ranjit Ajit Singh, Managing Director of Securities Commission Malaysia

11. Datuk Singh warmly welcomed the participants and noted that the large audience for the first day of the 3rd ABMF Meeting reflects strong interests of market participants for the future issues of the ASEAN+3 bond markets. Asian bond issuance recorded USD 1 trillion or 16% of total global issuance; corporate bond issuance is growing rapidly, emerging as a new asset class. It is timely to strengthen measures to retain ASEAN+3 savings in the region, making markets more and easily accessible to foreign investors. Malaysia began the liberalization of its bond market in 2004 when it abolished withholding tax on bond interest for foreign investors. Since then, cross-border inflows have increased, and lately went up around USD 40 billion equivalent. The regulatory authorities are conscious that the recent inflow of funds demonstrates growing attractiveness of Asian economies, but also they are mindful of possible opposite effects.

12. Datuk Singh noted that ABMI was created to push financial integration and establish the missing links in the bond markets. He highlighted need for improving existing credit rating and potential demands for new services such as regional ratings or new international ratings for cross-border issues by regional financial institutions and the sovereigns.

B. SF1 Chair's remarks, by Mr Yutaka Ito of Tokyo Stock Exchange

13. Mr. Ito welcomed the meeting participants and introduced new national members and experts. From People's Republic of China, Shanghai Clearing House (SCH) and China Foreign Exchange Trade System (CFETS, Chinamoney) joined as SF2 national experts; from Indonesia, Indonesia Stock Exchange (IDX) joined as SF1&2 member; from Viet Nam, Hanoi Stock Exchange (HNX) joined as SF2 national member, though unfortunately HNX could not attend the meeting. It is also expected that Singapore Stock Exchange (SGX) will join from the next meeting.

C. Part 1 - Proposals to enhance regulations and standards for ASEAN+3 cross-border investment and issuance activities ('future topics')

Introduction by Dato' Lee Kok Kwan, SF1 vice-chair and Deputy CEO & Treasurer of CIMB Group)

14. Dato' Lee explained briefly his proposals previously presented at the Tokyo and Manila ABMF meetings. He particularly focused on regional and foreign investors' reliance on the existing international credit rating process and its application, and advocated establishment of a New International Credit Rating Agency (NICRA) in the region. He also proposed mutual recognition of regional credit rating agencies and ratings by the authorities. In addition, he proposed to differentiate ASEAN+3 domiciled investors from 'hot money' to promote their investments as they tend to be more long-term investors.

Session 1 – Dialogue with the leading credit rating agencies (CRAs) in the region, facilitated by Mr Kamaruddin Hashim, Senior General Manager of Securities Commission Malaysia

15. In the session, five distinguished guest speakers from regional credit agencies shared their views on the issues and challenges of credit rating in Asia. In addition to them, Japan Credit Rating (JCR) and Korea Credit Rating (KRA) kindly submitted their opinions to enrich the discussion.

Mr. Ronald T Andi Kasim, President Director of PT Pemeringkat Efek Indonesia (PEFINDO)

16. PEFINDO is established in Jakarta on December 21, 1993, through the initiative of BAPEPAM and Bank Indonesia. There are two other local rating agencies, PT Moody's Indonesia, and Fitch Indonesia. PEFINDO has technical agreement with Standard & Poor's, but no capital involvement. Its capital is widely held by a large number of stakeholders in the domestic market, ensuring its independence.

17. Mr. Kasim highlighted the problem of sovereign ceiling for international rating, which effectively confines rating scales of domicile issuers. In addition, he pointed out the problem of possible overlooking local information and knowledge by international credit rating analysts. He also mentioned interesting observation that PEFINDO's ratings are often lower than Fitch Indonesia, which is contrary to observations in the other countries where normally ratings by international rating agencies (ICRAs) are lower than ratings by domestic rating agencies (DCRAs).

18. To harmonize local ratings among different countries, he referred to challenges due to different methodologies by individual agencies and different account standards and practices implemented by individual countries. He suggested DCRAs need to move towards more consistent and comparable rating structure.

Mr. Chong Kwee Siong, Deputy CEO of RAM Rating Services Berhad (RAM Ratings), Malaysia

19. Mr. Siong discussed issue of rating harmonization. He pointed that Association of Credit Rating Agencies in Asia (ACRAA) has been active in harmonizing credit rating practices, but it may not be enough to harmonize rating. He pointed that establishing a New International CRA (NICRA) to issue international scale ratings or regional scale ratings may be more expedient and a better solution.

20. To establish NICRA, he pointed several factors to be considered such as support from regulators; mandatory rating requirement; no encroaching on DCRAs' business, i.e., local scale rating.

Dr. Santi Kiranan, President of TRIS Rating Co. Ltd., Thailand

21. Dr. Santi discussed possible role of Regional credit rating agency (RCRA) in relation to DCRA and ICRA. He concerned possible competition between RCRA and DCRA. However, if RCRA does not encroach on local rating business, RCRA needs to demonstrate clear merits over ICRA. In this case, RCRA is likely to require strong financial supports from various stakeholders.

22. He also referred to possible mapping of DCRAs' rating. However, he cautioned that it will not be a simple linear mapping.

Mr. Guan Jian Zhong, Chairman and President Director of Dagong Global Credit Rating Co., Ltd., Shanghai, China

23. Mr. Zhong summarized current problems of international credit ratings and potential solutions. He offered guiding principles for international rating: globabiity principle;

independence principle; and consistency principle. He stressed credit rating agencies should be non-national, non-profit oriented, non-political, and non-competitive. He expressed that credit rating must be a government-chartered business recognized by the market, and 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.

24. He also proposed new international credit rating system, consisting of three parts: first, he proposed international credit rating regulatory organization consisting 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 upgrade of credit rating standards. Second, he proposed the single international credit rating agency, composed of the CRAs recognized by the government of each country. The agency is 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. Third, the international credit rating standard to be implemented by CRAs.

Mr. Jung-Dong Kim, General Manager, NICE Investor Service Co., Ltd., Korea

25. Mr. Kim highlighted importance of gaining trust from investors as the fundamental successful factor of credit rating. He questioned who will be potential shareholders of NICRA, recognizing need of strong financial support for the establishment. He concerned the risk of undermining credibility if the public sector involvement may raise some concern on its independence and objectivity. In addition, it may take long time to build up its credibility. Therefore, he proposed that expanding roles of the existing DCRA in the ASEAN+3 region may be preferable.

26. He proposed gradual expansion of mutual recognition in ASEAN+3 as an alternative. For instance, it is preferable if credit rating issued by NICE for a Korean corporation is accepted when the corporation issues bonds in Malaysia or Thailand.

27. He also proposed establishing a working group within the ABMF framework to conduct an in-depth study of the mutual recognition of ratings in ASEAN+3.

D. Session 2 – Dialogue with central bank, ACRAA, institutional investors and intermediaries in the region, facilitated by Thomas Miaw, Head of Debt Capital Markets at CIMB

28. Mr. Miaw opened the second panel session by encouraging participants to provide views of investors in the region and ACRAA which has been working for harmonization of credit rating practices and minimum standards.

Mr. Takahiro Yazawa, Sumitomo Mitsui Banking Corporation (SMBC) - Comments on behalf of ABMF-J

29. As introduction, Mr. Yazawa briefly explained the activities of big Japanese financial institutions with respect to intra-regional investments and corporate finance in the region, and significance of credit rating in their business. He explained that major Japanese banks use their own credit rating approaches, and are using DCRA and ICRA for their reference.

30. He agreed that methodology applied by the ICRA to assess sovereign ratings needs to be improved. He proposed continuous and detailed discussions among investors, issuers, intermediaries and the ICRA as the critical first process.

Mr. Santiago Dumlao, Secretary-General, Association of Credit Rating Agencies in Asia

31. Mr. Dumlao introduced ACRAA as the only regional association among credit rating agencies in Asia with 28 members from 15 countries. He shared his view based on 10-year discussion at ACRAA. He emphasized importance of credibility and reliability in rating as the result of the consistent observance of quality minimum standards and integrity in the rating process.

32. He pointed that mutual recognition is the process of conforming code of conducts and best practices, agreeing on methodology, and validating default studies which leads to agreement on rating transition matrixes. The step needs to be initiated by DCRA, followed by the harmonization of regulatory framework.

Mr. Adnan Zaylani bin Mohd Zahid, Director, Investment Operations and Financial Markets, Bank Negara Malaysia (BNM)

33. Mr. Adnan confirmed problems associated in rating, though BNM relies on ICRA for their investments in the sovereign and regional financial institutions. Given limited research capability, it is still beneficial and efficient to use ICRA, but it may be better to utilize DCRA's in the future.

Mr. Wan Kamaruzaman Wan Ahmad, General Manager, Treasury Department, Employee Provident Fund (EPF), Malaysia

34. Mr. Wan briefly explained EPF, which has MYR 400 billion, or USD 130 billion assets. At the beginning, it focused investments in domestic sovereign bonds, but, then, is gradually diversifying to corporate bonds. As the result, the share of sovereign bonds is declining to 65% or less.

35. EPF has its own credit rating capabilities, particularly for domestic issues, but prefers utilizing external CRA's ratings. The Malaysian government has mandated EPF to diversify its portfolio to include non-domestic assets up to 25%, primarily targeting the sovereign and corporate bonds. Therefore, discussion on sovereign rating is timely.

36. He mentioned the minimum investment grade requirements confines EPF's investment activities, but investment to the lower grade can be considered in the future. He stressed that rating is just one factor; other factors such as currency and political factor should also be taken into account.

E. Discussion by the ABMF members and experts on possible future projects

37. Mr. Ito, as Chairman of SF1, opened the floor to discuss other possible future project proposals. Mr. Yamadera of ADB as Secretariat provided a quick overview of the other proposals: (i) regional common bond issuance program; (ii) Asian fund passporting (AFP); (iii) a new bond index; and (iv) public fund project as Asian Bond Funds 3 (ABF3), and invited Ms. Catherine Simmons of State Street for additional comment on AFP.

38. Ms. Simmons briefly explained the idea which aims to recycle funds in the region by taking the model of European UCITS (Undertakings for Collective Investment in Transferable Securities) for Asia. One possible approach is to organize the markets with similar regulations first, then, to include other markets later.

Roundtable discussion and comments from the members and experts

39. A member for China commented AFP appeared to be interesting, and there may be a link to credit rating as the both involve cross-recognition.

40. A member for Indonesia expressed the view that, to improve credit rating in the region, efforts may be concentrated upon improving capacity of DCRA's. For instance, in addition to the work done by ACRAA, standardizing rating methodology as well as sharing

best practices and standards needs to be discussed among all DCRAAs. Support was given to the idea of creating a new bond index as a mean to increase market liquidity, but not to ABF3 because ABF2 is still straggling to grow. The member also reminded AFP may overlap with discussion under the International Organization of Securities Commissions Asia-Pacific Regional Committee (IOSCO-APRC), as well as initiatives proposed under the ASEAN Capital Market Forum (ACMF). The similar comment was also made by Indonesia in relation to the Common Framework and Mutual Recognition of Bond Issuance. Another member for Indonesia proposed to study recent capital inflows and impact on financial stability. ADB offered to take up the issue to more suitable policy discussion forum because ABMF should focus on practical issue suitable for market practitioners' discussion.

41. A member from Lao PDR stated that the credit rating issue needs to be examined based on what outcomes are beneficial for which stakeholders. In addition, capacity building for rating agencies may be more important. As Lao PDR has just launched the stock exchange successfully, the government is now moving to discuss bond markets, both sovereign and corporate bonds. It is hoped that the bond market can be created in 4-5 years.

42. A member from Korea endorsed the proposal of common bond issuance program. The member stressed that it is important for the region to have a common bond market like Eurobond.

43. A member from Japan provided opinions collected through ABMF-J. Regarding ABF3, ABMF-J considers it is necessary to clarify the focus of the project if chosen. The project needs to address the issues which are not solved under ABF2. It is also advisable to consult EMEAP to receive their extensive knowledge and expertise because it may involve various difficult problems. As for AFP and common bond issuance program, ABMF-J envisages a close linkage in the two projects, besides, the both may provide new investment opportunities. As for new bond index, the member stressed the need for examining investors' opinion thoroughly. To be accepted by them, the index must have high investability, liquidity, diversification, and representation. To sum, ABMF-J prioritized common bond issuance program as natural evolution of SF1 discussion. The region should have a common framework of bond issuance which alleviates burden of issuers to comply with different domestic regulations. Demand for the program is higher as intra-regional corporate activities are increasing.

44. A member for Thailand stressed that investors are institutional in nature, and looking for value; hence, it would important to focus on investor recognition of the topics, and not so much on the regulatory angle.

45. ADB summarized that there seems to be a consensus that credit rating needs to be improved and regional discussion may be useful. Some of the members see more values in discussing common bond issuance program and AFP. Also, there may be a close link between them. But ADB reminded that AFP has been discussed at APEC, thus, we need to avoid unnecessary overlap. As for the bond index, choice of index depends on investors, so the need of them should be carefully identified. Lastly, ABF3 needs more careful consideration and consultation with EMEAP if chosen as the topic. The potential future topics will be reported to ABMI Task Force 3 on 9 March 2011.

F. Part 2 – Information Collection Update

46. Prof. Shigehito Inukai, ADB consultant, and Professor of Law, Waseda University, expressed his sincere appreciation to all the members for their cooperation and submission of information despite the Lunar New Year holidays. He showed a country matrix to update the current status of reporting by the members. He also reported collaboration between Japan and Korea which was materialized as ABMF-J and ABMF-K joint meeting in Tokyo in January. As promised, the consultants accepted information in local language; currently they are translating China's submission into English.

47. Mr. Matthias Schmidt, ADB Consultant, reviewed the market materials received from members and experts. These materials are stored in the library section of the members-only part of the ABMF website. He particularly thanked the international experts for their generous contribution, but reminded the members that the information is utilized solely for ABMF's information collection purposes. He encouraged all national members to provide more information on laws, rules and regulations, as well as market development or master plans where available.

Information Update: Republic of Korea – Presentation by KOFIA on the Bond Market Infrastructure in Korea, by Mr Sung Hwan Yoon

48. Mr. Yoon elaborated on a number of features in the Korean market and the role of KOFIA in the market. He explained FreeBond introduced in April 2010 that has replaced traditional OTC trading platform with much safer, more secure, convenient and stable environment. The FreeBond transaction has amounted to 90% of OTC transactions. He also explained real-time bond indexes calculated through FreeBond. It clearly demonstrates KOFIA's role in bond price discovery which is fundamental to a well-functioning market. In addition, KOFIA runs BondMall, which is a website to provide sales information of small bonds. The sales information is collected in real-time and provided to investors.

Information Update: Republic of Korea – Presentation by KRX on the Exchange-traded Bond Market, by Ms Hyeon Hee Lee

49. Ms. Lee gave an overview of the features of and the primary and secondary markets in Korean Treasury Bonds (KTB). KRX is the 6th biggest bond trading exchange in the world in 2009. KRX contributes increasing liquidity in KTB, as the result, the ask-bid spread is much smaller comparing to the other Asian government bonds. Settlement is possible between T+1 and T+30 but is generally conducted on T+1. KTB Futures and KTB ETF are also listed at KRX. Superiority of KRX Bond Trading System (KTS) by KRX is recognized globally; Bursa Malaysia introduced KTS in January 2008.

Questions & Answers for the Information Update session

50. KRX clarified that KTS is limited to KTB, and the primary dealers are currently 39 securities firms and 25 banks. Transactions on KRX are guaranteed both at exchange and clearing house, which is KSD. Bonds traded through KRX represents 10% of the total bond transactions in Korea, and the rest is traded over-the-counter (OTC), including on FreeBond.

51. KOFIA mentioned FreeBond has not affect OTC transaction volume much since its introduction in 2010; however, it is hoped to expand the transactions much more in the future. FreeBond is provided to participants free of charge. This is possible because of the public nature of KOFIA, besides, the primary objective of FreeBond is to enhance transaction process efficiency and increase market transparency. However, some dealers are still inclined to trade over the phone. KOFIA believes that efficiency drives market participants to use FreeBond, then, increase in market transparency, and eventually leads to more transactions.

G. Proposed Market Visits and Workplan

52. ADB as Secretariat consulted the members for country visits schedules which are planned through April to May. The purpose of the visits is to validate information and data collected. In addition, workshops for Brunei Darussalam, Cambodia, and Lao PDR were proposed to share information as well as support their market infrastructure building. The members did not see immediate concern on the dates proposed. ADB will communicate with each member for detail plan and schedule.

53. ADB asked members and experts for their support for the workshop. JASDEC, SWIFT, JP Morgan and TSE indicated their willingness to support the market visits and workshops. HSBC kindly offered liaison with its sub-custodian office in markets during the country visits.

54. The Secretariat asked Brunei Darussalam, Cambodia, and Lao PDR to consider their wish-lists to be discussed at the workshops. Based on the request, the Secretariat will consult the members and experts for their possible additional supports.

55. As for the workplan onwards, the results of the market visits will be presented at the 4th ABMF Meeting on 30 June and 1. July in Jeju Island, Republic of Korea, kindly hosted by the Korean members and experts. At the meeting, first draft of SF1 and SF2 reports will be discussed, particularly focusing on how to disseminate the reports including Asian Bonds Online and other sources. Follow-up market visits may be conducted if necessary in July or August. The 5th ABMF Meeting is planned on 5- 6 September 2011 in Manila, the Philippines. It is expected that the final drafts of the reports will be submitted for approval. The final drafts need to be reported to the ABMI Task Force 3 Meeting in autumn 2011 to be officially approved. The 6th ABMF Meeting is expected to be held in December, but the venue is not decided at this stage.

56. International experts suggested liaising with various industry conferences, including Sibos, which could be used to publish progress updates and final ABMF reports. In addition, SWIFT, SMPG (Securities Market Practices Group) and ISSA (International Securities Services Association) websites can be used to disseminate ABMF reports and recommendations. It is also useful to communicate with ASIFMA (Asia Securities Industry & Financial Markets Association) and ISITC (International Securities Association for Institutional Trade Communication).

III. Sub-Forum 2 on the Day 2 (February 17)

Chairman's Remarks, by Mr. Jong Hyung Lee of KSD

57. Mr. Lee welcomed the SF2 members and experts. He thanked for kind contributions by the members and experts. He outlined the agenda and reiterated expectation to discuss level of granularity of information to be collected, which will set the scope of SF2 report.

A. Part 1 – How to construct the SF2 Study

Data and information collection update – Dr. Taji Inui, ADB Consultant

58. Dr. Taji Inui, ADB consultant and technology specialist of NTT Data, updated the current status of information reported by the members and experts. He thanked the members and experts for their kind contributions.

B. Presentations by the National Members: Explaining market infrastructure and role of CSDs

Hong Kong, PRC

59. Mr. Li Shu-Pui from the Hong Kong Monetary Authority (HKMA) provided an overview of the financial market infrastructure, focusing on the key features of and services provided by Central Moneymarkets Unit (CMU), recent developments in the Renminbi (RMB) bond market in Hong Kong as well as updates on the common platform with Euroclear, Malaysia and Hong Kong as early movers.

60. CMU is a debt securities custodian, clearing and settlement system operated by the HKMA. CMU has multiple links with other bond platforms, including the ICSDs and CSDs in the region which provide CMU members with flexibility to access debt securities lodged with other ICSDs and CSDs. As CMU is a multi-currency platform and is linked with Hong Kong's

RTGS systems, it offers DVP services for debt securities denominated in HKD, USD, Euro and RMB and lodged with CMU.

61. The RMB bond market started in 2007, and ADB listed the first RMB bond at the Hong Kong Exchange in October 2010. RMB offshore market has experienced rapid growth since the liberalization of RMB businesses in July 2010. Among other changes, any financial institution can offer any products denominated in RMB; there is no restriction on converting any currencies to RMB and vice versa in the offshore market. In November 2010, the Chinese government used CMU's tendering platform to tender 3 tranches of RMB bonds totalling RMB 5 billion, which resulted in very attractive pricing from the issuer's perspective. . At the end of January 2011, the outstanding amount of RMB issues reached RMB67 billion. Also, RMB deposits have exploded in the recent months and amounted to RMB315 billion as of end December 2010.

62. He also updated the participants on the common platform model (CPM) proposal, highlighting that the pilot platform with Euroclear, Malaysia and Hong Kong as early movers will be tentatively launched in the first half of 2011.

Brunei Darussalam

63. Mr. Aminuddin reported the recent developments in the Brunei market. Brunei Monetary Authority has established January 2011. The Authority is expected to start planning various market development strategies including payment systems and bond markets. Brunei Darussalam will continue to follow closely the discussions at ABMF and developments in other countries.

People's Republic of China

64. Mr. Liu Hui Tong of the People's Bank of China (PBOC) provided an overview of the Chinese bond market. The China bond market can be divided in three segments: interbank OTC market; commercial bank OTC market; and exchange market.

65. The OTC market started in 1997. Strong growth has been observed since 2004 due to creation of the interbank market. The interbank market participants are institutional investors and regulated by NAFMII. Bonds are traded through CFETS (China Foreign Exchange Trade System & National Interbank Funding Center) and brokers, and settled at CCDC (China Central Depository & Clearing) and SHCH (Shanghai Clearing House) on RTGS. On the other hand, bonds traded among commercial banks as OTC are settled at CCDC. The both markets are supervised by PBOC.

66. In 1992, the stock exchanges started government bond trades, and by 1995, all government bonds have been traded in the stock exchanges. The exchange market is open to individuals and non-bank financial institutions, and regulated by CSRC. Bonds are traded through the exchanges and settled at CSDCC (China Securities Depository and Clearing) after netting through CCP.

(CCDC: Chinabond)

67. Mr. Zhong Jun of CCDC elaborated the functions of CCDC, going beyond the traditional CSD business. CCDC was established in 1996, and it provides services for bond issuance, clearing, settlement, custody, corporate action and redemption processing. Institutional investors can connect directly to CCDC or conduct settlement activities through settlement agent commercial banks. CCDC supports the auction system for both central and local government securities as well as large corporate issues. CCDC provides information services to its participants which support account enquiry function for retail investors even though their accounts are held through commercial banks or financial intermediaries. Besides , to improve market transparency and risk management of market members, CCDC develops information products such as customer-tailed statistical, yield curve, bond valuation and bond index, and provides automatic collateral management services for broad financial market.

68. The CCDC settlement process includes pre-matching and a link to the domestic RTGS system (CNAPS) to achieve true DVP. Funding processes depend on the nature of participants' accounts. The settlement cycle allows for any date agreed between the counterparties, although T+1 and T+0 are most common. The CCDC system has links to trading and payment infrastructure, with cross-border physical links possible in future. CCDC currently develops customer direct access platform with proprietary data format and the messaging within CCDC is based on ISO, but not entirely SWIFT compliant.

69. Mr. Zhong shared CCDC's expectations for ABMF: regional standards set by ABMF must be in line with the global standards, and CCDC is willing to contribute to the standard setting as well as sharing its experiences with the members to support market developments in the member countries.

(CSDCC: Chinaclear)

70. Ms. Sofia Yang explained the function of CSDCC in the market. It provides trading, clearing, settlement platform as well as depository and registry for instruments traded at stock exchanges. CSDCC settles various types of securities listed at the exchanges such as stocks, central and local government bonds, enterprise bonds, corporate bonds, convertible bonds, ETF, warrants, and asset-backed securities. CSDCC also acts as central counterparty (CCP) for trading members. The matching system is a part of the trading system operated in the exchange markets. The Shanghai Stock Exchange (SSE) uses both the New Generation Trading System (NGTS), and the Integrated Electronic Platform for Fixed-income Securities (IEPFS) for bond trade. The Shen Zhen Stock Exchange (SZSE) system uses the auction Trade System and Integrated Negotiating Trade System (INTS) for bond trade. SSE features the highest trading volume in the world, at 20 million trades per day.

71. Net settlement for bond trades occurs on T+1 at 16.00 hours, but funding needs to be arranged in the previous day and to be sent by 15.00 hours on T+1. Trading data is transferred from the stock exchanges to CSDCC on T, and book-entry transfers are effectuated at end of day on T. If funds are not provided to the client's account, bonds will be withheld by CSDCC until the settlement is cleared. The failed party needs to pay a penalty. CSDCC also supports securities lending transactions. Its system supports STP from and to participants.

(Shanghai Clearing House: SCH)

72. Mr Pi Jianping of Shanghai Clearing House explained the function of the institution. It is established in November 2009 by the decree from PBOC and the Ministry of Finance. It provides centralized counter-party (CCP) function to mitigate settlement risks, following the G20 recommendation. SCH's current focus on the interbank bond and FX (both spot & derivatives) markets. As a depository, it serves two specific product groups, namely Credit Risk Mitigation products (CRM, the domestic version of CDS) and short-term commercial papers that have been introduced in November 2010. CRM come in the form of warrants (CRM-W) or agreements (CRM-A).

Cambodia

73. Mr. Sovy of SEC updated the recent developments. Cambodia does not have equity or bond market yet. However, two laws have passed to establish foundation for debt instruments: sovereign and corporate debts, and equities. A plan to establish the stock exchange was postponed due to the financial crisis. Biggest challenge for them is to allocate limited resources to meet demands for various initiatives. At present, Cambodia has one securities firm and three state-owned enterprises that are readying for listing. These entities are already audited at international standards. The next step is to identify operators for the exchange, clearing and depository functions. Also, Cambodian authorities are in the process of choosing the currency of denomination for future bonds. At present, Cambodia is heavily dollarized. Public consultation is currently under way, and a recommendation is expected to be sent to the prime minister's office soon.

Indonesia

74. Ms Margeret Tang of the Indonesian Central Securities Depository (KSEI, or Kustodian Sentral Efek Indonesia) explained Indonesian market infrastructure. The Indonesian market features two depositories: namely, Bank Indonesia (BI) for all government securities; and KSEI for all other securities. KSEI also functions as the national numbering agency and issues ISIN to the market. Government bond holders are normally registered through sub-registries such as banks and brokers. KSEI is also a sub-registry and can, hence, keep Government bonds and SBI (short-term papers issued by BI) on behalf of market participants. The sub-registries also act as withholding tax agents. Account holders of KSEI are brokers and custodian banks. The accounts at KSEI are segregated under the clients' names while the accounts at BI are omnibus under each sub-registry's name. Foreign participation is relatively high in Indonesia; 30% of government bonds and 4% of corporate bonds are held by foreigners,

75. Trading bonds in Indonesia is mostly OTC, but there is a bond trading platform provided by Indonesia Stock Exchange (IDX). For the purpose of price transparency, all trades must be reported to IDX, as the appointed market institution. Reporting must be done within 30 minutes after the transaction is done by an intermediary, or after the settlement instruction is received by a custodian bank.

76. KSEI does not provide banking, thus, funds are settled through four payment banks. Funding and payment in foreign currencies is subject to the real-demand principle: custodians/brokers need to substantiate the FX transactions by keeping the records of underlying securities trades. Indonesia tax law requires the calculation of withholding tax on interest upon the sale of a bond, impacting both the final settlement amount and transaction flow.

77. A new development in Indonesia is the allocation of Single Investor ID from 2012. All market participants will need to have an ID, based on regulations promulgated by Indonesia Capital Market and Financial Institutions Supervisory Agency (Bapepam-LK) in line with international KYC standards. KSEI will issue the ID.

Question and Answers for first session

78. Ms Tang clarified that IDX is the appointed market institution to collect and consolidate the trade price information, by providing access to a reporting system to market participants. The process is intended to enhance market transparency, and is separate from the settlement process.

79. SWIFT questioned CCDC for fit and gap analysis of ISO in PRC. Mr. Zhong responded that SWIFT messages are not entirely suitable for local market practices; therefore, still large part of transaction remains under proprietary system. But the market is moving towards international standards.

80. Regarding the introduction of new SID in Indonesia, SWIFT enquired whether ISO 9016 (Business Identification Code) had been considered. Ms Tang responded that since SID will not be required to be quote in instructions or other SWIFT messages, the ID was determined with local considerations.

81. JASDEC suggested comparing notes with CCDC on the pre-matching approach in both institutions. While it was not explicitly shown in the CCDC charts, pre-matching is a distinct feature within the settlement process.

82. JPMorgan commented that the market presentations produced by the market infrastructures and the subsequent discussions were very beneficial. The role of custodians as well as other key intermediaries should be included in subsequent studies in forming a complete picture of the markets and the region as a whole. As for future developments, it should be expected that institutional investors will increasingly ask about market linkages as they may weigh whether to go to a CSD in their jurisdiction or access the issuer CSD directly,

or via an intermediary such as a custodian which is the prevailing practice. This also shifts focus to the question where the custodian banks will fit in line of such market developments.

Japan

83. Mr. Hiroshi Ikegami of JASDEC explained bond transactions in Japan. Bonds can be traded as OTC through inter-brokers system (BB) or through the stock exchanges. However, few JGB transactions are traded across the exchanges in Tokyo, Osaka and Nagoya). Tokyo Stock Exchange (TSE) is promoting Tokyo Probond market, which will list bonds for financial professionals. However, under the scheme, the exchange only provides listing and oversight function, but not trading function. As depository, JASDEC handles all types of transactions for bonds except JGB (e.g. corporate bonds, municipal bonds, agency bonds including short term bonds, commercial papers, convertible bonds) and equities as well. Bank of Japan (BOJ) continues to be the depository for JGB. JGBCC (Japan Government Bond Clearing Corporation) is the CCP for JGB and CCP for other instruments is the JSCC (Japan Securities Clearing Corporation), across the nation's six exchanges. DVP is achieved using central bank money, via BOJ-Net. Established in 1990, it features 168 participants; a new BOJ-Net version is due in 2015.

Laos

84. Mr. Sompasong Phommasane of Securities and Exchange Commission (SEC) office of Bank of Lao PDR (BoL) explained recent market developments, focusing on Lao securities exchange. Government bonds have been issued since the 1990s, mainly for the purpose of deficit financing, though the market size has been small. The BoL has been issuing monetary stabilisation bills since 2006 on an intermittent basis. The Banking Operations Department of BoL continues to provide clearing, settlement and transfer services for these instruments. Since 2006 the authorities had been working towards the establishment of SEC and stock market. In 2009, the SEC was established consisting of senior representatives of the stakeholder ministries under the chairmanship of HE Somsavat Lengsavad, Standing Deputy Prime Minister. Since 11th January 2011, the Lao Securities Exchange (LSX) has begun trading. LSX is owned 51% by BoL, and 49% by KRX. At present, two local companies are listed namely Electricite du Laos-Generation Public Company (EDL-Gen) and Banque Pour Le Commerce Exterieur Lao (BCEL), and there are two securities firms as joint venture namely BCEL-KT Securities Company Limited owned 70% by the Banque Pour Le Commerce Exterieur Lao (BCEL) and 30% by KT ZMICO Securities Company Limited and Lanexang Securities Public Company (LXS) owned 49% by the Lao Development Bank (LDB) and 51% by the Sacombank Securities Joint Stock Company (Sacombank-SBS).

85. Lao PDR would like to accelerate market developments. The electronic trading platform of LSX can trade equities and bonds, and a division of LSX is designated as the securities depository center.

Malaysia

86. Ms Zuriada Idris of Malaysian Electronic Clearing Corporation (MyClear) as a guest speaker explained the Malaysian market infrastructure. MyClear is the payment subsidiary of Bank Negara Malaysia (BNM), incorporated in 2008 and initiated in 2009. This is line with the internationally accepted practice of separating the overseer and operator's role of systematically important payments system (SIPS). In addition, MyClear supports Malaysia as an international Islamic financial center by providing necessary infrastructure. MyClear is also the operator of RTGS system, RENTAS. MyClear also functions as depository for government securities and comes under the supervision of BNM. FAST, which is the issuing system for unlisted debt securities, and RENTAS provide securities and payment services for issuance, depository and settlement for the OTC market in MYR and USD sovereign securities.

87. In a first step towards market liberalisation, MyClear has amended its membership criteria to admit ICSDs to maintain direct accounts. On the technology side, MyClear uses proprietary standards but will be migrating to SWIFT standards. In addition, a matching process is also going to be introduced.

Thailand

88. As SF2 member from Thailand was not able to attend the meeting, Ms. Soramon of Securities and Exchange Commission and Mr. Niwat of Thai Bond Market Association kindly updated the members on the Thai market. The SEC is responsible for the supervision of market participants and the trading, clearing and settlement systems. The Thailand Clearing House (TCH) is the CCP for equities, bonds and derivatives since February 2010. Thailand Securities Depository (TSD) is responsible for the settlement, depository and registration of all types of securities in the market, except the registration for government bond, which the Bank of Thailand is responsible for. In addition, TSD also offers collateral management services. Both entities are subsidiaries of the Stock Exchange of Thailand (SET). On the trading side, OTC market and exchange trading co-exist. In general, T+2 settlement is normal practice, although OTC counterparties can agree on other terms.

Philippines

89. Ms. Cornelia Dagdag of Philippines Depository and Trust Group provided the overview of Philippine securities market. In the Philippines, RoSS (Registry of Scripless Government Securities) operated by Bureau of Treasury is the depository for the government bonds while Philippine Depository & Trust Corporation (PDTC) is the depository for corporate bonds and other securities. The Fixed Income Exchange (FIE), which is an electronic platform for trading, clearing and settlement and depository, was launched in March 2005. FIE is owned and managed by the Philippine Dealing System Holdings Corporation (PDS Holdings) and its three subsidiaries; namely, the Philippine Dealing & Exchange System (PDEX), the Philippine Securities Settlement Corporation (PSSC) and the Philippine Depository and Trust Corporation (PDTC). The PDS Group can provide services from bond trading to clearing and settlement through centralized infrastructure. PDEX Fixed Income Trading Systems is linked RoSS and trades are settled through STP facility. Repo trades can also be executed in the PDEX Repo Trading System.

Korea

90. Mr. Jong-Hyung Lee of Korea Securities Depository provided a overview of the Korean bond market infrastructure. In Korea, all securities are settled at KSD. He explained institutional trade settlement in Korea. Fail can be permissible only when instructions from foreign institutional investors are delayed. He also elaborated New Securities Settlement Systems, which will be launched in November 2011. The New SSS is expected to be more cost effective with enhanced risk management feature such as auto-collateralization.

C. Part 2- Information session 1: Global Custodians' point of view by HSBC, JPMorgan Chase, State Street

91. The international experts jointly explained interdependencies of various transactions which need to be considered when we link offshore and onshore transaction flows. They highlighted possible areas of concern by showing examples of six markets in the region.

92. The presentation demonstrated needs for identifying clear linkages in various transactions. For example, to buy securities, it is necessary to finance, but in many countries, overdraft is limited. Thus, securities investment requires pre-funding through FX. If FX transactions cannot execute smoothly, the securities transactions cannot be done smoothly. Likewise, tax calculation may be a barrier for smooth transaction. To identify problems, it is necessary to draw chains of various transaction flows.

93. In addition, drawing transaction flows for each market should be able to find possible different interpretation in terminology. In fact, DVP is often interpreted in different fashions among the markets.

94. To make comparable chart for each market, the international experts suggested taking the Vietnamese chart as the template, and try to identify transaction flows for each market.

D. Information session 2: Trade/Settlement Matching & Standardisation, by Mr Shunichiro Unno, JASDEC

95. Mr. Unno shared his view why matching system is necessary, and explained characteristics of PSMS as an example of a system. PSMS contains a post-trade, in addition to pre-clearing matching routine, as PSMS was designed to cover the entire trade lifecycle. This is due to the fact that in Japan custodians become the legal counterparty to the broker and they need to match trades on behalf of their clients before brokers calculate obligations for clearing. PSMS is used for 99.9% of trades while settlement matching for inbound transactions remains 90-95%. 70% of fund managers in the Japanese market use PSMS. Although usage of PSMS for equity is high, matching for bond transactions is still low. It is still a challenge for JASDEC how to increase the ratio as close as to 100%. Later, most Members agreed that there should be further studies conducted in relation to the feasibility of PSMS implementation.

D. Discussion session: Information collection update (continued), by Dr Taiji Inui, ADB consultant

96. Dr. Inui stated that, through the country presentations, the national members have completed sections 1 and 2 of the SF2 questionnaire, plus provided details for future plans in section 10. He also thanked the international experts for substantial inputs on section 3 (business and transaction flows), and agreed the international experts that detailed chain of transaction flows will identify interdependent impediments for STP. Dr. Inui also asked members to kindly review and update the Market Comparison Matrix.

97. The next step is to transform the survey responses into transaction flows in line with the example of Viet Nam, which was shown by the international experts.

E. Roundtable Discussion

98. International experts kindly offered their supports to provide additional information and market materials. Besides, they offered their help in interpreting responses.

99. The members and experts agreed on the level of granularity of information to be collected; we will try to draw transaction charts with time transition, shown by the international experts as an example for the Vietnamese market. A member from Japan proposed to collect the information based on settlement day, i.e., S, S-1, S-2. This is because definition of trading day, T, may be different, particularly for inbound transaction.

100. The members and experts unanimously appreciated wealth of information shared and depth of discussions through the meeting. The participants echoed that it would be possible or easy to develop operating models to improve the existing cross-border settlement platforms once we complete the information collection at the level we agreed.

101. Dr. Inui prompted members to give feedback on whether additional topics should be included in the questionnaire, e.g. such as taxation in detail, or the consideration of other asset classes.

102. Prof. Inukai mentioned that a number of SF2 points were related to SF1 topics, and that consultants will ensure that relevant information is freely shared between the two forums.

103. Mr. Yamadera promised to provide detailed instruction what information should be collected additionally. The members were also encouraged to connect to the national market

associations and practice groups to obtain ready-made materials and input on the questionnaire.

F. Wrap-up of Sub-Forum 2

104. ADB as the Secretariat reported to the members on the result of the communication with Tata Consulting Services regarding their membership and further participation. Tata would like to withhold their participation in ABMF until some more concrete outputs relevant to their business come out due to their limited business resources.

105. Mr. Lee, Ms Tang, and Mr. Ikegami, as Chair and Co-Chairs, thanked all members for their contributions and the very fruitful discussions under Sub-Forum 2.