

ASEAN+3 Bond Market Forum (ABMF) - Sixth Meeting
Shangri-La Beijing, Beijing, People's Republic of China, 8 - 9 Dec 2011

Meeting Minutes

I. Summary

1. The 6th ASEAN+3 (ASEAN, People's Republic of China, Japan, and Republic of Korea) Bond Market Forum (ABMF) meeting was held in Beijing, People's Republic of China, on 8 - 9 December 2011. The meeting was co-organized by China Central Depository and Clearing Co, Ltd. (CCDC) and Asian Development Bank (ADB).

2. The main objective of the meeting was to update members on the final version of phase 1 Sub-forum 1(SF1) and Sub-forum 2(SF2) reports to seek their additional comments and advice, and to discuss proposed ABMF phase 2 work plans and activities.

3. On the sideline of the regular SF1 and SF2 meetings, there was a public conference for China's securities industry participants in the morning of 8 Dec 2011, which marked the 30th anniversary of the opening of the Chinese capital market, the 15th anniversary of the creation of CCDC, and the 13th anniversary of the commencement of CCDC's depository function. Details of the conference presentations are presented in the Attachment 1.

4. As for SF1 and SF2 reports, the near-final versions have been reported to members by Prof. Shigehito Inukai of Waseda University, ADB consultant, and Dr. Taiji Inui of NTT Data, ADB consultant, respectively. In relation to phase 1 reports the following points have been discussed and shared among members.

- ADB consultants confirmed the conclusions from the substantial material collected and analysed over the past 15 months: All markets have robust market infrastructure and key legal and operational concepts in place, offering a promising platform for further harmonisation and standardisation efforts.
- Due to the significant size, the editing and lay-outing of the final report will continue after the Beijing meeting, with aiming to publishing the reports by the end of 2011 or January 2012. The SF1 comparative analysis will be finalised once all SF1 report components have been completed. It is agreed that members will have final opportunity to review and confirm their respective markets' documentation, for both SF1 and SF2, just prior to publication.
- ADB consultant detailed the planned dissemination efforts for the ABMF phase 1 Reports, including i) publication through AsiaBondsOnline, ii) public conference during the Hong Kong meeting in Feb 2012, and iii) distribution through International Experts and industry networks.
- Relating to updating and managing the phase 1 reports, ADB secretariat proposed three options of updating; i) by ADB secretariat team, ii) by ABMF member themselves, and iii) through dedicated team consisted under ABMF on voluntary basis. Most members expressed the views that the updated reports should be an output of ABMF rather than individual institution, and it is agreed to further develop and discuss the options in the next ABMF meeting.
- For information sharing related to SF2 reports, ADB secretariat updated members on the latest development in the Legal Entity Identifier (LEI) initiative, as well as the planned review of the business feasibility study for

Regional Settlement Intermediary (RSI) by Asian Bond Market Initiative (ABMI) Task Force 4.

5. The members discussed the possible agenda and focus of phase 2 activities based on the presentation given by ADB consultants and other participants. Key points of the discussion include the following:

- Prof. Inukai presented i) the focus of SF1 phase2; creating common bond issuance program (CBIP), ii) the proposal for establishing sub-forums including SROs to efficiently discuss CBIP, iii) and detailed activity lists. There have been active discussions among members on what type of market to focus, especially in relation to the concept of 'offshore' issuance. It is generally understood that phase 2 activities will aim to develop such program that enables bond issuance among participating countries and jurisdictions with synchronized issuing and documentation requirements. However, whether and to what extent such program would involve 'offshore' issuance is subject to further discussion among members.
- In connection with CBIP discussion, Korea Financial Investment Association (KOFIA) proposed to establish 'SRO forum' with an ultimate vision of creating Asian version of International Capital Market Association (ICMA) in long-term. Members generally supported the proposal with favouring step-by-step approach of starting from information sharing among SROs and then going for stronger ties. They also hoped to identify further the exact functions and format of the forum during the next Hong Kong meeting.
- Dr. Inui presented SF2 phase 2 activities and plan, together with roadmap to harmonize bond standards and infrastructure. Members agreed to expand the scope of SF2 phase 2 activities to include corporate bonds and corporate actions, and to execute fit and gap analysis, of which the details and priorities would be further discussed during the Hong Kong meeting.
- Some participants voiced that ABMF should be result-oriented and the reports should include policy recommendations. ADB secretariat clarified that phase 2 activity will clearly focus on producing tangible outputs and the reports will include non-binding recommendations to policy authorities.
- In relation to the roadmap of harmonizing standards and infrastructure presented by Dr. Inui, several members questioned whether it is feasible and could be efficiently discussed under ABMF. ADB secretariat clarified that the roadmap is just for illustrative purposes beyond the key outputs of phase 2 activities, and that the final version of the roadmap will be accordingly revised through members' discussion during phase 2 meetings.

6. ADB secretariat explained the work plan for phase 2 activities that will start from next Hong Kong meeting in Feb 2012 as in Table 1 at the end of this summary.

7. The next 7th ABMF meeting will be held in Hong Kong, China, on 8-9 Feb 2012. During the Hong Kong meeting, it is targeted to include a public conference to disseminate ABMF phase 1 reports to a broader industry audience. ADB as the secretariat will send a formal invitation to the members and experts in Dec 2011.

8. The 8th ABMF meeting is tentatively targeted to be held in the last week of April 2012, to be able to feed information into the ASEAN+3 Deputies meeting in early May. The location is to be confirmed but Manila has been put forward for consideration.

9. Mr. Hiroshi Ikegami from Japan Securities Depository Center (JASDEC), who has been contributing to the meeting since the Group of Experts (GOE), is leaving

the ABMF and his role as co-chair of SF2 is taken over by Mr. Yuji Sato from JASDEC.

10. All presentation materials, the ABMF report Executive Summaries, as well as latest versions of SF1 market guides and comparative analyses and SF2 market descriptions and bond market infrastructure and transaction flow diagrams have been made available at the Members Library section of the ABMF website (<http://asean3abmf.adb.org>).

Table 1: Work Plan of phase 2 ABMF

End of Dec 2011	Publication of phase 1 reports
8-9 Feb 2012	7 th ABMF meeting in Hong Kong, China
Mar 2012	ABMI TF3 meeting (First reporting of phase 2)
Apr 2012	8 th ABMF meeting
Jul -Aug 2012	Country visit for consultation and information collection
Sep 2012	9 th ABMF meeting
Oct 2012	ABMI TF3 meeting (Second reporting of phase 2)
Nov 2012	ASEAN+3 Deputies meeting
Dec 2012	10 th ABMF meeting
Feb 2013	11 th ABMF meeting
Mar 2013	ABMI TF3 meeting (Third reporting of phase 2)
Apr 2013	12 th ABMF meeting
Apr 2013	Summitting the report to ASEAN+3 Deputies meeting
May 2013	Recommendations approved by ASEAN+3 Ministers

II. DAY 1 - Sub-Forum 1

Opening Remarks by SF1 Chair, Mr. Tetsutaro Muraki, Tokyo AIM

Mr. Muraki warmly welcomed members and participants and thanked the organisers for holding the public conference and ABMF meeting. He took the audience through the programme for the SF1 meeting and then invited Prof Inukai to update members on the status of the SF1 Report.

Part 1 – Discussion on the Draft Market Guide

Progress Report on SF1 Report – Prof Shigehito Inukai, ADB Consultant

Prof Inukai took members through the materials provided. In addition to the current versions of the SF1 market guides which have been uploaded to the ABMF website, the presentation folder contained details on the other parts of the SF1 Report.

The scope of markets covered 14 economies, of which 10 economies already feature a developed bond market, with Lao PDR adding its market information on a voluntary basis. In fact, Lao PDR created a very nice report for a developing economy. Prof Inukai pointed out that, unfortunately, the ADB team had not been able to present the final Comparative Analysis (CA) in printed form, because some of the market guides and reports were still in preliminary form and, hence, the content may still be subject to change. Prof Inukai envisaged that members would receive a shorter, summary version of the CA for easy reference, which currently accounts around 100 pages.

As for the overall assessment of the SF 1 topics, Prof Inukai relayed that all 10 surveyed markets show robust market infrastructure, with key legal and operational frameworks already in place. This may make them comparable to other, developed bond markets worldwide. He emphasised that the 10 markets will be presented in a very detailed manner in the SF1 Report, across a number of characteristics.

Prof Inukai went on to provide a summary of his findings on the surveyed markets. He stressed the fact that bond markets in ASEAN+3 are in effect OTC in nature and described a regulatory vacuum relative to private placements across some of the markets. The efforts to introduce corresponding rules and regulations may not be easy but would be entirely desirable. One key similarity among the markets was the existence of systems such as bondholder representative, commissioned bank or trustee who may differ in name but are fairly comparable in their roles and functions to investors and the markets at large.

Prof Inukai highlighted the different requirements for identifying investors and beneficial owners. He then shed light on the different methods in which public offerings are governed in the various markets. To fully understand these distinctions and invoke the necessary measures for a convergence in ABMF phase 2 would be critically important, according to him. While not an easy task at face value, Prof Inukai feels that creating a common platform for bond issuance across markets may not be as far away as previously thought. He relayed the lesson not to be forgotten that only after 2005, the Eurobond market became a wider market due to EU regulations.

Prof Inukai felt that defining professional investors would be critically important going forward. At present, the definition of professional investors differs in name and legal foundation; however, the key concept of a professional category of investors may already be evident in all markets to a certain degree.

Prof Inukai opined that it would be important to fully understand the law traditions across the ASEAN+3 markets, typically representing either civil law or common law roots. The discussion in ABMF phase 2 should focus on the needs for and meanings of particular concepts that impact the bond market. In contrast, he feels that the use of English in a number of markets has improved the portability of rules and regulations. And, since not all ASEAN+3 markets have self-regulatory organisations (SROs), other than perhaps the exchanges, it would be critically important to define which definitions and function of SROs should be inserted into and discussed in a regional SRO forum.

To establish an internationally recognised professional market in Asia, the involvement of non-governmental professional market participants was seen as extremely valuable to inform the discussion going forward; the key point here would be for members to decide which type of professional parties that should include.

Prof Inukai then briefly touched on the anticipated work for the ABMF phase 2 that would be discussed further the following day. He mentioned again that the SF1 market guides were not yet final, but close, and wanted to express his sincere appreciation as members have undertaken tremendous efforts to help produce this report. Prof Inukai felt, however, that this work was only the beginning of the real work ahead, towards a true harmonisation of the ASEAN+3 bond markets.

Mr. Muraki thanked Inukai-san for the informative and comprehensive update on the SF1 Report, and opened the floor to questions or comments on the presentation or the SF1 materials provided.

A member from Hong Kong, China, wanted to clarify that the Hong Kong securities market does not have an SRO at present, while an SRO does exist for the insurance industry.

Mr. Shiina from the Japanese Securities Dealers Association posed a question to the representatives from the Philippines; he mentioned that only PDEX, as the bond exchange, is listed as an SRO and was wondering since the legal concept for SROs existed in the Philippines, why no actual industry association-type SRO had been established so far. In response, Mr. Castillo, President and CEO of PDS (PDEX' holding company) pointed out that the Philippine market in effect had two SROs – the Philippine Stock Exchange (PSE) for equities and PDEX as the SRO for the bond market; PDEX has two licenses for the operation of the OTC bond market and as an exchange itself. Mr. Castillo opined that the establishment of further SROs might depend on the SEC who issues such licenses.

Other Issues relating to SF1 Report

Dissemination of the phase 1 Reports – Mr. Matthias Schmidt, ADB Consultant

Mr. Schmidt, gave members an overview of the planned dissemination efforts for the ABMF Report. He related that the publication of the Report would be done via the AsianBondsOnline website. At present planning, the Report would be available in January 2012.

The publication would be immediately followed by the distribution of the Report to National Members, National Experts and International Experts. In addition, ABMF observers and members of the ABMI Task Force 3 would receive the Report. In order to ensure a wide distribution of the Report, International Experts would distribute the Report, complete or by specific topics as value added information to their client universes. This would be augmented by a distribution to market visit participants, such as law firms who, in turn, could disseminate Report details to their respective constituencies.

Mr. Schmidt felt that using members', participants', and consultants' industry networks and contacts could also project the dissemination of the Report further. Of great help in this context would be offers from ASIFMA and SWIFT to create awareness about the ABMF Report publication through their established channels. Together, these efforts would make for a near-blanket coverage of the securities industry in ASEAN+3, Asia at large, and beyond.

Updating the SF1 Report – Prof Shigehito Inukai, ADB Consultant, and Mr. Seung-Jae Lee, ADB Secretariat

Prof Inukai explained the importance of maintaining the valuable information in the ABMF Report. Members have been committed to creating the market guides and other information for the purpose of addressing information asymmetry; hence, members will understand how important it would be to keep this resource. He believed such information would not be easily available in, e.g., the US and Europe. Once this valuable information base is set up, it should be maintained as written details will become stale and new developments become relevant across the markets. Prof Inukai also acknowledged the chance to revise the structure of the report in line with member or market requirements going forward.

Mr. SJ Lee detailed the possible approaches to maintaining the ABF report; key issues are the desired frequency, whether all parts or only selected sections should be updated regularly, and what the location or the hosting of the report should be for the purpose of maintenance. However, he felt that, regardless of approach, the updating process itself should function like this: relevant information and data will be collected from the markets, and only after having consultations between members and secretariat to confirm the new contents, the official version should be updated. In any case, update should be encouraged on a regular or event basis.

For the updating, Mr. SJ Lee suggested three options: 1) Updates done by the ADB secretariat which would be in addition to the phase 2 work; 2) Updates by individual members; or 3) Maintenance of market information by a dedicated updating team. According to him, option 1 would be the safest and surest form, but may also require too many resources from ADB secretariat. Maintenance by individual members would only require the passing of updated and validated content to the ADB secretariat whenever available and ready. The third option, to be seen as a type of compromise, would involve a team of members including the ADB secretariat to be responsible for the collection, compilation and validation of new content. In this context, SWIFT had kindly suggested that they may be able to provide inputs, and may be of help in updating the report on a regular basis.

Mr. Muraki thanked Mr. Schmidt, Prof Inukai and Mr. SJ Lee for their representations and reviewed the statements made, reiterating the need for a broad dissemination of the Report as well as the need and potential options to update the Report. He then opened the floor for a short session of questions from members and participants.

Members acknowledged the idea of providing the latest and most updated information, perhaps in the form of links to the source material. An International Member opined that the publication of the Report will provide more visibility of the markets to the industry at large. In this context, he felt that regulatory authorities and others should be encouraged to publicise new developments and details on a regular basis, so that such information would be readily available and could continue to be acted upon, instead of market developments being discovered by accident or only through deep research as may previously have been the case.

For the dissemination of the Report, a member from Hong Kong, China, suggested to publish a high level press release and a central announcement by ADB/ABMF that could then be relayed to participants of member CSDs and other market providers. Mr. Schmidt supported this idea.

Ms Dagdag, of Omgeo and a National Expert for the Philippines, proposed to include investment managers in the distribution of the Report, and suggested to consider going through Omgeo who would be able to reach more than 600 investment managers among its client base. The Chair thanked Ms Dagdag for the kind offer.

Mr. Wilson from SWIFT added that SWIFT had an existing process to update market practices, all of which were not owned but only supported by SWIFT; the process follows ISO protocols, and includes hosting options. Some members commented that SWIFT may only have limited expertise on some of the underlying topics, such as taxation and, thus, that it would be necessary to ensure that the right calibre of personnel would be available for the update of the Report. Concerns were raised about SWIFT being a private enterprise as potentially being the data repository for largely public information. One member from Korea also enquired why SWIFT was interested in facilitating the maintenance since it was seen as quite significant work going forward. Mr. Wilson responded that SWIFT's key job is the developing and

maintaining of standards, as well as to play a role in infrastructure building. While being a non-profit organisation, it still needed to defray cost; hence, SWIFT's initiatives are guided by either achieving additional messaging traffic or the use of its experts in a consulting capacity. Mr. Wilson felt that one key focus for SWIFT's involvement would be to bring the Asian viewpoint and related information to a global audience.

A member from Japan expressed his belief that ABMF data was proprietary information and belonged to members, and touched on the issue of copyright. He felt that update options 2 and 3 combined might represent the best approach; since the report info belonged to members, the key responsibility to maintain information should rest with members who may then ask for and appreciate support on the process. A National Expert for the Philippines stated that contents contributed from international members should always be validated by national members.

In response to the opinions expressed, Mr. SJ Lee clarified that once published, the output will always be under the label of ABMF. While its website may be a bit slow, the ultimate hosting of the ABMF materials is envisaged by AsianBondsOnline, with the responsibility for the underlying information sitting with each member having contributed their respective data for a common, combined product. Mr. SJ Lee stressed that all members tend to contribute with new information and that national members will always be given the opportunity to validate new data, and SWIFT's kind offer was intended to utilise its significant resources and its connection to the global SMPG. He expressed his hope for the ADB secretariat to be successful in reducing the maintenance options to just one by the time of the HK conference.

Mr. Schmidt added in response to previous comments that he was not too concerned about setting a specific frequency of updates at this moment, since this would typically be determined by actual events and the industry's needs for updates.

Closing Remarks by SF1 Chair – Mr. Tetsutaro Muraki, Tokyo AIM

Mr. Muraki then closed the day's proceedings with a few short comments as Chair. He showed his appreciation for the great output covering 14 economies, with 10 in greater detail and re-emphasised that key findings include the existence of key legal concepts and infrastructure. He highlighted that another key consideration was to reduce regulatory uncertainty and pointed out that transparency was important from a buy side perspective. Mr. Muraki felt that items such as transfer of ownership and events of default have been discussion topics for quite some time, and while we may not come to a conclusion right away, it was important that we have the chance to further these discussions in a convincing manner. He acknowledged that AsianBondsOnline would be the ultimate host for the final report, thereby in a way becoming the Wikipedia for the bond market in the region. Mr. Muraki also reminded the audience that many of the members are in fact from the private sector. He then thanked members, participants and the organisers for a successful first day.

DAY 2: ABMF SF1 (cont'd) and SF2

Opening Remarks by SF1 Chair – Mr. Tetsutaro Muraki, Tokyo AIM

Mr. Muraki welcomed the audience back to the meeting, and expressed his thanks to CCDC for hosting wonderful dinner in the first day. In relation to the initiative to standardise issue programme documentation in Japan, he explained that that ad hoc study group for documentation reviewing in Japan has completed the review of the London MTN programme documentation, and a corresponding Pro-Bond version. Now, the group is reviewing the Singapore documentation requirements. He felt that this is typical of SRO activities to strive for best practice.

Part 2 – Discussion on the phase 2 Work Plan

Presentation on the issues of establishing the regional forum of SROs – Mr. Sung Uk Yang, KOFIA

Mr. Muraki invited Mr. Sung Uk Yang from Korea Financial Investment Association (KOFIA) to review issues on establishing a regional SRO forum. Mr. Yang thanked the Chair for the opportunity and proceeded to give an overview of a domestic SRO in the capital market, introduce the International Capital Market Association (ICMA) as an example for an international SRO, and share his thoughts on the working group on a regional SRO.

According to IOSCO definition, an SRO is a non-governmental organisation with authority delegated by regulators. In essence, an SRO is designed to complement public regulations, in effect creating a two-tier system to oversee the market. This does not mean that public regulation precedes self-regulation. Self-regulation exists in a number of forms, such as exchange SROs, member-based or independent SROs, as well as industry associations, central depositories and clearing houses. Mr. Yang observed a clear trend towards member-based or independent SROs, who tend to be independent from market operators. He used the example of the ICMA which is recognised as a representation of the international bond market. ICMA has established its own rules and regulations, informs members of legal and regulatory changes, collects information on and provides analysis of major market issues. ICMA also provides general financial market education programmes. At present, ICMA has 311 members. Its key tool is the ICMA Primary Market Handbook (PMH). ICMA has moved from being initially focused on the Eurobond market and its instruments to now include a number of global securities.

Mr. Yang argued that an Asian SRO could be an essential common platform and a necessary conduit to create and manage a professional bond market in the region. He felt that first the function of such SRO will need to be discussed and agreed upon, before moving to define the SRO itself. It would be necessary to invite the views and feedback from a number of external parties on how to best structure such SRO. Mr. Yang proposed setting up a working group, open to any member who wishes to contribute, to further this discussion.

Members and participants' view on regional SRO forum

Mr. Muraki thanked Mr. Yang for the informative presentation and opened the floor. He suggested to start with the colleagues from Malaysia who had prepared a brief presentation on their views from the perspective of the Financial Markets Association Malaysia (FMA), and the colleagues from NAFMII (National Association of Financial Market Institutional Investors), China.

Mr. Yeow Boon Loong, for CIMB as representative of the FMA, expressed the FMA's willingness to join the proposed working group on a regional SRO. He began by charting Malaysia's growth both in bond and equity markets, of which the FMA covers more than the bond market, but not equities. The FMA was one of the earliest trade associations in the securities market, formed in 1974, and represents a large number of members including Islamic banks and inter-dealer brokers; at present, it has 1721 members.

In terms of regulatory status, the FMA is primarily a trade association; however, all dealers and money brokers are required by Bank Negara Malaysia (BNM) to be members of FMA. Hence, FMA adopted a model code and now certifies inter-bank dealers and money brokers under the recognition of Securities Commission Malaysia. In addition, all dealers and brokers have to undergo an FMA examination, to show that they understand the basic structure and functions of the wholesale market as well as best practices in the industry. FMA is committed to continuous education through seminars, and also reaches out to SROs in other markets. Today, FMA is no longer just a pure trade association; it has issued market rules to help deepen the bond and FX markets following consultations with BNM, including the setting of tick sizes and market hours. FMA's objectives are in line with the 2nd Financial and Capital Market Master Plan and Malaysia's objective to become a leading Islamic financial center.

FMA likes to build research and development capabilities and legal resources to better support the industry, in line with regional developments. FMA welcomes views and support from regional SROs. Mr. Loong believes that it is possible to reach out to other parties to build a conducive network of SROs. If other SROs have certification or examination requirements, the FMA would be happy to work together and share information. He asked ADB to consider running related education programmes for the region, since SROs play an important role in the region. The Dodd Frank rules have a significant impact on OTC derivatives trading in the region – it would be beneficial for the FMA and other SROs to work together to deal with these challenges. At present, most initiatives in the region are driven by regulators, so Mr. Loong felt it would be beneficial if SROs complemented these developments and believed the ability to exchange views and practices through ABMF continues to be very important to the FMA.

Mr. Loong pointed out that some cross-border activities already existed although such activities are still little in the region. He gave the example of an MYR bond issued in Malaysia, being invested into by institutions from the Philippines and other regional markets. In this regard, Mr. Loong expressed his opinion that regulators would be concerned if trading activities on domestic bonds would be conducted outside Malaysia. He argued that a common approach to rules and market governance was crucial. Once the regional cooperation is set-up, it would become an effective voice for a common bond market, and help expedite the regional development.

Mr. Wen Weiji from NAFMII mentioned that if no voice from the region could be heard, dealers in the region would be disadvantaged compared to international players. He felt it might be a long way to go in forming a regional SRO, which should be pursued in step by step; the 1st step should be information sharing, to improve the understanding of each other's markets and roles. The 2nd step would be to create a common platform to compare notes and develop strong ties. Then, with strong ties and a complete understanding, it will be possible to formulate common standards and practices across the region.

Mr. Shiina Ryuichi from the Japanese Securities Dealers Association (JSDA) pointed out that there are a number of initiatives in Asia for SROs at the moment, as some of the information had been provided at the Jeju meeting. Mr. Shiina mentioned that JSDA initiated the Asia Securities Forum (ASF) in 1995, now consisting of 14 countries. JSDA has been providing members with training opportunities, including the annual ASF Tokyo Roundtable; 16 countries participated at the last roundtable in October 2011, and the February 2012 roundtable will be attended by 18 countries, including Cambodia and Lao PDR. The latter was the result of establishing connections through ABMF. The ASF is mainly comprised of dealer or securities associations. The Vietnam Bond Market Association joined as an official member in 2011. The ASF framework is much broader than ASEAN+3, as it includes markets such as Turkey and the United Arab Emirates.

Mr. Shiina shared the detailed programme of 2012 roundtable meeting as an opportunity to display and learn about SRO functions and activities. In relation to the proposal by KOFIA, he argued that it is important to discuss the regional harmonisation, but it is also important to, first of all, fully understand the purpose, functions and objectives of an SRO. For the time being, each regional bond market differs; before talking about an Asian SRO, it would be important to develop a basic common understanding of what an SRO is.

An International Expert posed two questions from a user's point of view, which has both issuers and investors as clients: If his organisation were to come up with a corporate client that would like to issue MTN in 5 countries, what would today's regulators do to support such plan, or what is the distinction of a regional SRO, and where would be the gap? And, does a regional SRO need the blessing from ASEAN+3 finance ministers and does it require public sector investment?

Prof. Inukai started his response to the questions and comments from the members by explaining that the existing SROs in the region are fundamentally domestic SROs. The intention of the discussion is on international SRO, by engaging current SROs and ultimately creating a regional SRO. ICMA may be an ideal for an international SRO but may not be entirely applicable in Asia, or ASEAN+3. He also clarified that ICMA in fact does not regulate the market but will only recommend practices. Since ICMA members fear a possible client impact in case of non-compliance with the recommended practices, a participation in ICMA naturally implies de facto adherence to proposed rules. In addition, to mark ICMA as a global SRO may be misleading, since it does not represent Asian interests or markets. On these backgrounds, he suggested to start further discussion to investigate the need and details of a regional SRO.

Mr. Schmidt added that it was currently not feasible or even possible to do MTN issuance across markets, on the assumption of a common timeframe and with similar documentation. He was not sure whether this was due to the lack of support from regulators and/or SROs, but market participants seemed convinced that, currently, this was not the route to go; instead issuers chose to issue in single markets, multiple times. Mr. Schmidt reminded the audience that this was the fundamental premise for the harmonisation efforts of ABMF, particularly for phase 2.

Mr. Shiina emphasised that standardising the expertise of SROs by country was very important so that parties had a common understanding of the efforts needed to be undertaken to establish common issuance and other initiatives. An International Expert commented that he understood entirely the desire to form an association of regional SROs, to compare notes and practices; however, the need for domestic,

focused SROs continued to be strong. It was important to lay the groundwork for multi-market issuance concept in individual markets, plus the existing SROs had a mandate in their respective domestic markets and needed to fulfil these.

Mr. Yang clarified that the discussion should target not so much at the domestic SROs, but at a regional SRO. He felt that the concept of a 'recognised' SRO, i.e. a regional party that was seen as adequately and authoritatively representing members, was important. Mr. Wen highlighted that the concept of ICMA did not mean that domestic SROs gave up their domestic authority. Instead, it would be a platform to discuss and set standards on cross-border instruments and any regional efforts would depend on such a platform's existence. Mr. Wen recommended step-by-step approach, as was the case even with ICMA. The focus should be a common practice or business standard – which should draw attention back to the first rule, i.e. the importance of understanding one another to form a solid basis from which to move towards next steps.

Prof Inukai concluded that this session had clearly identified two separate but mutually related issues; strengthening of domestic SROs, plus the need to start discussions on the future regional SRO.

Presentation on the issues of common bond issuance program – Prof. Inukai, ADB consultant

Mr. Muraki invited Prof Inukai back to review notable points on the proposed work plan for phase 2 and the common issuance programme.

Prof Inukai opined that the key phase 2 target should be the concept of professional investors and participants, as well as standardised documentation. In other words, existing differences in participant qualifications, documentation and disclosure requirements should be addressed, in addition to the SRO discussion. SF1 proposed to harmonise regulations wherever possible. To support that, SF 1 has now collated, compiled and compared market practices and regulation which will be shown clearly in the Comparative Analysis part of the ABMF Report.

Going forward, there are two possible approaches to harmonisation. The bottom up approach is to harmonise step-by-step, country-by-country, and regulation-by-regulation, or to mutually recognise specific regulations among member countries. The top down approach was to create a set of commonly applicable rules based on the region's common values and visions. While, in principle, a common issuance programme represented a top down approach, the discussion can start with the focus on a single area, such as private placements or a market exempted from full disclosure. Hence, this points to the creation of an Asian version of the Eurobond market.

Prof. Inukai identified facilitating cross-border or inter-regional initiatives of issuance and investment of bonds as one of key objective for phase 2; at present, there was no common definition of the concept of professional investors even though concept existed in principle in many markets. Again, the target was to arrive at a common, or commonly accepted framework.

Prof Inukai believes that members should be able to establish common rules with reasonable effort, which would then lead to a market for qualified participants. For any such proposal to be accepted it was important to arrive at a common understanding and, critically, the recognition among regulatory authorities on the viewpoints proposed for phase 2. In addition, he believes that it would be beneficial

to reach out to investment banks, fund managers, and law firms in the respective markets, to get their input on the actual demand and supply situation.

While members might not have the experiences evident in the US or the EU, the focus of a common approach would still lead the region's participants towards the establishment of an Asian version of Eurobond market. To start discussions in 2012, Prof. Inukai recommended to review the standardisation of inter-regional self-regulation. He suggested the establishment of a working group (labelled Forum A) to discuss the common issuance programme by including a number of regulatory authorities and policy makers. In addition, he suggested that a new 'Forum B', or better a special advisory group, could be formed, containing non-government market professionals who could contribute into the discussion based on their special fields of expertise. The Forum B would discuss issues related to self-regulation needed for the facilitation of the aforementioned common issuance programme.

Prof. Inukai considered that non-government professional market institutions from Korea, Malaysia, Hong Kong, Singapore and Japan would contribute strongly to these proposed groups. At the same, participation of the SROs from China or Thailand would bring greater contribution, which already had a long tradition and significant achievements in their respective markets.

Prof. Inukai presented detailed activities list¹ and expressed his hope that these activities could all be successfully conducted under ABMF phase 2. He closed his presentation with the statement that the term 'retail' should not be read as only retail per se, but in fact the ordinary, non-professional investor group.

In connection with the presentation by Prof. Inukai, Mr. Iida from Tokyo-AIM presented views on SROs and phase 2 work plan on behalf of Mr. Hiro Suzuki of Barclays Capital in Tokyo, who would be joining the phase 2 activities as an International Expert. Mr. Iida emphasised that the international SRO (labelled 'SRO-P') should be established for common regional bond market (called 'AIR-PSM', or 'Asian Inter-Regional Professional Securities Market') and would need to be independent from individual domestic regulatory authorities. He envisaged that while professional market participants may trade in an offshore market, they would continue to be governed by their respective domicile SROs. His conclusion on the necessary work plan for phase 2 included work on standardising the level of information disclosure and related issue documentation, the standardisation of new issue underwriting procedures, as well as specific rules and practices for secondary market trading.

Prof. Inukai added his comment to clarify that SROs, such as KOFIA and SIFMA, were not the SRO only for the respective professional market but also for the retail market, in fact for the entire market in their respective countries. Lastly, he emphasised that even though a securities firm deals offshore, it should still be governed by its respective domestic SRO.

Discussion among members and participants

Mr. Shiina stated that the JSDA covered both domestic and cross-border transactions, as long as a member firm is involved on either side of the transaction; thus, JSDA is covering both the retail and professional market segments, respectively. He clarified that SIFMA was a trade association, but not an SRO.

¹ The list, among others, includes standardizing the disclosure, related documentation, new issuance underwriting procedures, and rules and practices for secondary market making.

Dr Hyun from the Korea Capital Market Institute (KCMI) pointed out that creating an offshore market might create regulatory concerns; hence transactions should be created in the domestic market. He felt it necessary to achieve clarity on whether market participants would be subject to, or exempt, from domestic rules and regulations. Prof. Inukai explained that if a safe harbour market could be created, or the regulatory vacuum for private placement could be identified and acted upon, the objective of having all transactions executed domestically would be achieved. Prof. Inukai relayed that the definition of offshore was not always entirely clear. For example, a bond issued in Tokyo would mean the bond depository would be in Tokyo, and the bond regarded as domestic. If the same bond was created offshore or become an offshore bond, then it would mean that settlement would only be through either Clearstream or Euroclear. In short, if the settlement of a bond is done outside the jurisdiction of the issuer, it becomes an offshore bond.

Prof. Inukai stressed that the concept of offshore is very much related to settlement. He suggested to focus on the issuance of bonds in domestic markets that have specific characteristics for professional investors, as a safe harbour, in each individual market, rather than concentrating on the definition of offshore market. Opening a market for professional investors in each jurisdiction should be the focus. Dr Hyun commented on the practicality of domestic settlement relative to cross-border transactions.

A member from Hong Kong, China, mentioned that the idea of sharing information among SROs was good and practical; however, it was important to formulate what members wanted to focus on. In case it was regulations, he noted that most market providers did not approve products, but simply set the rules to follow underlying regulations. Hong Kong might have an additional challenge because the Securities and Futures Commission (SFC) had already written its regulations; a new regional guideline may not easily be able to be transcribed into law. With regards to professional investors, he felt that members in Hong Kong would face the challenge to adequately define this investor category, but are now working with the SFC to achieve. He was not sure whether the same challenge existed in other countries. On settlement, he remarked that a typical future question would be how to settle, e.g., a Japanese issued bond in Hong Kong.

In response, Prof Inukai enquired whether it was possible to complement existing regulations without the need to amend these regulations directly. He commented that professional markets already existed in Singapore and Hong Kong. The intention was to find out what needs to be done across the various markets. If members could create a common market, this would be beneficial for issuers, investors, and the region at large. Prof Inukai reminded members that some of the challenges might look daunting, and some of the benefits may not be easily obvious, but that the immediate objective should be to review how easy or difficult it would be to get to a common market.

Dr. Inui pointed out that cross-border DVP was an important issue and enquired what he would have to do as a professional market participant to issue a bond such as 'dim sum bonds'. The member from Hong Kong, China responded that there was no difference in issuance procedures between an RMB bond and, e.g., a USD issue; dim sum bonds were labelled as such to distinguish from bonds orientated towards the domestic market. He relayed that Euroclear had expressed interest in offering dim sum bonds through their platform, while using Hong Kong's Central Moneymarkets Unit (CMU) participants as a potential client catchment area. DVP settlement of dim sum bonds was already possible through existing links – issued in

EC, but settled through CMU. He informed that the market expected strong growth in this segment.

An International Expert shared an observation related to the comments from Korean members on regulatory concerns. He opined that 'offshore' was traditionally understood as an issuer raising funds in non-domestic currency away from its home market. He felt that a common SRO platform sounded like a big development, and enquired what was envisaged to be the initial scope for a proposed Asian SRO: sharing information, setting rules, or driving towards enforcement of such rules.

Mr. Muraki responded that the scope would be discussed in detail as a first step under the SRO discussion in phase 2. With regards to the definition of offshore, he mentioned that if the markets saw a demand from issuers for an offshore local currency market, e.g., the raising of THB outside of Thailand, this may change the way participants looked at the offshore question. For the time being, there was no easy answer today, instead a number of practical questions need to be asked first.

Wrap up by Mr. Seung-Jae Lee, ADB secretariat

In respect of achieving the goal of developing local currency bond market in the region, Mr. SJ Lee pointed out that different approaches could be possible including direct harmonization or mutual recognition. The harmonisation of markets is crucial but members are just at the beginning of the work and it will require longer time to be realized. Mutual recognition is already under discussion among ASEAN but the progress was rather slow, due to the consultative approach taken. Mr. SJ Lee opined that the approach that ABMF is currently discussing is more practical and realistic way of achieving the goal. He hoped that the day's discussion could bridge the stage between the outcome of ABMF phase 1, and the process of defining in detail the phase 2 activities.

With regards to the SRO Forum, Mr. SJ Lee thanked members for the kind contributions from China, Japan, and Malaysia, in addition to the KOFIA proposal. Fact was that there were different voices, so perhaps the best approach was to proceed step-by-step, as mentioned by NAFMII. Mr. Lee stressed that it was imperative to define in greater detail the work to be done. The underlying objectives remained to improve and expedite cross border transactions, so members should focus on providing a system or the right framework to make that happen. On the concept of offshore, Mr. SJ Lee suggested that the forum could conceptualize it differently from conventional definition for the purpose of efficient discussion: As long as issuing and receiving country used the same currency, it would be a domestic transaction, and if issuing and receiving country used a currency other than their own, it would be interpreted as an offshore transaction. He agreed that the question of issuance and settlement could be treated separately. A common issuance programme is fundamentally understood as an issuer being allowed to use a one-time effort to issue securities across a number of markets. Mr. SJ Lee believed that it might not be possible to agree on a market for professional investors if the regulators, who give legal definition to these types of investors, were not included. It would, hence, be crucial to include regulatory bodies into the discussion. On the other hand, SF1 should also include more expertise from the market, to hear the relevant concerns and also to commit market participants to act in the markets so created.

As for Forum A and Forum B suggested by Prof. Inukai, Mr. SJ Lee wanted to clarify that 'Forum A' would be focused on the common issuance programme, with the use on regulatory bodies. He considered that the SF1 itself could be the 'Forum A' with

extended participation including regulatory authorities. He felt that members needed to think about whether to set up a separate 'Forum B' or simply to augment the existing membership with the relevant institutions, since Forum B was expected to provide input to SF1 from market practitioners' perspectives. At this point in time, Mr. Lee was not sure about the final format. Instead, he invited members to continue to provide feedback and to seek a common understanding by or during the Hong Kong meeting.

Prof Inukai subsequently added his comments on the concept of offshore: He mentioned that the US was regarded as a domestic market for example; while the USD offshore market fell under the 'Regulation S' regime; this had been highlighted by CIMB at the Jeju meeting. He then questioned the audience that why not create a Regulation S-type market for each jurisdiction.

As Chair of SF1, Mr. Muraki wanted to reiterate some of the points discussed. He asked whether KOFIA could kindly send the presentation file in softcopy and appreciated the good comments from the SRO colleagues. He mentioned that It was important to look at the current status of SROs across markets to better understand the landscape and to have a status quo available as a basis to move on from. In his opinion, the terminology itself was not so important, in terms of whether an SRO forum or a regional SRO or similar should be favoured. He hoped that the chairs and ADB secretariat would be able to inject the status quo into the discussion by the time of the Hong Kong meeting.

Mr. Muraki closed the session with reaffirming his thanks to CCDC as hosts, and to participant for their active contribution.

IV. DAY 2 – ABMF Sub-Forum 2 (SF2)

Opening Remarks by SF2 Chair, Mr. Jong-Hyung Lee, Korea Securities Depository (KSD)

Mr. JH Lee, as Chair for SF2, warmly welcomed participants to the proceedings for SF2 and expressed his sincere appreciation for the efforts undertaken by members, experts and consultants. He briefly introduced the meeting agenda and then invited Dr. Inui for presentation on the phase 1 SF2 report.

Part 1 – Discussion on the Draft Report

Progress Report on SF2 Report – Dr. Taiji Inui, ADB Consultant

Dr. Inui thanked the Chairs and the organisers for the opportunity, and expressed his appreciation to all members and experts for the efforts extended by checking and correction the SF2 materials. Dr. Inui invited the audience to take a look at the Executive Summary which contained a set of conclusions, plus the member list. He then gave an overview of the comments provided by SF2 members, using some examples for illustration, and explained the process to what extent comments had been considered and reflected in the report.

Dr. Inui touched upon two specific comments from BOJ and JASDEC, as a conduit to illustrate some of the key points for SF2. With regards to the BOJ comments, Dr Inui mentioned that he had been asked by members to provide some more detailed information on the role and function of the JGB Clearing Corporation (JGBCC) evidenced in the Japan market settlement flow charts.

Next, Dr. Inui drew attention to the Part 1 matching slides and related explanations and highlighted the distinctions found; in some countries matching is done automatically, yet in some markets pre-matching is still being practiced by phone or similar means. Dr Inui believed that one important point to be discussed further was the exact drivers for this type of pre-matching practices. A revision of the chart could then be decided upon after member feedback.

In relation to JGBCC, Dr. Inui explained the concept of Simultaneous Processing of DVP and Collateralisation, or SPDC, in BOJNet and shared that the same process already existed in Hong Kong. At the end of his explanations, Dr Inui mentioned that he hoped to explain why there needed a change in process as a result of SPDC.

Discussion among members and participants

Mr. Mori from BOTM Japan commented that the SF2 draft report was well documented but it is suggested that the final report also to include high level policy recommendations. At the same time, references to LEI may not need to be included in the report since it was presently limited to OTC derivatives. In response, Dr. Inui agreed that recommendations would be desirable and expressed his hope that during phase 2, a complete set of recommendations to members would be included. On LEI, he agreed with Mr. Mori's comments that the discussion was not yet mature since the primary focus was OTC derivatives; however, he advocated that having a channel for information of members on such new industry developments would be advantageous. Mr. Mori reiterated that for recommendations, a high level direction even at this stage would be much preferred, upon which Dr. Inui asked Mr. Mori to provide a sample type of recommendations to be considered in the final report. In addition, Dr Inui requested members to provide any final comments that they may have since the report publication was still a few weeks away.

With regards to the matching topic, Mr. JH Lee posed the question to members which diagram version they would be more comfortable with. An International Expert asked whether it would be possible to provide in a footnote an explanation of the difference between dotted and straight lines. Dr Inui responded that he would be happy to discuss this with the ADB secretariat and that one could consider to what extent formulating a recommendation would be beneficial at this stage.

Mr. SJ Lee, of ADB secretariat, stated that recommendations would be entirely desirable but may not be possible to be included at this late stage for the phase 1 Report, in particular if it were to require a full round of consultations with members. He felt that it would be advisable to publish the ABMF Report as is, then discuss in more detail and consider policy recommendations during phase 2. However, Mr. SJ Lee empathised that members would be interested in seeing key recommendations. He also mentioned that Dr. Inui would cover in his next presentation how to update and correct, if necessary, the SF2 documentation going forward. The process may be similar to SF1 or could also be specific to SF2 topics and materials.

Ms. Tang of KSEI, co chair of SF2, opined that it would make sense to wait with providing recommendations until the end of phase 2, because a number of items had not been covered at all, or perhaps not been covered in sufficient detail.

Part 2 – Presentation on the phase 2 Work Plan - Dr. Taiji Inui, ADB Consultant

Mr. HJ Lee invited Dr. Inui back to introduce to members the proposed work plan and issues for the SF2 phase 2. Dr Inui focused on four specific points. The scope of the transaction flows would be expanded to cover corporate bonds and some corporate

actions. The key activity would be the fit-and-gap analysis for typical government bond transactions; in addition, and also in response to the many requests from members, phase 2 would propose a roadmap to standardise and harmonise bond transaction flows in ASEAN+3. Information sharing continues to be important to augment member knowledge and help recognise important topics that may influence the bond transactions going forward.

Going into detail, Dr Inui stated that not all markets have been documented for corporate bond DVP trades. It is typically because of the market size relative to government bonds. The objective was now to cover all markets. The main objective to study corporate action flow was how to best make use of the XML format that would be more conducive to carry the typically larger amount of information related to corporate actions. Dr. Inui felt that it may not be possible to study all possible corporate actions, hence, a focus on interest payment and redemption would be desirable. He showed some examples from Japan on the issuance process, to illustrate for members the potential outcome of the SF2 phase 2 study. Dr Inui encouraged members to provide feedback on what items and functions were to be included in such flow charts. He also mentioned that the corporate bond infrastructure would be added to the ASEAN+3 bond market overview diagram, to finally have a complete overview of the markets.

The fit-and-gap analysis will focus on government bond settlement instruction and confirmation messages. In addition, a model flow for cross-border bond transactions is envisaged to be included in the study. Dr Inui showed an example for China, highlighting some of the targeted messages in the overall flow, to then detail the message or business elements contained in such messages. A comparison at business element level in these messages is targeted, using a template that will make the information from all markets comparable.

Subsequently, the objective would be to compare settlement instruction and confirmation elements to the ISO20022 standard, to determine coverage, similarities and distinctions as part of the gap analysis. The key expected outcome is for members to recognise the distinctions between their local market messaging and ISO20022, so that the amount of gap, necessary conclusions and possible next steps can be agreed and acted upon. This may not be possible for all message types, in the interest of time and to limit the necessary complexity.

The result could be a possible roadmap that could also include the occurrence of major events that are expected to shape the bond markets in the years to come. The key objective here would be to identify specific roadmaps for individual countries to remove identified gaps and barriers, including legal, regulatory and technical hurdles. A roadmap for the entire region may not be achievable during phase 2. However, one other key objective would be the ability to provide technical assistance to those markets that are targeting capacity building and the further development of their bond markets.

As key issues for the discussion of a roadmap, Dr. Inui pointed to ABMF as the setter for a future institutional framework, possibly aided by other parties. Infrastructures were presently already being discussed under ABMI and in development through bilateral and multilateral agreements between CSDs. In addition, the development with regards to a possible Asian ICSD could be included in the roadmap. Dr. Inui felt that one other powerful component of a proposed roadmap could be the inclusion of expected or nascent technologies that might affect the post-trade securities industry. He displayed a draft image of a possible roadmap, with arrows by topics indicating project durations and cutover dates against a future timeline.

Dr. Inui wanted to leave members with the potential issues to be discussed in conjunction with the creation of such a roadmap and for phase 2 in general. This included the general type and level of detail envisaged by members, whether to favour or distinguish short, medium and long term plans. The key point would be the scope of the transaction flow and the actual fit-and-gap analysis. As was previously suggested, recommendations should probably be included towards the end of phase 2. Dr Inui also advocated an update of the survey result in phase 1, simply because changes to infrastructure and flows were to be expected in line with normal market development. Prioritisation would be desirable, and may be necessary.

He then detailed the proposed work plan for the next 12 months, starting with the conference in Hong Kong, in early February 2012, including the country visits to validate and discuss survey results, and working towards the dissemination of the work done by the end of the year. Dr. Inui once again thanked the audience for the time and efforts.

Discussion among members and participants

Mr. JH Lee reiterated that, in 2011, SF2 had focused on the government bond transaction flows; if members looked at the plan for 2012, the objective was to focus on detailed issuance procedures and to expand the survey into corporate bonds, plus the conduct of the fit-and-gap analysis. This will culminate, hopefully, in the presentation of a roadmap. Before the work plan could be finalised, Mr. Lee would like to invite comments from members on the proposed steps.

Mr. Wilson from SWIFT stated that SWIFT might be able to contribute to the fit-and-gap analysis, due to a lot of resident expertise within the institution on such exercises. He mentioned that he would be happy to work towards aligning SWIFT's resources to the needs of ABMF.

Representatives from Deutsche Bank appreciated the roadmap and the concept laid out for phase 2 and stated that Deutsche Bank was happy to continue supporting these good efforts. It was important to continue to include existing infrastructure into the standardisation work. The representative for JPMorgan delivered his feeling that the group could achieve a much higher level of visibility for the ASEAN+3 bond markets; now, by having this common framework, the group should be able to achieve the objectives of phase 2. JPMorgan was happy to contribute in the role of a global custodian, but may also be able to provide other resources for input into the discussions. In addition, it may be crucial to consider the governance of a future roadmap, due to a number of similar and other initiatives. Mr. Mori from BOTM reiterated the need for recommendations as output. He also enquired whether the messaging fit-and-gap analysis would require more detailed expertise, or even IT experts, and if so, how the group would proceed. He emphasised that he and his institution would like to contribute as much as possible. The representative for HSBC commented that the roadmap was quite visionary, and that it was good to see the market barriers being checked again. He felt it important to not underestimate the efforts to be undertaken and muse whether it perhaps might be good to pick the top two or most used processes to focus on. He also believed that the current economic climate might aid the general speed of some of the initiatives.

Dr. Inui agreed with the need to be mindful of the efforts planned; he felt that if the work quickly turned out as too much, that the work plan could still be revised and members' input sought again. He acknowledged that cutting the work plan was possible if members thought it was too much. If needed, important parts of the work could be varied by individual country. In this context, Dr Inui wanted to update

members that the Bank of Japan had implemented ISO20022 messaging standards in November and that no operational problems had been encountered.

A member from the Philippines congratulated CCDC on the successful hosting of the ABMF meeting and was looking forward to some of the initiatives while being happy to both support and be part of the efforts. He mentioned that in the Philippines, efforts to streamline the market have also begun.

A representative from Lao PDR also thanked the hosts for their hospitality. On the proposed roadmap, he felt it would be beneficial to share some thoughts on the offshore issuance process of developing or offshore markets overseas. Within ASEAN+3, cross-border issuance should be considered.

An observer from Ministry of Strategy and Finance, Korea acknowledged that ABMF as a forum was very useful and great progress had been made. In respect of the goal of harmonisation of bond markets overall, he saw the focus of next steps on corporate actions and corporate bonds would better and more directly support said goal. In 2012, Korea will become chair of ABMI and will continue to support the important work done. As a final comment on Dr. Inui's representations on the roadmap (page 16); in relation to the discussion on RSI versus CSD Linkage; the members hoped to discuss further and clarify the matter with Dr. Inui later.

The representative from the Japan Bankers Association pointed to the strong expansion of corporate bonds issuance in the regional markets, and their importance for the bond market as a whole, in particular while the sovereign market grew slower. Hence, he felt phase 2 contained the correct focus to include corporate bonds. At the same time, while the issuance process appears to have less of a chance to be standardised easily, it was important to focus on corporate action messages and processes, where much efficiency could be gained. Mr. Shiina from JSDA stressed that the focus of initiatives such as LEI was the control of the flow of a transaction; however, there was another initiative that focuses on the classification of financial instruments, (CFI, Classification of Financial Instruments, or ISO10962) appearing in other discussions. He was mindful that CFI would be applied to financial transactions in Asian markets, and not just for OTC derivatives. This might happen without the direct involvement of industry here and should be observed on a regular basis. Mr. Sato from JASDEC said that he now understood the structure of phase 2 and agreed totally with the approach, however felt that too much was planned; he then suggested to concentrate on corporate actions for government bonds and its iterations first.

A member from Indonesia echoed the previous statement – she felt that focus should be on government bond processes first. In terms of the roadmap, this may not make an immediate impact since any recommendation was subject to ratifications in individual countries but it would cover the volume. The roadmap itself may not need to show developments all the way until 2020; Indonesia, as an example, uses a 5-year plan for its major initiatives. At the same time, some important update to share with the member. In Indonesia, the FSA law has recently been approved and the FSA will be created in 2013; in 2014, the remaining authority of Bank Indonesia in relation to the bond market will converge onto the FSA. In addition, three new laws are in progress of discussion within the government; a revamped capital market law, a dedicated pension fund law, as well as an insurance law. The focus of Indonesian members will be on this new institution over the coming years, and members are expected to be very busy transforming their own respective landscape; this may lead to a challenge to work on a long-term outlook under ABMF.

A representative from Hong Kong, China, opined that a 10-year plan was indeed a bit ambitious; the HKMA, for example, presently was able to look about 4 years ahead only. He felt that ABMF members had, in fact, done the most difficult part this year, and would now be able to use the collected information. Corporate bonds were getting more important and should, hence, be included in phase 2; HKMA had received the mandate to build a corporate action platform because most of the processes surrounding corporate actions were still handled manually, and he referenced the earlier KTM/MTR merger as a live example. On the other hand, he was not sure whether to include convertible bonds. At the same time, while clean lending was increasingly limited these days, repo lending and collateralised lending was getting increasingly popular. He enquired whether there was a plan to include these subjects in future works of the forum. In response, Mr. HJ Lee enquired whether the enquiry was more targeted for repo or securities lending. The member from Hong Kong, China, clarified that securities lending was indeed very important, but his remark was targeted basically at the use of existing securities for the purpose of collateralising or other purposes.

A member for China raised two suggestions: to invite more institutions into ABMF, to reflect the broader scope going forward, such as ministries of finance; and to include more bond types, since there was much to learn from corporate bond developments or other bond types in the region and elsewhere.

A member for Cambodia stated that his country will look with interest at the proposed roadmap and strongly supported the presented efforts. He felt that ABMF should continue its effort on corporate bonds, since it includes the MTN programmes that are to be covered under the proposed common issuance programme in SF1. The group should not be too worried about the size of the scope for phase 2, but would have to produce regular and high quality output – even if not 100% complete and covering subjects, the present outcome was already very good and should be perpetuated. He reminded that the desired developments are on a long path, but encouraged everybody to continue following down that path. As a final suggestion, he argued that the information should be provided in printed/book form.

In his response to the member comments, Dr. Inui acknowledged that offshore transactions were indeed very important but due to limited capacity, they would probably not be able to be included for the time being. He thanked everybody for their expressed support and confirmed that it would be hard to project developments up to 2020. Looking at the proposed tasks easily appeared overwhelming, and it may indeed be good to reduce tasks. Dr. Inui expressed his hope that the group could achieve some of the possible goals, even if not all of the proposed plans can be achieved. He also responded that the issue of cross border collateral was important since it had a direct relevance on some of the current developments in the region.

Mr. Kawai of ADB secretariat commented that members agreed on the importance of the roadmap but also a sense of challenges that may lie ahead of us. The roadmap should allow us to derive recommendations to regulators and also the framework we intend to have. The proposed workload was a concern to all. He wanted to express his gratitude for the past efforts and dedication, and was hoping to ask for further commitment from members towards the phase 2 work. He added that the questionnaire and templates should be well designed and the details would be provided by Dr Inui during the Hong Kong meeting in February.

Mr. SJ Lee of ADB secretariat recalled that ABMF had now had five previous rounds of meeting, plus this Beijing meeting, and produced the report that was presented at the ASEAN+3 Finance Deputies meeting in Sendai the previous week. He relayed

that ADB secretariat was targeting to publish the report by the end of 2011. Considering the holidays, that would only give the team a few more working days. Most members have submitted final comments and ADB secretariat's preference would be to publish the report as is now, and reflect additional or new comments in the next version. In discussions with members, he found that, e.g., China was ok with this approach and Hong Kong would be ok, subject to a footnote that the material was still pending review by other regulatory authorities; Malaysia would be happy with a similar qualification. A member for Indonesia suggested including such footnote for all market materials to which Mr. SJ Lee responded that this would not be desirable since readers might have impression that all information subject to confirmation.

Mr. Schmidt detailed the necessary process in terms of closing final versions of the input materials, the importance of editing and lay-outing the report sections to forge them into an integrated ABMF Report; all of this would need time, so that in principle the cut-off for any further changes or clarifications from members had already passed. In response, Mr. SJ Lee stated that as long as members continued to have concerns on the final report, time would need to be invested by ADB secretariat so that these concerns can be addressed. On the latest version presented in Sendai last week, no comments had been received from Task Force 3 chairs so far; any further comments would also be included and a new version would be circulated as a result. The final version could be shared via the ABO website or be circulated to all members, with the expectation to then revert quickly with any final comments. In this context, a member from China commented that the final report would need to be confirmed with a number of relevant departments; in particular since the China market guide was compiled in two parts, so it was necessary to check again. To that, Prof. Inukai responded that it was not intend to publish the so-called part 2, so members for China needed not worry and spend extra time for reviewing.

Mr. SJ Lee mentioned the ADB workspace would be usable for reviewing or editing the documents. In this context, Dr. Inui suggested to upload the proposed changes to the ABMF website so that a record of the required changes existed and could be executed diligently.

Future Work Plan – Mr. Seung Jae Lee, ADB Secretariat

Mr. SJ Lee then detailed the agreed activities for phase 2 on his slides; more detail and a clearer representation of individual subject would be provided by the Hong Kong meeting. He acknowledged that there is a strong need to involve the regulatory authorities and any further discussion on this topic can happen in Hong Kong. Mr. SJ Lee conceded that some of the SF2 proposed topics might be beyond the group at this point and should be reviewed again. He noticed confusions among members relating to roadmap and clarified that it would be refined in a more realistic manner by the end of phase 2. He also explained that the proposed phase 2 timeline of 18 months was set to be ready to table the ABMF phase 2 output at the ASEAN+3 finance ministers meeting in mid-2013.

As for the schedule for the next 6 months, Mr. SJ Lee emphasised that the next meeting will very kindly be hosted by HKMA, in Hong Kong, on 8. and 9. February 2012 and the ADB secretariat was working towards holding a public conference, to further disseminate the ABMF phase 1 Report, as discussed on Day 1. As for the structure of the Hong Kong conference, Mr. Lee was still working on time allocation to the public part and to the ABMF meeting. He reckoned that 2-3 hours for the public part should be sufficient, followed by the SF1 proceedings which could probably spill over into next day, if so required, and then followed by the SF2 meeting.

Mr. SJ Lee also thanked members for the entries in the commentary book that had been circulated in the audience. ADB secretariat will utilise these comments for its work and during future meetings, including the planned public conference.

The next ASEAN+3 ABMI meeting was planned in second week of March, and the ASEAN+3 Finance Ministers meeting on 2 and 3 May 2012. The subsequent ABMF meeting was presently envisaged for the 1st week of May. Dr. Inui remarked that this might result in a potential timing conflict with a proposed meeting to celebrate the 10th anniversary of ABMI. Mr. SJ Lee asked members to mention if such potential timing conflicts would result and thanked Dr. Inui for drawing attention to this issue.

Mr. Lee then took members through the proposed activities in the second half of 2012 and the first half of 2013 as in the table below. Mr. SJ Lee expressed his hopes for reporting recommendations to be approved by the ASEAN+3 Finance Ministers Meeting in May of 2013. The final meeting for ABMF phase 2, in Q4, 2013 would discuss and approve the work plan for an ABMF phase 3.

Table 1: Work Plan of phase 2 ABMF

End of Dec 2011	Publication of phase 1 reports
8-9 Feb 2012	7 th ABMF meeting in Hong Kong, China
Mar 2012	ABMI TF3 meeting (First reporting of phase 2)
Apr 2012	8 th ABMF meeting
Jul -Aug 2012	Country visit for consultation and information collection
Sep 2012	9 th ABMF meeting
Oct 2012	ABMI TF3 meeting (Second reporting of phase 2)
Nov 2012	ASEAN+3 Deputies meeting
Dec 2012	10 th ABMF meeting
Feb 2013	11 th ABMF meeting
Mar 2013	ABMI TF3 meeting (Third reporting of phase 2)
Apr 2013	12 th ABMF meeting
Apr 2013	Summitting the report to ASEAN+3 Deputies meeting
May 2013	Recommendations approved by ASEAN+3 Ministers

Report on Other Matters – Mr. Shinji Kawai, ADB Secretariat

Mr. Kawai shared information on recent developments with regards to LEI and RSI. Regarding the RSI, Regional Settlement Institution, ABMI Task Force 4 had conducted a re-assessment of the conclusions provided in the GoE Report. LEI was first introduced to the forum members at the Bali meeting, the intention of which was to share some more information with members.

As for the RSI, Mr. Kawai shared that the Group of Experts (GoE) published its report on the feasibility of a Regional Settlement Intermediary in April 2010. In May 2010, the ASEAN+3 finance ministers tasked a technical working group (TWG) to re-inspect in greater detail the legal feasibility studied in the GoE Report. The TWG submitted their findings in May 2011, concluding that no original barriers or hindrance were missing and none of the original conclusions had in fact changed. The TWG's final report is expected to be ready in Jan 2012. Recently, the ASEAN+3 Finance Ministers tasked the TWG to move on to the reassessment of the business feasibility considering a number of factors that are believed to have changed since the work

done by GoE. According to Mr. Kawai, ABMI TF4 members believe that the potential benefits of RSI. He felt that standardisation and the plan for a roadmap would feed in nicely into TF4 efforts and information sharing might be desirable. Timelines and direct objectives of the TF4 work were still to be finalised, will he would continue to update ABMF members as future information became available.

On LEI, Mr. Kawai shared that the G20 supported the creation of LEI. The drafting and voting on the draft International Standard ISO 17442 started in June, and is expected to be finalised by late December 2011. The following features seemed to be becoming clear by now: 18 +2 char format; one code per entity; globally unique identifier; one single registration authority; co-existence with existing codes, incl. BIC, ISIN and no replacing intended; 3rd party registration ok; fees will be charged for registration; the scope of registration is not limited. The implementation of LEI is expected to starting with OTC derivatives, and beginning in the US market; other markets are adopting a wait and see attitude for the time being. The governance structure is to be discussed at the Financial Stability Board (FSB) and at IOSCO to clarify matters. Observers find it surprising that the debate is going on in a number of multinational agencies but that no apparent coordination is evident. Many details and also the timelines are still fluid. Mr. Kawai added that it might be advisable to consider a further update on LEI to stay in touch with the latest development.

Wrap up – Mr. Seung-Jae Lee, ADB Secretariat

Mr. SJ Lee mentioned that this would be the last meeting of ABMF phase 1, and the next meeting in Hong Kong would be the first meeting of ABMF phase 2. Mr. Lee delivered special thanks to the chairs and co-chairs for their efforts during the phase 1 with hope on their continued role in phase 2. He announced that Mr. Ikegami would be handing over the co-chair of SF2 to Mr. Sato. Mr. SJ Lee also expressed his heartfelt thanks to the International Experts, their efforts and resources put at the disposal of the ADB secretariat. He cited the strong support from ABMI chairs, Korea and Japan, and sent a final thank you to CCDC for their great hosting efforts.

Mr. SJ Lee announced that the invitation letter for the Hong Kong meeting would be distributed soon.

As Chair of SF2, Mr. JH Lee invited Mr. Ikegami to make a few final remarks. Mr. Ikegami relayed to members that he was very pleased with the progress made. He had recommended Mr. Sato to take over the co-chair role and was convinced that Mr. Sato will continue to contribute strongly as he had the right experience, since the beginning of ABMF. Mr. Ikegami mentioned that he will continue to have a strong interest in ABMF and might work behind the scene to support. He wanted to thank all members for the tremendous support and their kindness extended during his work in ABMF phase 1 and would like to wish members well in their efforts going forward. Mr. Sato, in response, stated that he would take over with the intention to contribute as much as possible towards a successful ABMF phase 2.

Ms. Tang, as co-chair of SF2, also extended appreciation to members. From the first meeting in Tokyo in September 2010, starting from basically zero, it was amazing to her to observe the efforts from all of participants, consultants, members and experts, including the observers, and the achievements. Although the final report is not ready for publication, yet, she expected that the outcome would be fantastic.

Closing Remarks by SF2 Chair – Mr. Jong-Hyung Lee, KSD (KSD)

Mr. JH Lee concluded the ABMF SF2 meeting with appreciation to CCDC as hosting institution and all members for their active participation.

Attachment 1: Public Conference on Recent Global Financial Crisis and Asian Bond Market Development – Summary of presentations

Attachment 1

Public Conference on Recent Global Financial Crisis and Asian Bond Market Development – Summary of presentations

Welcoming Remarks by Mr. Seung-Jae Lee, ADB Secretariat of ABMF

Mr. SJ Lee thanked CCDC for the hosting of the 6th ABMF Meeting and the public conference, and welcomed the participants. In his opening remarks, he reviewed the overall achievements of the regional bond market, mentioning that local currency bond outstanding had increased four times during the last 10 years and now represents around 5% of all total bonds outstanding in the world. Growth has been witnessed in both sovereign and corporate bond issues. With infrastructure development, there has been an increase in the market liquidity. In addition, the gradual extension of the tenure of bonds and the development of a reliable yield curve has been observed. Yet, despite these developments, the ASEAN+3 markets are still lagging behind their developed counterparts.

Mr. Lee pointed out that Asian economies still heavily relied on the banking or financial sector, and noted that sound monetary policy, a safe and efficient settlement environment and a functioning and liquid repo market were important to engage all market participants. Mr. Lee, thus, detailed the future expectations of efficient ASEAN+3 bond markets. It would be critical that markets would be able to recycle the substantial Asian savings within the region, while effectively managing the capital flows in and out of the region. Volatile flows continued to represent a serious threat, especially during challenging times, such as now. He highlighted the introduction of the Legal Entity Identifier as a good example on how to address some of these challenges.

Mr. Lee then proceeded to introduce the ASEAN+3 Bond Market Forum (ABMF) to the audience. ABMF represented the dialogue between public and private sector institutions on bond market developments and was mandated to provide non-binding policy recommendations to the finance ministries of the member countries. Output, in the form of the ABMF Report will be available by the end of the year or early 2012. ABMF will proceed to a second phase during which recommendations on the basis of present conclusions will be provided.

Opening Speech by Mr. Guo Ligen, Vice Chairman, China Banking Regulatory Commission (CBRC)

Mr. Guo thanked the organisers and welcomed the attendees to this important conference. He pointed out that the conference in fact marked the 30th anniversary of the opening of the China bond market, as well as the 15th anniversary of the establishment of CCDC and the 13th anniversary of the inception of its depository function. According to Mr. Guo, the banking sector has been the main participant in the Chinese bond market which now stands at RMB 100 trillion. The participation of international banks had recently eased in favour of domestic banks.

Mr. Guo informed that the regulatory authorities continued to promote the development of the bond market, with the intention to make the market more efficient. He believes banks will continue to dominate the market, as part of their focus on efficient asset and liabilities management. Mr. Guo stated that in 2010, secured repo had reached a transaction volume of RMB 70 trillion. Banks have started to issue secondary bonds to shore up core capital. At the same time,

commercial banks have become the main underwriters for corporate bonds. At present, banks hold about 70% of all debt outstanding.

Mr. Guo highlighted the recent issuance of so-called 'micro company bonds' which have helped further diversify the market offerings. Another recent trend was what he called redemption clearing, i.e. the closing out of longer outstanding bonds, possibly in favour of newer instruments. Mr. Guo stressed that CBRC was paying close attention to market developments, and was committed to the further perfection of the bond market despite its many common issues. He sees the improvement of legislation, a strengthening of infrastructure and the optimisation of the market structure as key objectives. Mr. Guo included accounting, credit rating and valuation as key infrastructure components.

Speech by Mr. Liu Chengxiang, Chairman, China Central Depository and Clearing Co., Ltd. (CCDC)

Mr. Liu acknowledged Mr. Guo's presence, and welcomed participants to the public conference and the subsequent ABMF Meeting. He stated that ABMF was an important platform for the development of bond markets in the region and participation meant a lot for CCDC. He felt it very beneficial to compare notes on infrastructure and processes across markets with fellow market intermediaries.

Mr. Liu relayed that the Chinese bond market had grown quickly starting from 1990, and that a lack of infrastructure had posed a risk to the market. As a result, CCDC was conceived in 1996 and, after 15 years of continued growth, now is an important part of the key market infrastructure and was able to lay the foundation for future developments. Mr. Liu opined that in contrast to other markets, the development of the bond market in China has been in close conjunction with the development of the central securities depository concept. From the outset, the focus had been to improve infrastructure across issuance, settlement, interest and redemption processes. The market size has since grown dramatically. Today, CCDC is providing extended services, in addition to the OTC market services, to its more than 10,000 participants; these include collateral management and a customer front-end system.

Mr. Liu outlined how CCDC has continued to align itself with customer expectations. Starting with the original G-30 Recommendations from 1989, and the 2001 review of BIS/IOSCO, CCDC has achieved significant progress as a CSD, in terms of efficiency, customer asset protection, transparency and security. He cited the establishment of a CCDC-calculated bond yield curve, and the depository securities lending and borrowing programme as key achievements.

Mr. Liu also pointed to the gradual opening of the China bond market. CCDC has been providing services to multinational investors since 2005 and now counts 30 overseas institutions as participants. Mr. Liu concluded that further market development efforts would require consultations among a number of stakeholders from across industries and markets. At the same time, the continued focus on infrastructure building would be the transforming power for bond market development.

Session 1: Challenges and Issues in Opening Up Bond Markets after the Recent Global Financial Crisis

Prof. Shigehito Inukai, Waseda University, Tokyo, Japan, "Japanese market status quo, recent market development and related issues for the future after the crisis"

Prof. Inukai started his presentation with illustration on the impact of the 2007-2008 Global Financial Crisis (GFC) by comparing write-downs and capital raisings between America, Europe and Asia. Asian region experienced limited impact than in the more developed regions; in particular, asset write-downs had remained at a level even below the amount of new capital raised. According to his colleague at Waseda University, the proposed enhancements to supervisory and regulatory systems in response to the GFC may not be sufficient; instead, corporate law and capital market law should be strengthened to provide further safeguards against market excesses. The alternative would be a recurrence of harmful effects, specifically on the economies and people in developing nations.

Prof. Inukai then gave an overview of the current Japanese bond market situation. Interest rates remained low. Japanese Government Bonds continued to dominate issuance, debt outstanding and trading volume, while corporate bond issuance remained at previous levels. Non-Japanese sovereign bond issuance has been gradually increasing. One of the most significant trends could be found in the strong reduction of debt issued by banks in recent years, in favour of an increase in plain bank deposits and the paying down of bank loans.

Relating the vision behind the recent developments of the Japanese bond market, Prof. Inukai cited the needs to be more competitive internationally, to reduce cost and improve ease of use of market functions, and to increase the financing options available to companies in need of funds. He pointed to the introduction of FIEA (Financial Instruments and Exchange Act) in 2008 as a defining measure for the creation of a market only for professional investors, and argued this 'exchange-regulated' market would fulfil the premise of a suitable legal framework for a market exempt from full disclosure rules. He then compared the more fragmented Eurobond issuance landscape with Japan, distinguishing between a shelf-registration system for all investors, including retail, as well as the recently established Tokyo PRO-BOND Market for professional investors only.

Prof Inukai referred to the implication of a Pan-Asian professional bond market, using a diagram from his theory formulated in 2010, with Dr. Suk Hyun. One of the key factors in establishing a conducive legal framework for a professional market can be traced back to the legal tradition of the countries in question. While Japan comes from a civil law concept and now favours comparative legal studies, a number of major developed markets have been basing their approach on the common law tradition originating from England. Prof Inukai opined that for the development of a Pan-Asian bond market, it was important to consider the culture and traditions in Asia while taking advantage of the high savings rate mentioned.

In conclusion, Prof. Inukai stated that it was important for regional regulators and market participants to discuss basic principles for the vision and, ultimately, design of the legislative and regulatory infrastructure for such proposed common professional market. This approach could include self-regulatory elements eventually.

Prof. Inseok Shin, Chung-Ang University, Seoul, Republic of Korea, "Capital Flows in the Post-crisis Environment – The Case of Korea"

He shared some observations about the recent bond market development in Korea, and globally. One of his key findings was the fact that, instead of the USD, most emerging market currencies have been depreciating – none more than the Korean won. This has led to a frustrating experience for Korean investors who have been trying to access the international markets. In contrast, the foreign investment in

Korean Treasury Bonds, or KTB, has increased over the same period. Prof. Shin also observed a change in the investment motivation for most parties, from a focus on arbitrage opportunities to straight investment in reliable assets. In conjunction with this development, he sees a change in the dominance of the USD dollar. However, on the back of ASEAN+3 central bank's reshuffling of foreign exchange reserves, which resulted in the recent increase in intra-regional bond investments, Prof Shin is seeing the likelihood of private investment following this new trend.

In terms of challenges, Prof Shin identified the possible volatility of bond market and currency prices resulting from the significant foreign debt holdings, and possible outflow of such investments in case of a trigger outside of Korea. He sees the chance of a contagion in case such intra-regional or international cross-border investments would be required to be divested. He likened this 'deja-vu' to the similar causes for the 1997 Asian currency crisis, and drew parallels to the current European debt crisis. According to Prof Shin, the 'original sin' of these developments was the use of a common settlement currency, being the USD and Euro, respectively.

In closing, Prof. Shin felt that the policy agenda in relation to cross-border border investments should include addressing the question on how to manage the volatility of short-term capital flows, and he advocated the introduction of a capital flow management measure among member countries. In addition, he sees as one key question how to prepare individual markets for a financially more integrated Asia.

Dato' Lee Kok Kwan, Deputy CEO and Treasurer, CIMB Group, Kuala Lumpur, Malaysia, "ASEAN+3 Local Currency Bond Markets: Cross-Border Investments & Issuances"

He started with the observation that the size of the ASEAN bond markets had grown by 315% from 2000 to June 2011, from a mere USD 218 billion to USD 905 billion. Chinese bond market had grown by 1,479% during the same period. Today, the ASEAN local currency bond market was 550% larger than the foreign currency portion. Surprisingly, the amount of cross-border investment within ASEAN+3 still remained relatively low. Instead, foreign investment by ASEAN+3 countries primarily targeted the US and European markets where yields were low; these funds would then flow back into ASEAN+3 at much higher credit spreads.

Dato' Lee went on to analyse why ASEAN+3 countries were seemingly unable to invest within the ASEAN+3 region. He attributed this to the region's previous focus on in-country capabilities, the lack of cross-border culture in ASEAN+3, and the need for specific credit ratings driven by prudential regulations. Sovereign and corporate bond ratings in ASEAN+3 were typically unsolicited and, thus, weaker than if ratings would be actively sought. At the same time, in particular local currency issuances had less risk factors. Instead, the domestic ratings affixed to domestic sovereign and corporate issues would not fulfill the ASEAN+3 countries' own requirements for foreign investment.

Dato' Lee then provided empirical evidence that international credit ratings did not reflect ASEAN+3 sovereign's much stronger fundamentals, using balance sheet, income statement and market prices comparisons. This had a strong and lasting impact on regional bank's capital adequacy ratios and lending decisions. He felt that the reliance on international ratings was significant impediment to ASEAN+3 cross-border investment and called for the easing of requirements for mandatory international credit ratings in the underlying legislation. He felt that a short-term solution was to mutually recognise ASEAN+3 local rating agencies' ratings, based on

objective and empirically based minimum standards. According to Dato' Lee, these agencies had, in fact, performed well in their ratings, based on the presented extensive historical data.

In additional recommendations to address the above issues, Dato' Lee suggested that any approved domestic bond issuance should be made available to ASEAN+3 investors of the same category, and the establishment of a New International Credit Rating Agency (NICRA) owned by ASEAN+3 and adhering to objective and recognised methodologies. All these approaches would return the focus on intra-regional investments within ASEAN+3.

Ms Huo Yingli, Deputy Director-General of Financial Market Department, People's Bank of China (PBOC), Beijing, People's Republic of China

Ms. Huo stated that the Chinese bond market was growing fast and highlighted that the regulators did understand the importance of the bond market. This was evident in the objective to create a market-oriented system for bond issuance. Key remained the need to increase transparency.

According to Ms. Huo, the bond market developed in two stages, one before 2007 and the current market based system that saw the establishment of a yield curve. By now, the corporate bond market was also developing fast. She recalled that PBOC launched short-term bills in 2004, and its approach has been more market oriented since, including through the relaxation of rules and regulations. Other regulatory agencies covering the bond market also followed suit. This resulted in more medium-term note (MTN) programmes in the market, in line with a shorter time to market. One key development was the establishment of NAFMII in 2008, as an association of professional investors, which gave the market further discipline, by providing guideline on information disclosure prior to issuance, requiring the investor to understand, quantify and measure risk and encouraging law firms and accounting firms to play a constructive role in the issuance process.

Ms Huo elaborated on what she sees as the next steps for the bond market, with the actions required based on the lesson learned in recent years. Owing to the significant increase in issuance value and trading volume, this included the formation of a study group under the guidance of the Ministry of Finance to better understand and further drive the development of the bond market. This has led to the determination that any product affecting the benchmark yield curve would have to be traded via a two-way quote by market participants. One other key measure was the enhancement of market management and administration, including the regulation of derivatives. Here, she referenced the G20 Pittsburgh declaration on a need for transparency in reporting of financial transactions; this has led to the requirement in the local market to report all bond transactions to CFETS and CCDC. In addition, the Shanghai Clearing House (SCH) will be able to provide a clearing infrastructure for derivatives by the G20 deadline. The market as a whole may also be opened to more institutional investors, including possibly large corporates.

While credit rating agencies were an important part of market infrastructure, Ms. Huo acknowledged that China's agencies were still young and their credibility and services may still have to be tested. To achieve their target, various measures were being looked at. This included a different method of solicited ratings, as well as a potentially bigger role for banks since they play a large role in the bond market; banks might be called upon to apply their own institutional assessment or rating approach, instead of rely purely on international ratings.

In closing, Ms. Huo observed that following the Global Financial Crisis (GFC), all market participants have paid more and closer attention to the bond market. She felt that this significant attention could also be leveraged to help develop other social causes, such as the funding of affordable housing.

Session 2: Enhancing Liquidity and Transparency of Bond Market

Mr. Nicholas de Boursac, CEO and Managing Director, Asia Securities Industry and Financial Markets Association (ASIFMA), Hong Kong, China, “Enhancing Bond Market Liquidity, with a focus on ‘Classic’ Term Repos”

Mr. de Boursac stated that the government bond market in effect drives the corporate bond market and, thus, that liquidity in the former would lead to a more vibrant and liquid market in the latter. He went on to share his perspective of seven basic requirements for good secondary market liquidity in government bonds, including the support for large benchmark issues, a liquid classic repo market that in effect allowed the short selling of government bonds, an active bond futures market, a broader range of OTC and exchange-traded derivatives, as well as a market friendly regulatory, accounting and tax regime, with the inclusion of creditor rights. He felt that the initial three requirements should be in place first, and in the prescribed sequence, in order to fulfill some of the other requirements with greater ease.

With regards to the Chinese bond market, Mr. de Boursac recommended to retire some of the older issues, to reflect the changes in both issue conditions and tenure in today’s market. He pointed out that bond futures are not yet available in the market, and attributed this to the previous bond futures market which, back in 1995, ended in turmoil. Mr. de Boursac concluded by saying that, in principle, the above requirements were applicable to all markets in ASEAN+3, with the exception of Japan which already had all the necessary attributes in place. He summed up by saying that anything that would get in the way of bond market activity would reduce market liquidity.

Mr. Olivier Grimonpont, General Manager and Regional Head, Euroclear Bank, Hong Kong, China. “Local bond markets – growth and innovation. Solutions available to Asian markets”

He shared some key market observations with the audience before pointing out that Euroclear was the largest International Central Securities Depository, or ICSD, maintaining about 900,000 different ISIN (individual securities records), of which 40% represented Eurobonds and the other 60% bonds were issued in domestic markets.

In contrast to the developed markets in distress, Mr. Grimonpont expressed his belief that Asia was relatively safe, and that he expected an increase in volume in cross-border bond transaction here. He did point out, though, that the infrastructure was needed to support such larger volume. Based on Euroclear data, 50% of bonds from Asian issuers were in fact held by Asian investors.

Mr. Grimonpont updated participants on the Pan-Asian CSD Alliance, in which Euroclear is working with a number of Asian central banks on practical ways to help develop the domestic bond markets. Key to this initiative was the use of a central securities database fed by multiple information sources and its data employed by

participants for a number of uses across reporting, documentation, and statistics. To illustrate key uses, he gave the example of the price collection process.

Mr. Grimonpont identified the accurate and timely valuation of bonds as the most dynamic task for intermediaries, since the valuation process was the key prerequisite for value added services, such as collateral management.

Mr. Liu Fan, Chief Business Officer and Head of Information Services, China Central Depository and Clearing Co., Ltd. (CCDC)

Mr. Liu started his presentation by underlining the importance of valuation mentioned by the previous speaker – he related that CCDC's customers would call with feedback and complaints on bond valuations practically on a daily basis. He thus, felt that CCDC would have to address and adopt market driven service requirements, such as 3rd party pricing. For CCDC, the focus has been to use the information to calculate composite indices for use by its clients and market participants in general.

Corporate bond have been playing a much more prominent role in the market since 2007. Mr. Liu saw today's key challenge as how to manage the risk without resorting to more and complex regulations. With its own pricing mechanism reducing the risk of getting valuations wrong, he believes CCDC can now move to offer value-added services, such as collateral management.

Mr. Liu's recommendations for a more liquid and well functioning market included a comparison between credit rating agencies' (CRA) data and 3rd party valuations, with the proposed obligation for CRA to explain any potential differences. He also felt that financial institutions should explain their valuation approach in their annual report(s) if valuations of bond holdings differed from a 3rd party or neutral provider. Mr. Liu believed that it was important to have the right infrastructure and commitments from market participants to provide adequate data for the valuation/pricing process. He closed his remarks with a call to the market at large that, in the interest of greater transparency, investment in financial instruments not valued at fair value should be made to disclose the rationale for such deviations.