25 July 2011

**4th ASEAN+3 Bond Market Forum (ABMF) Meeting**
**Haevichi Hotel, Jeju Island, Republic of Korea**

**30 June and 1 July 2011**

**Meeting Minutes**

## I. Summary

1. The fourth ASEAN+3 Bond Market Forum (ABMF) meeting was held in Jeju Island, Republic of Korea, on 30 June and 1 July 2011. The meeting was co-organized by Korea Capital market Institute (KCMI) and co-sponsored by Korea Securities Depositories (KSD) and Korea Exchange (KRX).

2. The main objective of this meeting was to report progress of information collection by the ADB consultants to the members and experts. ADB Secretariat expressed sincere appreciation for strong supports by the members and experts during the market visits. Thanks to the strong support and kind assistance, the Secretariat and the consultants could visit ten markets (PRC; Indonesia; Malaysia; Thailand; Viet Nam; Hong Kong, China; the Philippines; Brunei Darussalam, Lao PDR and Korea) before the 4th meeting.

3. As for Sub-Forum 1, Prof. Shigehito Inukai of Waseda Univ., ADB consultant, reported the progress of regulatory and market practice information collection for each market, and requested the members and experts to provide additional information. As for Sub-Forum 2, Dr. Taiji Inui of NTT Data, ADB consultant, reported securities transaction flows of each market, and asked the members and experts for validation. Mr. Matthias Schmidt, ADB consultant, also added information on cross-border transaction flows as well as information and reporting flows associated with cross-border transactions.

4. The members and experts were generally satisfied with the preliminary outputs by the consultants. And the members and experts agreed to provide additional supports to complete the market guides and transaction flow charts.

5. The national members and experts are requested to edit and fill the blank section of SF1 market guide for their market **by August 19**. Particularly, kind support from Malaysian and Philippine members and expert is highly appreciated as the current version of the market guides are based on the publicly available information.

6. The market guides should basically contain available details in response to the 27 points in the Appendix 1 in order to fully understand the markets and show possible areas of improvements in some of the practices in the near future. He requested the members for help with fleshing out details on these key areas. The country specific requests made by the consultants at the meeting are also included in the Appendix 1. The members and experts are also requested to supply English translation of regulations and rules to be included in the market guides, which are currently written in their native languages.

7. The markets at the early stage of development such as Brunei Darussalam, Cambodia and Lao PDR are encouraged to provide any kind of market information currently available to be included in the region's market guides.

8. Similar to SF1 market guides, Dr. Inui will compile country information on trade and information flows. The country information will be sent as soon as possible, and the members and experts will be asked to review and edit **by August 26**.

9. The Philippine members' effort to organize a national-level working group as ABMF-Philippines was noted as an important step to support ABMF. ADB Secretariat appreciated

their strong support, and encouraged the other members and experts to form a similar national-level working group[1].

10. The members and experts also discussed possible agenda after the information collection exercise currently undertaken by Sub-Forum 1. Korea Capital Market Institute (KCMI) made a presentation to explain the needs of self-regulatory framework as we move our bond market development from domestic to international. This was echoed in the presentation by Malaysian national member, Mr. Thomas Meow of CIMB Investment Bank; he also proposed Asian version of Regulation S[2] for flexible international bond issue in the region.

11. There seemed an emerging consensus that, given the development of domestic bond markets and increase in cross-border transactions, the region should move its focus to international bond market. The members also agreed, though the existing Eurobond market and its scheme can be utilized for issuers and investors in the region, establishing a new self-regulatory framework for international offshore bonds commonly utilized by issuers and investors in the region is more desirable. As the bond market develops, the more and more issuers would like to see harmonization of bond issuance rules, however, it will take years to harmonize domestic regulations in the region. Besides, the members understand the legitimate needs of regulations and monitoring on capital flows in the region; therefore, the region needs to create its common scheme suitable for the region's needs and circumstances.

12. To address the issue, the members and experts agreed to take a stepwise approach. For example, the discussion can start from a narrowly focused area such as private placement by the qualified issuers, qualified investors, and qualified brokers. By doing so, the governments may be able to consider more flexible regulations for the qualified parties. To discuss the common issuance program and make a proposal to the governments, a forum among the self-regulatory organizations (SROs) in the region needs to be made as the next step of SF1. The new forum is expected to discuss self-regulations and code of conducts to create a common issuance scheme. In the future, the forum may be able to discuss supervision and enforcement, in addition, formalization as a regional SRO. However, at this stage, it is early to do all at the same time.

13. The members and experts also discussed the next step of Sub-Forum 2. Most of the members and experts agreed to continue identification of transaction flows and extension of the work to issuance, redemption, and interest payment of government bonds as well as corporate bonds. In addition, some corporate actions related to corporate bonds need to be included. Then, fit-and-gap analysis will be made to clarify the areas where harmonization efforts are required. The members also would like to see a roadmap to standardize and harmonize messaging and market practices in the next phase.

14. In addition to these, securitization and credit rating were discussed as possible future topics. ADB Secretariat agreed on the importance of these topics, however, pointed out need of careful consideration. Securitization is stigmatized as a cause of the financial crisis, and regulatory reforms related to securitization is still under way. Having said, some of the proposals in the presentation can be discussed as a real business case without a regional forum like ABMF.

15. Regarding the issue of credit rating, ADB Secretariat explained reactions from the national rating agencies after the 3rd meeting. Their informal indication on the proposal of regional rating agency is mixed; no clear preference was given to the proposal, therefore, we are not in a good position to judge whether this can be a good topic for the future agenda.

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[1] The national-level working groups have been organized in Japan (ABMF-J) and Korea (ABMF-K). ABMF-P will be the third national-level working group.

[2] Regulation S is a provision which gives reduction of regulatory requirements when an offering of securities is deemed to be outside of the US and therefore not be subject to the registration requirement under the US Securities Act.

The Secretariat suggested organizing a regional conference together with Association of Credit Rating Agencies in Asia (ACRAA) in the next phase because they are working on mapping and comparing ratings in the region, and trying to explain the differences in their ratings.

16. As information session of SF2, Omgeo made a presentation how their solutions may contribute more efficient and secure trade.

17. ADB Secretariat explained the work plan for the rest of year and the phase 2 of ABMF, which will start from the next year.

**Table1: Work plan up to 1H 2012**

| | |
|---|---|
| 12-13 Sept 2011 | 5th ABMF meeting in Bali, Indonesia |
| 19-23 Sept 2011 | Sibos in Toronto, Canada |
| 20 Oct 2011 | ASEAN+3 ABMI Task Force Meeting in Korea |
| Dec 2011 | 6th ABMF meeting in PRC |
| **2012-2013** | **The Phase 2 of ABMF** |
| End of 2011 | Publication of the ABMF report |
| Feb 2012 | 7th ABMF meeting and public conference |
| 1Q 2012 | First reporting to TF3 |
| April or May 2012 | 8th ABMF meeting |
| June-July 2012 | Country visits for consultation and information collection |

18. As a national expert from Japan, Mr. Hiroshi Noguchi took over Mr. Toshiki Kuno's position in ABMF.

19. The next 5th ABMF meeting will be held in Bali, Indonesia on 12-13 September. ADB as the Secretariat will send a formal invitation to the ABMF members and experts in July 2011. The draft report will be presented to the members and experts at the meeting. After the endorsement, the draft will be submitted to the ABMI Task Force Meeting scheduled on 20 October in Republic of Korea.

20. 6th meeting will be held in People's Republic of China in December 2011.

21. All presentation materials, as well as the present versions of the Sub-Forum 1 market guides and Sub-Forum 2 bond market infrastructure and flow diagrams have been made available at the Members Library section of the ABMF website (http://asean3abmf.adb.org).

22. To facilitate review and editing, the SF1 market guide and SF2 country information will be sent individually to the members and experts. **ADB and the consultants would like to hold a teleconference with individual countries**. Kind cooperation and supports by the members and experts are highly appreciated.

## II. Sub-Forum 1

### Welcoming Remarks by Dr. Hyoung-Tae Kim, President, Korea Capital Market Institute (KCMI)

23. Dr. Kim warmly welcomed the all participants to the 4th ABMF Meeting in Jeju Island. He noted that while years passed since the global financial crisis, many issues still remain. The idea to reshape the global economy and the financial markets is driven by many institutions, such as World Bank and IMF. However, it will be up to individual countries to determine the financial market infrastructure suitable for its own development. This is even more pronounced for the countries like Korea which have been relying on overseas funding and investments and whose currencies are not fully internationalized. No single country can overcome these challenges on its own, and more dialogue between the public and private

sectors is necessary. To recycle savings within the region and to expand capital markets in the region, it is crucial to have institutions like ABMI and ABMF. Ideas brought by the policy makers and private sector representatives in ABMF could shape the future market developments.

**Chairman's remarks, by Mr Yutaka Ito of Tokyo Stock Exchange**

24. Mr. Ito welcomed the members and participants to the 4th ABMF meeting, and took the audience through the agenda for the Sub-Forum 1 proceedings.

**Part 1 – Proposal for ASEAN+3 Cross-border Bond Market and Asian SRO**

**Presentation by Dr. Suk Hyun, Research Fellow, Korea Capital Market Institute**

25. Dr. Hyun explained need of developing an international bond market in the region, similar to the Rule144A and Eurobond market, and proposed discussion on self-regulatory framework to allow issuance of more flexible international bond as the next step.

26. In his presentation, he emphasized merits of Eurobond-type international bond in comparison to domestic bond in different currencies. However, he also admitted that regulations related to foreign exchange transactions in many countries in the region do not allow offshore currency transactions. Acknowledging the need for the regulations to cope with volatile capital flows, however, he also proposed orderly but flexibly regulated bond issuance scheme, by utilizing self-regulatory framework to allow international offshore bond issue in Asian currencies. He proposed collaboration among the self-regulatory organizations (SROs) in the region such as bond market and securities dealers associations as well as the stock exchanges. In his proposal, these SROs should lead the discussion on the self-regulatory framework to materialize the new inter-regional international bond issuance scheme. He envisaged, in the future, the forum among the SROs would be transformed into a regional SRO like the International Capital Market Association (ICMA)[3] for Euromarkets.

**Dialogue with selected self-regulatory organizations (SROs) in the region**

**Mr. Sung-Uk Yang, Director, Research & International Affairs Dept. of Korea Financial Investment Association (KOFIA)**

27. Mr. Yang explained KOFIA's role as SRO in Korean bond market, and strongly supported the idea of a regional SRO. KOFIA as a SRO sets rules such as regulations on securities underwriting business and obligations of underwriters to protect investors; it also provides a trading infrastructure named FreeBond to support bond transactions; besides, it provides important market information such as corporate bond issue plan and secondary bond market price information to increase market transparency. KOFIA monitors bond pricing companies and report to the regulator, and evaluates credit ratings given by the local credit rating agencies to enhance reliability of the ratings.

**Mr. Ryuichi Shiina, General Manager, Japan Securities Dealers Association (JSDA)**

28. Mr. Shiina explained stylized functions of SROs to facilitate understanding of their role in the market. He explained the role of JSDA as a SRO in Japanese bond market. Also he offered support for SROs in the region through Asia Securities Forum (ASF). ASF was

[3] ICMA is both a self-regulatory organization and a trade association. It facilitates the interaction between issuers, lead managers, dealers and investors for the benefit of an efficient and well-functioning security market. It represents members worldwide, who are active in the international capital market on a cross border basis.

formed in 1995 to promote regional coordination among Asian and Pacific SROs. JSDA provides a training opportunity for the ASF members to upgrade self-regulatory expertise of their staff by inviting them to Tokyo since 2006.

**Exchanges as SRO**

**Mr. Min Suk Lee, Manager, Korea Exchange (KRX)**

29. Mr. Lee explained KRX's role as SRO by focusing on their market oversight commission (MOC). MOC is the self regulatory unit within the KRX established according to the Capital Market and Financial Investment Business Act. MOC is responsible for detecting abnormal market trading, investigating and examining the member firms, and establishing preventive measures.

**Mr. Yutaka Ito, Chief Operating Officer, Tokyo AIM, Tokyo Stock Exchange (TSE)**

30. Mr. Ito explained Tokyo AIM and TSE's role as SRO, focusing on it function to set standards for trading and profiling for listed products. He emphasized that exchanges can function not only to provide a trading place but also to provide rules to be recognized by market players.

**Mr. Thomas Meow, Executive Vice President, Group Treasury, CIMB Investment Bank**

31. Mr. Meow highlighted importance of establishing "Reg S[4]" equivalent rules in ASEAN+3 countries to allow issuers to issue bonds in more flexible and less costly manner. He emphasized that similar "Reg S" rule to allow marketing and selling bonds to Asean+3 investors would support recycling of savings in the region. He also proposed establishment of ASEAN+3 MTN Program to provide a standard document agreed among participating parties in compliance with home country regulatory requirement.

**Discussion: Role of SROs in ASEAN+3, Promoting conducive standards and practices**

32. Mr. Meow, as the Chair of the session, opened the discussion on SROs by sharing his experience as the Chairman of the Debt Capital Market Committee of the Malaysian Investment Banking Association. Given the experience in coordinating with the regulators in issues related to the Malaysian bond market, he expects that the Association would be very happy to support regional efforts.

33. Mr. Meow invited the members for their comments. A member from Thailand commented that having an Asian SRO is a good idea, though it is necessary to carefully examine the functions. Normally a SRO has three functions: first, standard setting, which would be particularly valuable for a regional discussion; second, inspection, which is difficult to make under cross-border arrangement; and third, enforcement, which is even more difficult. In reality, 'Asian Standards Forum' may be more plausible, given different level of supervisory functions and enforcement powers of SROs in the region.

34. A member from the Philippines agreed with the comments from Thailand to focus on standard setting. He recommended starting with government bonds for any initiative because that would bring the public sector into such initiative. In addition, linking depositories in the region may create common settlement practices sooner.

35. A member from Indonesia saw challenges in the cross-border approach or a single regional institution; however, positive examples may be created through regional cooperation. For example, Indonesian Bond Pricing Agency (IBPA) is learning from Korean experiences; Indonesia is also interested in Korea's bond trading platform. Discussions among regulators,

[4] Regulation S is a provision which gives reduction of regulatory requirements when an offering of securities is deemed to be outside of the US and therefore not be subject to the registration requirement under the US Securities Act.

SROs and market infrastructure providers would help regional market developments. A member from Malaysia also added that learning from each other would be the true benefit of regional discussion.

36. A member from Hong Kong, China, shared difficult experiences in the market regarding investor protection. He pointed that the concept of professional may be revisited from the aspect of investor protection; therefore, before discussing by SROs on private placement, it may be necessary to thoroughly review how the regulators in the region may approach to the issue.

37. A member for Korea supported the idea of regional SRO because it will facilitate standard setting, and the establishment will create impetus. Moreover, the national governments cannot put regional interest over national interest. Hence, building an Asian SRO is a good idea.

38. Another member for Indonesia posed a question on the size of regional international bond market. ADB Secretariat replied that there is no local currency offshore bond in Asia yet except JPY due to regulations. However, as Asian supply-chain networks continue to expand within the region, there will be strong demands from Asian issuers to establish common and flexible issuance rules. This will be a very important aspect of regional economic development. A member from Malaysia also suggested regional sovereign money may shift its destination from the mature markets to developing Asian markets if a new market is created.

39. A member from Korea suggested that looking at the function of the International Capital Markets Association (ICMA) may be useful. ICMA plays the role of rule-setting body, however, it does not have supervisory and enforcing power equivalent to national SROs.

40. ADB Secretariat thanked the members and experts for their valuable comments, and agreed that enforcement at a regional level would be very difficult to achieve; instead, ABMF should focus on standard setting. Perhaps conditions to establish a regional SRO may be premature, at this stage, but we can also consider evolution of the institution in the future. Similarly, rule-making can be started from more focused area such as private placement for qualified professionals, though we need to understand regulatory approach may change as the Hong Kong colleague suggested. It is not clear to what extent sovereign issuers may be interested in international bond markets, but we may be able to invite quasi-government bond issuers at least. The fact remains that more and more Asian companies need funding in local currencies and would like to see more common procedures among the regional markets.

**Part 2 – Proposal for ASEAN+3 Cross-border Securitization Market**

**Presentation by Dr. Pil-Kyu Kim, Research Fellow, Korea Capital Market Institute (KCMI)**

41. Dr. Kim explained importance of ABS market and highlighted a need of concerted efforts in building a sound regulatory regime for ABS, with consideration for the region's needs. He emphasized that facilitating cross-border securitization in the region will be important to support building infrastructures; hence, the region can maximize the benefits of creating a cross-border ABS market.

42. He also proposed a CDO structure as a possible way to facilitate cross-border ABS. For example, the government agencies in the region may finance SMEs by issuing bonds. And the bonds issued are taken by a SPC as collaterals. Then, the SPC issues bonds with guarantee by Credit Guarantee and Investment Facility (CGIF) to reduce country risks involved in the CBO. The scheme is expected to enhance the regional cooperation.

**Discussion: Facilitating and harmonizing securitization in the region**

**Dr. Seiwoon Hwang – Research Fellow, Korea Capital Market Institute (KCMI)**

43. Dr. Hwang shared experiences of Korean MBS market, in which the public housing agencies plays important role to facilitate issuance of MBS by providing credit enhancement

and supports market creation. As housing finance is still underdeveloped in most of ASEAN+3 countries, it can be discussed as an important development issue under ASEAN+3.

**Dr. Seung Jae Lee, Principal Financial Sector Specialist (FS), Office of Regional Economic Integration (OREI), Asian Development Bank (ADB)**

44. Dr. Lee appreciated Korean presenters for sharing their experiences as Korea is the leading country in ABS in the region. He agreed with the importance of securitization, particularly to support financing needs for infrastructure in the region. However, he also pointed that regulatory reform related to securitization is still under way; therefore, we need to see how the discussion at the global forum would go.

**Part 3 – Information Collection Update: Reporting by ADB Consultants**

**Market consultation results and overall assessment – Presentation by Prof. Shigehito Inukai**

45. Prof. Shigehito Inukai thanked the all members and experts for their strong supports, and expressed his sincere appreciation for the members and experts to submit answers to the questionnaires.

46. He explained preliminary findings after the market consultations in the ten markets. In general, the all markets have robust legal systems to secure transactions. Trades can be executed efficiently and securely; operations and practices in the markets seemed comparable to the developed markets. Having said, he also stressed need for further improvements. He encouraged to eliminate legal and regulatory uncertainty, and to maintain transparency of rules and practices.

47. He explained that the markets are very different in many ways; however, all of the markets have their own established regulatory structures like governing laws and responsible regulators. Transfer of ownership of bonds and rules providing the finality of settlement may not be the same, but all of the markets have established market practices. There may be uncertainty regarding bankruptcy law and default procedures, though these can be defined in prospectus. Requirements for identifying investors and beneficial owners are different; while PRC and Republic of Korea do not allow omnibus accounts, it is allowed in Japan and ASEAN. However, there is a growing tendency or desire among the regulators to increase monitoring.

48. Although market regulations in the region vary in many ways, this does not mean that harmonization is impossible. The markets can be categorized into some groups if we look at regulations from certain angles. For example, the markets with the common law tradition such as Singapore, Malaysia, and Hong Kong share the same trustee concept, while the markets with the civil law tradition like PRC, Indonesia, Japan, Korea, Thailand, and Viet Nam may not have trustee but support the concept of an entity acting for bondholders although name[5], roles, fiduciary duties and type of institutions may differ. In addition, if we look into the details, the differences may not be as large as it appears to be. He also added that regulatory vacuum in private placement in many markets can be seen as an opportunity to propose a common self-regulatory framework for qualified market players.

49. Summing up, Prof. Inukai mentioned that the market guides should basically contain available details in response to the 27 points (*see Appendix I) mentioned on his slides, in order to fully understand the markets and also show distinctions between markets with the potential of harmonizing some of the practices in the near future. He appealed to members for help with fleshing out details on these key areas.

[5] They are named as bond holders' representative or commissioned company.

50. To make easier reference and comparison among the markets, he will produce a number of matrices to compare specific features of the markets.

51. Finally, he reiterated that the outputs should be regarded as tentative; therefore, they should be kept among the members and experts, or relevant stakeholders for additional comments and improvements. The level of information and accuracy may vary, particularly, the market guides for Malaysia and the Philippines are created based on the public information. Therefore, substantial revisions need to be made.

52. The Philippine members kindly agreed to support revising the market guide. Particularly, Mr. Vicente B. Castillo, CEO of PDS, expressed his support to help organizing the Philippine members and market participants to produce a comprehensive response as input into the market guide. ADB Secretariat appreciated their strong support, and encouraged the other members and experts to form a similar national-level working group.

53. The national members and experts are requested to edit and fill the blank section of SF1 market guide for their market **by August 19**. The country specific requests made by the consultants at the meeting are attached as Appendix 1. The members and experts are also requested to supply English translation of regulations and rules to be included in the market guides, which are currently written in their native languages.

54. Some members noted absence of market guides for Brunei Darussalam, Cambodia, Lao PDR, Myanmar, and Singapore, and enquired whether questionnaire responses had been received from these markets. ADB Secretariat responded that, as for Brunei Darussalam, Cambodia, Lao PDR, and Myanmar, from the beginning, it is understood that these markets are very early stage of development; therefore, we should not ask these developing markets to take the same responsibility as others to provide information. Instead, we will focus more on sharing the information collected with the developing markets to support their actions. This is the reason why the mission was organized to hold workshops in Brunei Darussalam and Lao PDR. However, this should not prevent them to provide any market information to be included in the market guides. The consultants will welcome any kind of information, particularly market development plan, to be included in the region's market guides. In addition, information regarding the developing markets can be uploaded later once information becomes available. This is possible because we will utilize Asian Bonds Online as the publication tool.

**Next step and work plan for SF1**

**Comments and opinions from members on Sub-Forum 1 topics**

55. Mr. Ito invited members to share comments and opinions on the day's topics and discussion points.

56. A member from Brunei stressed the need of political will to effectuate potential changes highlighted in the meeting. As for the next topic, he expects some kind of continuation form the current work under SF1.

57. A member from Cambodia commented that their immediate focus is to open the stock exchange. For the ASEAN+3 SRO, he expects 2 steps: establishing domestic SRO, then develop these SROs into a regional SRO. Though Cambodia does not have a SRO yet, the idea seems worth considering. On the other hand, he expressed his view that discussion on securitization is still a long way off for Cambodia. he also questioned whether credit rating, which was discussed at the 3rd meeting, was still on the table.

58. A member from Hong Kong, China, agreed that making commonly agreeable self-regulations at the regional level would be a realistic approach as it would be very difficult to harmonize domestic regulations.

59. A member from Indonesia echoed the opinion of the member from Hong Kong, and added that the key question would be how much power could be bestowed to such regional SRO. The member also noted that ASEAN also takes mutual recognition as another way to harmonize regulations and practices.

60. A member from Japan commented that functions of a regional SRO needs to be defined. For example, JSDA is the SRO for both primary and secondary market. Operationally, enforcement power of a regional SRO cannot exceed the powers of the domestic SROs. In addition, if we establish a regional SRO, financial resource may be a problem.

61. Another member from Japan pointed that the key question for creating a cross-border regional market would be how to set a common disclosure rules and code of conducts among the market players.

62. A member from Republic of Korea strongly endorsed the idea of regional SRO to harmonize and integrate the markets in the region. Another member from Korea added further study on capital control is necessary to propose more flexible control.

63. A member from Lao PDR highlighted the workshop organized under ABMF was successful. The workshop provided a good opportunity to learn information of other markets. As the stock exchange has just started in January; therefore, it is still premature to discuss SRO. Though information to be included in the market guide is limited, the members are happy to provide information available at this stage.

64. A member from the Philippines supported the concept of a regional SRO and suggested starting discussion from government bonds. He also re-confirmed to provide information on the market guide.

65. A member from Thailand commented that the common issuance program should target professionals, thereby avoiding harmonization of full disclosure rules.

66. A member from Viet Nam supported discussion on self-regulation and SRO. They would like to be benefited from regional discussions which may be utilized for their market development.

67. A member from Malaysia commented that inputs by investment advisors can also help understand what would make a proposed offshore market functional and efficient.

**Wrap up of Roundtable Discussion**

68. ADB Secretariat concluded that there an seemed emerging consensus that, given the development of domestic bond markets and increase in cross-border transactions, the region should move its focus to international bond market. The members also agreed, though the existing Eurobond market and its scheme can be utilized for issuers and investors in the region, establishing a new self-regulatory framework for international offshore bonds commonly utilized by issuers and investors in the region is more desirable. As the bond market develops, the more and more issuers would like to see harmonization of bond issuance rules, however, it will take years to harmonize domestic regulations in the region. Besides, the members understand the legitimate needs of regulations and monitoring on capital flows in the region; therefore, the region needs to create its common scheme suitable for the region's needs and circumstances, which is inevitably different from the Euromarkets self-regulations set by ICMA.

69. To address the issue, the members and experts agreed to take a stepwise approach. For example, the discussion can be started from a narrowly focused area such as private placement by the qualified issuers, qualified investors, and qualified brokers. By doing so, the governments may be able to consider more flexible regulations for the qualified parties. To discuss the common issuance program and make a proposal to the governments, a forum among the SROs in the region needs to be made as the next step of SF1. The new forum is expected to discuss self-regulations and code of conducts to create a common issuance scheme. In the future, the forum may be able to discuss supervision and enforcement, in addition, formalization as a regional SRO. However, at this stage, it is early to do all at the same time.

70. ADB Secretariat agreed on the importance of securitization and credit rating, however, pointed out need of careful consideration. Securitization is stigmatized as a cause of the

financial crisis, and regulatory reforms related to securitization is still under way. Having said, some of the proposals in the presentation can be discussed as a real business case without a regional forum like ABMF.

71. Regarding the issue of credit rating, ADB Secretariat explained reactions from the national rating agencies after the 3rd meeting. Their informal indication on the proposal of regional rating agency is mixed; no clear preference was given to the proposal, therefore, we are not in a good position to judge whether this can be a good topic for the future agenda. The Secretariat suggested organizing a regional conference together with Association of Credit Rating Agencies in Asia (ACRAA) in the next phase because they are working on mapping and comparing ratings in the region, and trying to explain the differences in their ratings.

72. The Secretariat also welcomed willingness of JSDA and KOFIA to share knowledge and experience with colleagues in the region. ABMF itself is still learning how to institutionalize regional opinions into actions, but the discussion clearly showed that the members and experts are sharing willingness for regional approach.

**Closing Remarks by SF1 Chair – Mr. Yutaka Ito**

73. Mr. Ito thanked the speakers, members and experts for good discussions. He appreciated clear signs of co-operation given by the members and experts that are sure to make the Sub-Forum 1 report and output valuable tools for foreign institutional investors and market practitioners alike.

**Day 2: ABMF Sub-Forum 2**

**Opening Remarks by SF2 Chair, Mr. Jong-Hyung Lee**

74. Mr. Lee welcomed the members and participants to Day 2 of the 4th ABMF Meeting. Mr. Lee also introduced Mr. Hiroshi Noguchi, a new national member from Japan to replace Mr. Toshiki Kuno. Mr. Noguchi is responsible for domestic custody business at Mizuho.

**Information Collection Update: Reporting by ADB Consultants**

**Structure of information collection and overall assessment – Presentation by Dr. Taiji Inui**

75. Dr. Inui thanked all the members and experts for kindly answering the questionnaires and providing inputs.

76. He provided general observation and findings after the market consultations. First, generally speaking, all the markets have robust and sound bond trading infrastructures. Operational risk associated with the systems seemed comparable with the developed markets.

77. Second, in all markets in the region, bonds are listed at stock exchanges, however, mostly traded over the phone or other communication tools by negotiation among brokers and dealers. In other words, the bond markets in the region are generally OTC markets. This is also common in elsewhere because bond trade is normally quote-driven where dealers need to negotiate the price while exchange trade is order-driven where all of the orders of buyers and sellers can be seen and matched by system. Korea is the only exception where the exchange has a substantial market share because benchmark bonds are mostly traded at the exchange. In PRC, bond trades at the stock exchanges are very limited; however, due to QFII, foreign investors must trade bonds at the exchanges.

78. Third, although trades are done at the over-the-counter, the stock exchanges in some markets provide settlement infrastructure for bonds. As bonds are listed on the exchanges, they can also be settled through the exchange system. In other words, the exchanges are involved in bond settlements extensively in many markets. This may be an interesting feature of the region if compared with developed markets like the US or European markets.

79. Fourth, Central Counter Party (CCP) does not exist in many markets. However, this is understandable because transaction volume is still limited in these markets. As trade volume increases, it is expected that CCP will be introduced into the markets.

80. Fifth, all the markets have a matching concept at a trade or settlement level, or even both levels. Some markets adopted central matching and others local matching. Also, matching with additional features such as reduction of input workloads is implemented in some markets.

81. Sixth, with exception of Viet Nam, all the markets use central bank money to settle cash component of bond trades. In some countries, cash may be settled directly at accounts of individual financial institutions while, in the other countries, the CSD has an account at the central bank and cash is settled through the account.

82. And finally, technical terminologies need to be harmonized before harmonizing systems and messaging in the region. The mission encountered different explanations and expressions which may not be used in line with internationally accepted manner. It is hoped that the information collection exercise under ABMF would help harmonization and standardization of technical terminologies.

83. The members and experts confirmed that transaction flows in the diagrams are generally valid. The consultants acknowledged that information flows related to price reporting, regulatory reporting and tax reporting need to be checked and included in the charts. Comments on the individual markets received during the meeting will be incorporated into the market specific information in the report.

**Information Session**

**Presentation by Omgeo and Q&A - Mr. Hong Keun Park and Mr. Yuji Tanaka**

84. Mr. Tanaka explained Omgeo's solutions to reduce operational risk associated with trading. They offer solutions for trade allocations, affirmations and confirmations, enrichment of data, operational analytics, and settlement noifications.

**Next steps and work plan**

85. Dr. Inui explained the structure of the report as follows. The members and experts agreed on the structure.

**Part 1 Bond markets and their infrastructures in ASEAN+3**

Title:

**Survey of government bond markets in ASEAN+3 and possible road maps to implement strait through processing in the region (draft)**

**Part 1 Bond markets and their infrastructures in ASEAN+3**

1. Introduction

   Background and work plan of ABMF Subforum2 will be described. Regarding background, GoE report will be quoted. Decision made by the ASEAN+3 Finance Ministers will be referred. Purposes and meanings to enhance STP and to reduce cost of ASEAN+3 will be explained.
2. Methodology and Approach of the Survey

   Methodology and Approach of the Survey including questionnaire will be explained.
3. Overview of the ASEAN +3 Bond Markets and their Infrastructures

   The bond markets in ASEAN+3 as a whole will be explained. Also, salient characteristics of the ASEAN+3 bond markets will be discussed.
4. Cross-border Bond Transaction Flow

   Cross-border issues including area to be standardized will be discussed.
5. Typical Business Flowchart

   Salient features of the business flowcharts of DVP transactions will be discussed.
6. Matching
7. Settlement cycles
8. Standards including numbering and coding
9. Possible next step of ABMF SF2
10. Conclusions
11. Acknowledgement

Appendix

- Topics presented as information sessions
- Situation of European and North American Bond Markets
- List of Abbreviations (glossary)

**Part 2 Bond markets and their infrastructures in each economy**

1. Bond markets and their infrastructures
    i. Overview of bond markets
    ii. Trading
    iii. CCP
    iv. Bond settlement
    v. Cash settlement
2. Cross-border bond transaction flows
3. Typical business flows
4. Matching
5. Settlement cycle
6. Numbering and coding
    i. Securities numbering,
    ii. Financial institution identification
    iii. Securities account
    iv. Cash account
    v. Character code and language
7. Current status of STP
8. Problems and challenges (wish list)
9. Medium to long term strategy
10. ISO and local practices

86. The members and experts also discussed the next step of Sub-Forum 2. Mr. Lee invited the members and experts for their comments.

87. Most of the members and experts agreed to continue identification of transaction flows and extension of the work to issuance, redemption, and interest payment of government bonds as well as corporate bonds. In addition, some corporate actions related to corporate bonds need to be included. Then, fit-and-gap analysis will be made to clarify the areas where harmonization efforts are required. The members also would like to see a roadmap to standardize and harmonize messaging and market practices in the next phase.

**ABMF Work Plan**

88. ADB Secretariat reported a work plan towards the end of the year and the phase 2 starting from the next year, as shown below.

**Table1: Work plan up to 1H 2012**

| | |
|---|---|
| 12-13 Sept 2011 | 5th ABMF meeting in Bali, Indonesia |
| 19-23 Sept 2011 | Sibos in Toronto, Canada |
| 20 Oct 2011 | ASEAN+3 ABMI Task Force Meeting in Korea |
| Dec 2011 | 6th ABMF meeting in PRC |
| End of 2011 | Publication of the ABMF report |
| **2012-2013** | **The Phase 2 of ABMF** |

| | |
|---|---|
| Feb 2012 | 7th ABMF meeting and public conference |
| 1Q 2012 | First reporting to ABMI TF3 |
| April or May 2012 | 8th ABMF meeting |
| June-July 2012 | Country visits for consultation and information collection |

89. The Secretariat thanked SWIFT for kindly considering a special session for ABMF at the next Sibos in Toronto, Canada. He emphasized that we need to advertise the work of ABMF, once we compile the market guides and report by ABMF. In this regard, information dissemination through a public conference needs to be planed in early 2012. The members were asked to suggest additional ways to disseminate the reports by the next meeting.

90. The Secretariat also explained that the phase 2 of ABMF needs to be started from 2012 based on the discussion for the next step. The opinions of the members will be reported to ABMI TF3 in October 2011, and will be endorsed. To prepare the next phase, a new work plan for the phase 2 will be discussed at the 6th meeting. In the meantime, the members and experts will be reappointed by the governments, or new members and experts may be nominated for the phase 2.

**Closing Remarks by SF2 Chair and Co-chairs JASDEC and KSEI**

91. Mr. Lee thanked the members and experts for dedicated discussions.