## 7th ASEAN+3 Bond Market Forum (ABMF) Meeting
**Hong Kong Monetary Authority, Hong Kong, China**
**8 - 9 February 2012**

<table>
<thead>
<tr>
<th>TIME</th>
<th>PROGRAM</th>
</tr>
</thead>
<tbody>
<tr>
<td>8 Feb 2012</td>
<td><strong>DAY 1: ABMF Sub Forum 1(SF1)</strong></td>
</tr>
<tr>
<td>08:30 – 09:00</td>
<td>Registration</td>
</tr>
</tbody>
</table>

### ABMF SF 1

<table>
<thead>
<tr>
<th>Time</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>09:00 – 09:10</td>
<td><strong>Welcome Remarks</strong> by HKMA (Mr. Esmond Lee, Executive Director of Financial Infrastructure Department, HKMA)</td>
</tr>
<tr>
<td>09:10 – 09:20</td>
<td><strong>Opening Remarks</strong> by SF1 Chair (Mr. Tetsutaro Muraki, Tokyo-AIM)</td>
</tr>
<tr>
<td>09:20 – 10:00</td>
<td><strong>Session 1: Updates on Finalization of Phase 1 Reports</strong></td>
</tr>
<tr>
<td></td>
<td>- Progress reporting (Mr. Seung Jae Lee, ADB Secretariat)</td>
</tr>
<tr>
<td></td>
<td>- Confirmation/comments by members</td>
</tr>
<tr>
<td>10:00 – 11:10</td>
<td><strong>Session 2: Developing common bond issuance program (Part 1)</strong></td>
</tr>
<tr>
<td></td>
<td>- Issues and approaches (Prof. Shigehito Inukai, ADB consultant)</td>
</tr>
<tr>
<td></td>
<td>- Additional issues (Mr. Hiro Suzuki, Barclays Capital)</td>
</tr>
<tr>
<td></td>
<td>- Additional issues (Mr. Matthias Schmidt, ADB consultant)</td>
</tr>
<tr>
<td>11:10 – 11:25</td>
<td><strong>Coffee break (Room 5610 A-B)</strong></td>
</tr>
<tr>
<td>11:25 – 12:15</td>
<td><strong>Session 2: Developing common bond issuance program (Part 2)</strong></td>
</tr>
<tr>
<td></td>
<td>- Q and A</td>
</tr>
<tr>
<td>12:15 – 13:30</td>
<td><strong>Buffet Lunch (Room 5603 A-D)</strong></td>
</tr>
<tr>
<td>13:30 – 14:30</td>
<td><strong>Session 3: Establishing regional forum of SROs</strong></td>
</tr>
<tr>
<td></td>
<td>- Issues and options (Mr. Sung Uk Yang, KOFIA)</td>
</tr>
<tr>
<td></td>
<td>- Q and A</td>
</tr>
<tr>
<td>14:30 – 15:30</td>
<td><strong>Information session 1: Local currency bond issuance in the region</strong></td>
</tr>
<tr>
<td></td>
<td>- Emerging trends in cross border issuance (Mr. Thomas Meow, CIMB)</td>
</tr>
<tr>
<td></td>
<td>- Q and A</td>
</tr>
<tr>
<td>15:30 – 15:50</td>
<td><strong>Coffee break (Room 5610 A-B)</strong></td>
</tr>
<tr>
<td>15:50 – 16:30</td>
<td><strong>Information session 2: Developing Islamic finance in the region</strong></td>
</tr>
<tr>
<td></td>
<td>- Inauguration of Japanese Sukuk market (Mr. Shiina Ryuichi, JSDA)</td>
</tr>
<tr>
<td></td>
<td>- Q and A</td>
</tr>
<tr>
<td>16:30 – 17:30</td>
<td><strong>Session 4: Other issues of SF1</strong></td>
</tr>
<tr>
<td></td>
<td>- Updates and management of phase 1 reports (Mr. Seung Jae Lee)</td>
</tr>
<tr>
<td></td>
<td>- Dissemination of the phase 1 reports (Mr. Matthias Schmidt)</td>
</tr>
<tr>
<td></td>
<td>- Finalized membership of phase 2 (Mr. Seung Jae Lee)</td>
</tr>
<tr>
<td></td>
<td>- Q and A</td>
</tr>
<tr>
<td>17:30 – 17:40</td>
<td><strong>Wrap up</strong> by ADB Secretariat (Mr. Seung Jae Lee, ADB Secretariat)</td>
</tr>
<tr>
<td>17:40 – 17:50</td>
<td><strong>Closing Remarks</strong> by SF1 Chair (Mr. Tetsutaro Muraki, Tokyo-AIM)</td>
</tr>
<tr>
<td>18:45 – 21:00</td>
<td><strong>Dinner hosted by HKMA (Chinese restaurant)</strong></td>
</tr>
<tr>
<td>TIME</td>
<td>PROGRAM</td>
</tr>
<tr>
<td>------------</td>
<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td>9 Feb 2012</td>
<td><strong>DAY 2: ABMF Sub Forum2 (SF2)</strong></td>
</tr>
<tr>
<td>08:30 – 09:00</td>
<td>Registration</td>
</tr>
<tr>
<td>ABMF SF2</td>
<td><strong>Opening Remarks</strong> by SF2 Chair (Mr. Jong Hyung Lee, KSD)</td>
</tr>
<tr>
<td>09:00 – 09:10</td>
<td><strong>Session 5: Updates on Finalization of Phase 1 Study Reports</strong></td>
</tr>
<tr>
<td></td>
<td>- Progress reporting (Mr. Seung Jae Lee, ADB Secretariat)</td>
</tr>
<tr>
<td></td>
<td>- Confirmation/comments by members</td>
</tr>
<tr>
<td>09:10 – 09:40</td>
<td><strong>Session 6: Focus of Phase 2 activities (Part 1)</strong></td>
</tr>
<tr>
<td></td>
<td>- Issues and approaches (Dr. Taiji Inui, ADB consultant)</td>
</tr>
<tr>
<td></td>
<td>- Transaction flows of Korea (Mr. Junwoo Chang, KSD)</td>
</tr>
<tr>
<td></td>
<td>- Transaction flows of Indonesia (Ms. Margeret Tang, ICSD)</td>
</tr>
<tr>
<td></td>
<td>- Transaction flows of Japan (Mr. Yuji Sato, JASDEC)</td>
</tr>
<tr>
<td>09:40 – 11:00</td>
<td><strong>Coffee break (Room 5610 A-B)</strong></td>
</tr>
<tr>
<td>11:00 – 11:15</td>
<td><strong>Session 6: Focus of phase 2 activities (Part 2)</strong></td>
</tr>
<tr>
<td>11:15 – 12:15</td>
<td>- Q and A</td>
</tr>
<tr>
<td>12:15 – 13:30</td>
<td><strong>Buffet Lunch (Room 5603 A-D)</strong></td>
</tr>
<tr>
<td>13:30 – 14:40</td>
<td><strong>Information session 3: Regional settlement infrastructure</strong></td>
</tr>
<tr>
<td></td>
<td>- RSI Options given by GoE report (Mr. Shinji Kawai, ADB Secretariat)</td>
</tr>
<tr>
<td></td>
<td>- Linkage of NCSDs in the region (Mr. Shu-Pui Li, HKMA)</td>
</tr>
<tr>
<td></td>
<td>- Cross border collateral management (Mr. Masayuki Tagai, JP Morgan)</td>
</tr>
<tr>
<td></td>
<td>- Q and A</td>
</tr>
<tr>
<td>14:40 – 15:20</td>
<td><strong>Information session 4: Mitigating FX risks in the region</strong></td>
</tr>
<tr>
<td></td>
<td>- Increasing the number of settlement currencies (Mr. Lynn Mathews, CLS)</td>
</tr>
<tr>
<td></td>
<td>- Q and A</td>
</tr>
<tr>
<td>15:20 – 15:40</td>
<td><strong>Coffee break (Room 5610 A-B)</strong></td>
</tr>
<tr>
<td>15:40 – 16:30</td>
<td><strong>Information session 5: Pricing of bonds and sharing information</strong></td>
</tr>
<tr>
<td></td>
<td>- Valuation: the role and importance in emerging bond market (Mr. Mohd</td>
</tr>
<tr>
<td></td>
<td>Shaharul Zain, BPAM)</td>
</tr>
<tr>
<td></td>
<td>- Q and A</td>
</tr>
<tr>
<td>16:30 – 16:50</td>
<td><strong>Session 7: Other issues of SF2</strong></td>
</tr>
<tr>
<td></td>
<td>- Updates of phase 1 reports (Mr. Seung Jae Lee, ADB Secretariat)</td>
</tr>
<tr>
<td></td>
<td>- Phase 2 membership (Mr. Seung Jae Lee, ADB Secretariat)</td>
</tr>
<tr>
<td></td>
<td>- Q and A</td>
</tr>
<tr>
<td></td>
<td><strong>Wrap up session</strong></td>
</tr>
<tr>
<td>16:50 – 17:30</td>
<td><strong>Future work plan and Wrap up</strong> (Mr. Seung Jae Lee, ADB Secretariat)</td>
</tr>
<tr>
<td></td>
<td>- Q and A</td>
</tr>
<tr>
<td>17:30 – 17:40</td>
<td><strong>Closing remarks</strong> by SF2 Chair (Mr. Jong Hyung Lee)</td>
</tr>
<tr>
<td>18:10 – 20:00</td>
<td><strong>Cocktail hosted by HSBC (HSBC Main Building – Turner Room)</strong></td>
</tr>
</tbody>
</table>
FINALIZATION OF PHASE 1 REPORTS

ADB Secretariat team

7th ABMF Meeting
Hong Kong, China, 8-9 Feb 2012

* Progress and plan presented in the presentation could be changed later
Progress up to end of Jan 2012

- Original Plan: Publishing by the end of Dec 2011

- However delays have been there
  - Additional comments from members.
  - Additional revisions from drafting team to ensure high quality of the reports
  - Longer than expected times for editing and type setting

* Hope to have your kind understanding on valuing more the quality rather than timing
## Progress up to end of Jan 2012

<table>
<thead>
<tr>
<th>Reports</th>
<th>Finalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>O</td>
</tr>
<tr>
<td><strong>SF1</strong></td>
<td></td>
</tr>
<tr>
<td>1. Executive Summary</td>
<td>Δ</td>
</tr>
<tr>
<td>2. Comparative analysis</td>
<td>Δ</td>
</tr>
<tr>
<td>3. Market guides of each economy</td>
<td>O (PRC &amp; LAO) Δ (Others)</td>
</tr>
<tr>
<td><strong>SF2</strong></td>
<td></td>
</tr>
<tr>
<td>Executive Summary</td>
<td>O</td>
</tr>
<tr>
<td>(Part 1) Bond markets and their infra. in ASEAN+3</td>
<td>Δ</td>
</tr>
<tr>
<td>(Part 2) Bond markets and infra. in each economy</td>
<td>Δ</td>
</tr>
<tr>
<td>(Part 3) Bond market infrastructure diagrams</td>
<td>Δ</td>
</tr>
</tbody>
</table>
# Plan for finalization – SF1

<table>
<thead>
<tr>
<th>Parts</th>
<th>7 Feb</th>
<th>17 Feb</th>
<th>24 Feb</th>
<th>29 Feb</th>
<th>16 Mar</th>
<th>23 Mar</th>
<th>31 Mar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exec. Summary</td>
<td>CIR</td>
<td>MEM</td>
<td>TEAM</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comp. analysis</td>
<td>-</td>
<td>CIR</td>
<td>MEM</td>
<td>TEAM</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market guides</td>
<td></td>
<td></td>
<td></td>
<td>TEAM</td>
<td>ADB Internal Process</td>
<td>Final Review By Team</td>
<td>PUB</td>
</tr>
<tr>
<td>PRC</td>
<td>CIR</td>
<td>MEM</td>
<td>TEAM</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JPN</td>
<td>CIR</td>
<td>MEM</td>
<td>TEAM</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>KOR</td>
<td>CIR</td>
<td>MEM</td>
<td>TEAM</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LAO</td>
<td>CIR</td>
<td>MEM</td>
<td>TEAM</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PHP</td>
<td>CIR</td>
<td>MEM</td>
<td>TEAM</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MAL</td>
<td>-</td>
<td>CIR</td>
<td>MEM</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>THA</td>
<td>-</td>
<td>CIR</td>
<td>MEM</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VIE</td>
<td>-</td>
<td>CIR</td>
<td>MEM</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>INO</td>
<td>-</td>
<td>CIR</td>
<td>MEM</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HKG</td>
<td>-</td>
<td>CIR</td>
<td>MEM</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SIN</td>
<td>-</td>
<td>CIR</td>
<td>MEM</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**NOTE:** CIR – circulation of final version to members, MEM – respective member’s final confirmation, TEAM – ADB secretariat team’s revision, if any.
# Plan for finalization – SF2

<table>
<thead>
<tr>
<th>Parts</th>
<th>7 Feb</th>
<th>17 Feb</th>
<th>24 Feb</th>
<th>29 Feb</th>
<th>16 Mar</th>
<th>23 Mar</th>
<th>31 Mar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exec. Summary</td>
<td>CIR</td>
<td>MEM</td>
<td>TEAM</td>
<td>TEAM</td>
<td>ADB Internal Process</td>
<td>Final Review By Team</td>
<td>PUB</td>
</tr>
<tr>
<td>Part1 (ASEAN+3)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Part2 (each economy)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Part1 (Diagrams)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**NOTE:** CIR – circulation of final version to members, MEM – respective member’s final confirmation, TEAM – ADB secretariat team’s revision, if any.
Thank you
Comments are welcome

ADB Secretariat Team
“Phase II Work Plan” for ABMF SF1

Prof. Shigehito Inukai
ADB Consultant for ABMF SF1
Faculty of Law, Waseda University
Contents

1. Key objectives
2. Key outcomes
3. Indispensable Conditions for realizing Inter-Regional Professional Bond Market
4. How to realize an Integrated Intra-Regional Professional Bond Market?
5. Importance of SROs in Domestic Markets
6. Activities for ABMF SF1 Phase II
7. Possible Areas of Discussion
1. Key objectives
ABMF SF1 Phase II key objective is to facilitate cross-border or intra-regional initiatives of issuance and investment of bonds.
The preferred approach

might focus on professional markets or exempted markets regime (include law stipulated private placement) - which waives full-disclosure requirement for ordinary public offerings across jurisdictions.
Focus on professional markets or exempted regime

might lead to create an intra-regional professional marketplace populated only by qualified investors and issuers.
2. Key outcomes
ABMF SF1 Phase II key outcomes

would be an organized and well-documented Intra-regional Professional Market, i.e.,
Asian Multi-Currency Bond Issuance Program (AMBIP) with regional standardization of documentation.
Regional standardization of documentations

Asian Multi-Currency Bond Issuance Program (AMBIP)

Gradual approach

Standardized bond issuance program

ABMF SF1 Members
Market Professionals

Recommendation
Regionally standardized bond issuance program should lead to a Asian Multi-Currency Bond Issuance Program (AMBIP) that will be committed to open up the markets to qualified issuers and investors in the region.

- The MTN program itself is not introduced in many Asian countries. If aim for application to all member jurisdictions, it might take tremendous efforts to set up complete regional MTN program within 13 different jurisdiction. For especially Asian Multi-Currency Bond Issuance Program, some of Asian currencies are not internationalized so non-resident issuers should be subject to burdensome procedure under the strict FX rules and regulations. So our approach should be gradual one with taking up wherever possible.
3. Indispensable Conditions for realizing Intra-Regional Professional Bond Market
Understanding and recognition among regulators/policy makers

For this proposal to be accepted, it is important to achieve a common understanding and mutual recognition among regulatory authorities and/or policy makers in the region.
Recognizing the Common Denominator mutually will be important for the discussion. That is to recognize the Common Denominator of the Concept of Professionals, Exempted Market Conditions, and so on.
With taking a gradual approach we will start with what we can do within the scope of current legislation and regulation in each jurisdiction, do not intend to change the laws and regulations from the beginning.
Expected result of mutual recognition approach or convergence approach

Member markets/jurisdictions can define themselves a common, general and multi-facetted set of goals or objectives - non-binding but recommended for all markets.

Jurisdictions would be able to make their own way, i.e., a roadmap or defined path for each market would be required.

This would allow discussing individual subjects by themselves, together or in parallel and summarizing results in a future report easily.
4. How to realize Integrated Intra-Regional Professional Bond Market?
First emphasis

should clearly be on efforts to allow cross-border transactions within the domestic bond markets, with a target to arrive at a mutually recognized and accepted framework for these transactions.
**Exempted market vs. Full disclosure market**

<table>
<thead>
<tr>
<th>Exempted market</th>
<th>Domestic market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offshore Eurobond market</td>
<td>Safe harbor</td>
</tr>
<tr>
<td>Other Jurisdictions’ markets</td>
<td>Fully regulated area</td>
</tr>
<tr>
<td>Private placement market</td>
<td>Public offering market with general investors including retail sector</td>
</tr>
<tr>
<td>Exempted market</td>
<td>with full disclosure requirement</td>
</tr>
<tr>
<td>Professional market</td>
<td>QIB market</td>
</tr>
</tbody>
</table>
## US Securities ACT summary

<table>
<thead>
<tr>
<th>Offshore market</th>
<th>Domestic market</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Regulation S, Off-shore Offering</strong></td>
<td><strong>Rule 144A, Private Placement</strong></td>
</tr>
<tr>
<td>[offer for sale to U.S. residents is prohibited within primary selling-restriction period (40 days) in US, in principle]</td>
<td>[&quot;QIBs&quot; (equivalent to a specified institutional investors in Japanese term) only, can be in resale between QIBs only]</td>
</tr>
<tr>
<td><strong>Regulation D, Private Placement</strong></td>
<td><strong>Public Offering</strong></td>
</tr>
<tr>
<td>[accredited investors (AIs) (equivalent to qualified institutional investors in Japanese term) only and prohibition of resale, in principle]</td>
<td>[SEC registered offering]</td>
</tr>
</tbody>
</table>
Status quo of Asean+3 Bond markets

Each Jurisdiction’s Bond Market

- General Investors Market Including Retail Sector
- Professional Market or QIB Market
Connecting the professional market elements in the region to each other…

…can create a common safe harbor.
We can, thus, create an Integrated intra-regional professional bond market!
How to connect each market?

Under the proposed mutual recognition approach, cross-border flows of "Professional Securities" in both primary and secondary markets have to be granted as “mutual recognition between jurisdictions with the following exemptions (1-4).”
Mutual (A and B) recognition between jurisdictions (1)

1. Selling restriction on QIB in jurisdiction A to invest in resident A issuers’ securities issued in ‘mutually recognized professional securities market’ in jurisdiction B to be exempt.
Mutual (A and B) recognition between jurisdictions (2)

2. Selling restriction on QIB in jurisdiction A to invest in resident B issuers’ securities issued in ‘mutually recognized professional securities market’ in jurisdiction B to be exempt.
Mutual (A and B) recognition between jurisdictions (3)

3. Selling restriction on QIB in jurisdiction A to invest in resident C issuers’ securities issued in ‘mutually recognized professional securities market’ in jurisdiction B to be exempt.
Summary of the mutual recognition between jurisdiction A and jurisdiction B

1. Restriction on QIB in jurisdiction A to invest in resident A issuers’ bonds issued in professional market in jurisdiction B to be exempt and vice-versa.

2. Restriction on QIB in jurisdiction A to invest in resident B issuers’ bond issued in professional market in jurisdiction B to be exempt and vice-versa.

3. Restriction on QIB in jurisdiction A to invest in bonds of resident C issuers’ bond issued in professional market in jurisdiction B to be exempt and vice-versa.

4. Resale (secondary market transactions) of the bonds between professional markets in jurisdiction A and B shall not be restricted.
Our approach for the market integration is: the multiple of,

1. ‘domestic bi-lateral cross-border’ approach + ‘professional (QIB) & private placement (exempt market)’ approach,

with the ultimate aim of

Envisaged Area of discussion to be started in 2012 (1)

- recognize common denominator of the concept of professional investor / sophisticated investor / accredited investor / QIB etc.,
- mutually recognize exempted market conditions including private placement
- standardize disclosure level of information / disclosure rules
- Investor protection
- participants / participants code of conduct
- type of securities suitable (for future market)

-mainly related to laws and regulations and SRO rules in each jurisdiction
Envisaged Area of discussion to be started in 2012 (2)

- standardize the related documentation in offering circulars, etc.
- standardize new issue underwriting procedures
- standardize the rules and practice for secondary market making
- synchronize the concept of eligible issuers

-mainly related to market practices and function of each domestic SRO
## Existence of professional investor concept

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Existence of the clear definition of Professional Investor Concept</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>● No concept or definition of ‘professional’ (investor) evident in Chinese law. PBOC is mulling over QIB concept.</td>
</tr>
<tr>
<td>Hong Kong, PRC</td>
<td>○ Professional investor is defined in section 1 of Part 1 of Schedule 1 to the SFO, etc. Hong Kong dollar market is primarily a private placement market. Therefore, no clear definition of Public Offering existed in the regulations.</td>
</tr>
<tr>
<td>Indonesia</td>
<td>● Indonesia does not have specific definitions on this type of professional investors. Bapepam-LK is working on definition of Professional Investor. Private placement (to less than 100) is not regulated in Indonesia.</td>
</tr>
<tr>
<td>Japan</td>
<td>○ FIEA stipulates Specified (Professional) Investor and Qualified Institutional Investor (QII)</td>
</tr>
<tr>
<td>Korea</td>
<td>○ FSCMA classifies a Professional Investor. But Korea so far does not have exempt regime for Professional Investor. Korea will launch QIB market which is exempt regime for Professional Investor from May 2012</td>
</tr>
<tr>
<td>Malaysia</td>
<td>○ Sophisticated Investor is not explicitly defined in the CMSA. However, CMSA exempt offers to sophisticated or professional investors from prospectus requirements.</td>
</tr>
<tr>
<td>Philippines</td>
<td>○ SRC, SRC Rule, OTC Rules and Qualified Buyer Rules clearly define Qualified Buyer, Qualified Individual Buyer and Qualified Institutional Buyer. SRC specify sale to QB as exempt transaction from registration.</td>
</tr>
<tr>
<td>Singapore</td>
<td>○ Under SFA, Accredited investor and Institutional investor are defined. Exemptions to prospectus requirements include exemptions for offers that are made only to institutional investors and accredited investors, etc.</td>
</tr>
<tr>
<td>Thailand</td>
<td>○ Notification of SEC defines Institutional Investors and High Net worth Investors. Private Placement of corporate bond offers to institutional investors will be exempted from obligation to file disclosure documents to SEC.</td>
</tr>
<tr>
<td>Vietnam</td>
<td>○ Securities Law defines Professional Securities Investor. Amended Securities Law defines Non-public offering of securities (Private placement: to less than 100, not including professional security investors and not use mass media or Internet).</td>
</tr>
</tbody>
</table>
## Existence of exempt regime
(exempt securities / exempt transactions (Private Placement))

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Existence of Exempt Regime</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>‘Self-regulatory Rules for Inter-bank Bond Market Non-financial Enterprise Debt Instrument on Private Placement’ provides for the whole process involved in private placement instruments including issuance, registration, trading, and information disclosure, among others. Exempt Regime is not applied in PRC.</td>
</tr>
<tr>
<td>Hong Kong, PRC</td>
<td>Yes.</td>
</tr>
<tr>
<td>Indonesia</td>
<td>No. Private placement (to less than 100) is not regulated in Indonesia.</td>
</tr>
<tr>
<td>Japan</td>
<td>Yes.</td>
</tr>
<tr>
<td>Korea</td>
<td>The QIB system (and Professional only market) will be launched May 2012 under the revised Financial Services Commission Regulation on Issuance, Public Disclosure, etc. of Securities.</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Yes.</td>
</tr>
<tr>
<td>Philippines</td>
<td>Yes.</td>
</tr>
<tr>
<td>Singapore</td>
<td>Yes.</td>
</tr>
<tr>
<td>Thailand</td>
<td>Yes.</td>
</tr>
<tr>
<td>Vietnam</td>
<td>No. Private placement (to less than 100) or Sale to professional investors is stipulated in the Securities Law. But PP is not regulated as an exempted scheme.</td>
</tr>
</tbody>
</table>
## Existence of professional investors only market

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Existence / Status Quo of the Professional Investors Only Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>Do not exist. But, Inter-Bank Bond Market consists of Institutional participants only. PBOC is mulling over QIB concept.</td>
</tr>
<tr>
<td>Hong Kong, PRC</td>
<td>Under discussion. Having said so, the Hong Kong dollar market is primarily a private placement market for professionals.</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Do not exist.</td>
</tr>
<tr>
<td>Japan</td>
<td>Exist. TOKYO PRO-BOND market with listing on the TOKYO AIM.</td>
</tr>
<tr>
<td>Korea</td>
<td>The QIB market and trading system will be launched within 2012.</td>
</tr>
<tr>
<td>Malaysia</td>
<td>SC and BNM introduced ‘Exempt regime.’</td>
</tr>
<tr>
<td>Philippines</td>
<td>Exemptions are granted for securities and transactions.</td>
</tr>
<tr>
<td>Singapore</td>
<td>Exist. There is an exempted market from prospectus requirements for professionals.</td>
</tr>
<tr>
<td>Thailand</td>
<td>Private Placement (PP) is exempt from full filing requirement.</td>
</tr>
<tr>
<td>Vietnam</td>
<td>Do not exist.</td>
</tr>
</tbody>
</table>
5. Importance of the function of SROs in Domestic Markets
Success factor of the mutually recognized professional markets

The success of the mutually recognized professional markets in the region will rest on:

- the maturity of each national security legislation / law to be applied for investor protections,
- fair price formation in the capital market,
- code of conduct of the market participants, and
- the proper functioning of each domestic SRO.
Discussion about SRO (1)

A general discussion about SRO in ABMF/SF1 is not necessary for the time being.

Realization of the SRO for ASEAN +3 like ICMA is a future possibility.

It (the discussion related above) is not an indispensable factor for the design of new markets in SF1.
Discussion about SRO (2)

SRO related discussion is always limited to a single market under one single jurisdiction complimenting a particular regulator. (Clear to IOSCO Definition)

In another words, SRO only functions as a domestic organization in a country or jurisdiction being as either domestic governmental body or Exchange body or a domestic industrial organization body, performing extensive regulatory function.

Therefore SRO function will not go beyond “domestic on shore.”
Discussion about SRO (3)

unless a country or jurisdiction qualifies "good securities law for investor protection," "certain level of governance provided by SROs, etc.," and "good business conducts in the domestic market" etc.,

other country or jurisdiction may hesitate to do “mutual recognition” of connecting domestic professional markets each other.
### SRO key functions and features

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Name of SRO</th>
<th>Membership</th>
<th>Sets Rules</th>
<th>Enforcement</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>NAFMII</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Hong Kong, PRC</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Indonesia</td>
<td>IDX KPEI KSEI</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Japan</td>
<td>JSDA TSE TOKYO AIM</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Korea</td>
<td>KOFIA KRX</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Bursa Malaysia ACI Malaysia (quasi)</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Philippines</td>
<td>PDS Group (PDEx)</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Singapore</td>
<td>SGX</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Thailand</td>
<td>ThaiBMA Exchanges</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Vietnam</td>
<td>VBMA</td>
<td>Yes</td>
<td>Yes</td>
<td>-</td>
</tr>
</tbody>
</table>
SF-1 in Phase II

To discuss the common professional market and its issuance program, participation of Market Professionals, SROs, Government regulators / policy makers in the region will be necessary.
Group-discussion forum

SF-1 is expected in later stage to discuss self-regulations and codes of conduct with the help of another group-discussion forum for self-regulation and SRO by the voluntary initiative of the regional SROs.

This group-discussion is expected to be done voluntarily.

It is expected to communicate with ABMF SF1.
6. Activities for Phase II
Now, it is clear that phase II work will focus on research and discuss about the levels and qualities of certain matters (disclosure, issuers, professional investors, underwriter / broker-dealer) so as to connect domestic professional securities market between countries or jurisdictions.
Improvement of information asymmetry

Through the market guides and comparative analysis, it is highly expected that the information asymmetry evident in many places will be improved.

Also, market guides and comparative analysis can be revised through the second phase activities accordingly.
Proposed Activities in Phase 2

- Re-organize a SF-1 mainly composed of regional market professionals and regulators.
- Conduct a study to examine market needs for standardized bond issue and professional market.
- Conduct a discussion from narrowly focused areas, including visits to related jurisdictions. - See, Envisaged Area of discussion to be started in 2012 (1) (2) above.
- Consider a pilot issue. And hopefully, launch a pilot issue based on the bond issuance program (AMBIP).
Follow up “Phase II Work Plan” for ABMF SF1

Hiro Suzuki
International Expert Member for ABMF SF1
# US Securities ACT summary

## Offshore market

<table>
<thead>
<tr>
<th>Regulation S, Off-shore Offering</th>
</tr>
</thead>
<tbody>
<tr>
<td>[offer for sale to U.S. residents is prohibited within primary selling-restriction period (40 days) in US, in principle]</td>
</tr>
</tbody>
</table>

## Domestic market

<table>
<thead>
<tr>
<th>Rule144A, Private Placement</th>
</tr>
</thead>
<tbody>
<tr>
<td>[&quot;QIBs&quot; (equivalent to a specified institutional investors in Japanese term) only, can be in resale between QIBs only]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Regulation D, Private Placement</th>
</tr>
</thead>
<tbody>
<tr>
<td>[accredited investors (AIs) (equivalent to qualified institutional investors in Japanese term) only and prohibition of resale, in principle]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Public Offering</th>
</tr>
</thead>
<tbody>
<tr>
<td>[SEC registered offering]</td>
</tr>
</tbody>
</table>
Reg. S simply means:

- Prohibit flow back resident issuers’ off-shore bonds into domestic home market.
- Prohibit trading / investing in off-shore bonds by domestic resident investors
- Reasoning no disclosure is filed in the domestic home market
- Ultimately refusing Cross Border Transaction
- Conversely fulfilling Reg S is regarded as safe harbor for off-shore issuance
Start with ‘domestic bi-lateral cross border approach’;

This approach will have effective impact on developing and improving domestic bond market in both jurisdiction A and B, while off-shore market approach will not.
Then multiple of ‘domestic bi-lateral cross border approach’; with the ultimate aim of having the same effects as Off-shore

Exemption for pro investors from selling restriction
Consideration for a jurisdiction which has no professional securities market. Following arrangement would be desirable.

1. Jurisdiction A issuer can issue professional securities in jurisdiction B as long as the issuer meet new issue criteria of jurisdiction B’s professional bond market.

2. Jurisdiction A underwriter can underwrite and trade professional securities in jurisdiction B by reporting to SRO in jurisdiction B as non-resident professional member.

3. Jurisdiction A Eligible investors can invest in / trade professional securities issued in jurisdiction B via eligible underwriter or dealers in jurisdiction A.
Therefore, following actions would be necessary in order to establish cross-border ASEAN+3 (Intra-regional) bond market.

1. Restriction on QIB in jurisdiction A to invest in resident A issuers’ bonds issued in professional market in jurisdiction B to be exempt and vice-versa.
2. Restriction on QIB in jurisdiction A to invest in resident B issuers’ bond issued in professional market in jurisdiction B to be exempt and vice-versa.
3. Restriction on QIB in jurisdiction A to invest in bonds of resident C issuers’ bond issued in professional market in jurisdiction B to be exempt and vice-versa.
4. Resale (secondary market transactions) of the bonds between professional markets in jurisdiction A and B shall not be restricted.
## Off-Shore VS. On-Shore

<table>
<thead>
<tr>
<th></th>
<th>Off-Shore Approach (Country A’s Issuer)</th>
<th>On-Shore Bi-Lateral Approach (Between Country A and B)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issuer’s Residence:</strong></td>
<td>Country A</td>
<td>Country A</td>
</tr>
<tr>
<td><strong>Launching &amp; Pricing:</strong></td>
<td>Country B</td>
<td>Country B</td>
</tr>
<tr>
<td><strong>Governing Law:</strong></td>
<td>Country B or A</td>
<td>Country B</td>
</tr>
<tr>
<td><strong>Denominated Currency:</strong></td>
<td>Country C</td>
<td>Country B, otherwise deliverable currencies (¥, US$, Euro)</td>
</tr>
<tr>
<td><strong>Settlement &amp; Clearing:</strong></td>
<td>Country D</td>
<td>Country B</td>
</tr>
<tr>
<td><strong>Trading</strong></td>
<td>Any country that its regulator allows.</td>
<td>Country A &amp; B</td>
</tr>
</tbody>
</table>
Envisaged Area of discussion to start in 2012

Discussion subjects in ABMF Phase II.

Mainly related to laws and regulations and SRO rules in each jurisdiction:
- Recognize common denominator of the concept of professional investor / sophisticated investor / accredited investor / QIB etc.;
- Mutually recognize exempted market conditions, including private placement
- Standardize level of information disclosure / disclosure rules
- Investor protection needs and existing regulations
- Participants / participants’ code of conduct
- Types of securities suitable (for future market).
- Relaxation of currency amount for issuance

Mainly related to market practices and functions of each domestic SRO
- Standardize the related documentation in offering circulars, etc.
- Standardize new issue underwriting procedures;
- Standardize the rules and practices for secondary market making;
- Synchronize the concept of eligible issuers and underwriters
SF1 Phase II – Points of Note

Matthias Schmidt
ADB Consultant
7th ABMF Meeting, Hong Kong
8 February 2012
Lessons from Beijing

During the 6th ABMF Meeting, a number of rather important points were touched upon, including:

- The meaning, and significance, of *offshore*
- The choice of, and restrictions on, currencies
- Markets at different stages of development
Offshore

- ‘Offshore’ invites typically negative connotations, and may pre-set member expectations, influence ability to define suitable solution
- Offshore also requires a currency other than one's own, typically pointing to global currencies
  - However, that is not the intention of ABMF's work, but instead a focus on LCY market support
  - ‘Regional’ or ‘Intra-regional’ appear to be the better suited terminology
Market Access

- Most ASEAN+3 markets already permit foreign (institutional) investors to buy and sell its fixed income securities, without much restrictions
- This provides a strong basis for professional-only market segments
Currencies

- ASEAN+3 countries may limit the exposure of their currencies for economical or other reasons.
- We will not (be able to) change that as a precondition for an intra-regional bond market.
- However, Phase 1 confirmed most markets already allow access to and conversion of their domestic currencies for foreign investors, be it with reporting and/or liquidity implications.
- This principally means that an LCY clearing infrastructure already exists.
Market Development

- Members are keenly aware that markets differ in their state of development
- However, this has not affected the constructive dialogue and discussions in ABMF

- One key objective of Phase II will have to be the ability of markets to continue active participation…
- …while allowing a joining, docking, or interfacing with key outcomes as per their capabilities
Convergence

- Member markets can jointly define for themselves a common, multi-facetted set of goals or objectives - non-binding but recommended for all markets
- Then, jurisdictions would be able to make their own way, at their own pace, towards defined objectives
- A roadmap or defined path for each market would be required, or is desirable
- This would allow discussing subjects individually, together or in parallel (building block concept) and summarizing results in a future report easily
The Result

- The ABMF SF1 Phase II key outcome would be an organized and well-documented Intra-regional Professional Market across jurisdictions, evident through a bond issuance program with regional standardization of documentation.

- Such as regionally standardized bond issuance program should lead to the proposed Asian Multi-currency Bond Issuance Program (AMBIP) that will be committed to open up the markets to qualified issuers and investors in the region and beyond.
Inviting Members’ Feedback

- Please let us have your thoughts and comments during the Q & A session.

Many thanks!

Prof Shigehito Inukai
Hirohito Suzuki
Matthias Schmidt
2012 ASEAN+3 Bond Market Forum (ABMF)

ABMF Working Group & QIB System in Korea

February 2012

Korea Financial Investment Association
I. ABMF Working Group

II. Introduction of QIB System in Korea
I. ABMF Working Group

1. Key Points

- **Objective**
  - To improve effectiveness of various tasks to support ABMF SF 1

- **Characteristics**
  - A working-level discussion group (Forum B) to support standardization of bond issuance systems and establishment of Asian platform (SRO)

- **Composition**
  - ABMF member countries that can provide support from financial and legal professionals
    - Maximum 4 persons from each country, including two external experts (finance and law)

- **Discussion Topics**
  - Tasks required for standardization of cross-border bond issuance in the Asian region, including regulation and documentation
  - Asian SRO
I. ABMF Working Group

Structure and Role of SRO Working Group in ABMF SF-1

Phase 1

Phase 2

Current SF-1 Members + Supervisory Agencies Group

SF-1 W/G (Forum B)

SF-1 Members (On a voluntary basis) + External Experts

Korea Financial Investment Association
2. Operation

- **Working Group Meetings (Online/Offline)**
  - Online Meetings (e.g. conference calls) : as needed
  - Offline Meetings : *one month prior to ABMF* quarterly meetings
    - meeting will take place in the country that expresses interest in hosting

- **Budget**
  - Host country will *provide the conference venue*
  - Participants will need to cover the accommodations and flights expenses

- **Organizer & Secretariat**
  - Appoint an organizer to preside over the meeting (term to last for either six months or one year)
  - **KOFIA could act as the secretariat**, if working group members unanimously agree
II. Introduction of QIB System in Korea

1. Background

- “Plans to Introduce QIB System”
  - Public Hearing, KOFIA & KCMI
  - November, 2010
- “Plans to Improve Corporate Bond Market to Revitalize Investment Banking”
  - FSC, October, 2011

- FSC: open the market in May 2012
- KOFIA: launch the QIB trading system

- The new plans are to enable unlisted small and medium enterprises (SMEs) and foreign companies to make use of the QIB system by minimizing the disclosure requirements on bond issuance procedures.
II. Introduction of QIB System in Korea

Corporate Bond Issuance Volume (by Company Size)

(Unit: KRW trillion)

- The proportion of SMEs in the Korean corporate bond market stands at around 1.5%, far lower than that of conglomerates.
- The proportion of bonds rated A or higher stands at over 90%.
- The top priority objective for now is to stimulate bond issuance to domestic SMEs.
II. Introduction of QIB System in Korea

2. Key Requirements

- The Scope of the QIB System
  - QIB status to be granted to the limited number of Professional Investors defined under FSCMA
  - Government, BOK, and private financial institutions, such as bank/investment firms, state-owned financial institutions, and collective investment firms, are included
  - Smaller financial institutions, such as the National Credit Union Federation, mutual savings banks, and private investors are excluded

- Issuers
  - (Domestic) Unlisted SMEs
  - (Overseas) Foreign companies and foreign government organizations
II. Introduction of QIB System in Korea

- **The Scope of QIB Securities**
  - The scope of QIB securities is limited to bonds and equity-related bonds (CB, BW) only

- **Trading Platform**
  - **QIB trading system** in line with the FreeBond system
  - Restrict securities trading to only within the QIB trading system (to prevent reselling to general investors)

- **Legal Foundations**
  - 「Regulations on Securities Issuances and Disclosure」 from the FSC (§Article 2-2)
  - 「Regulations on QIB Trading System Operation」 from KOFIA
  
  ※ Both regulations take effect on May 2nd, 2012
II. Introduction of QIB System in Korea

3. KOFIA’s Plan to Build the QIB Trading System

- Develop Regulations on QIB System Operation

  - The regulations will cover user registration/cancellation, bond registration, trading system operation, obligation of notification, requests for report submissions/investigations, and **special clauses for foreign member issues**

- Development of the QIB Trading System

  March - April 2012: trading system testing and pilot operation

  **May 2nd 2012: QIB trading system opens**

  From May 2012: ongoing improvements and upgrades
Thank You!
Cross-Border Issuance of ASEAN+3 Local Currency Bonds - Achieving Common Issuance Standards within ASEAN+3

Thomas Meow
Executive Vice President and Head of Credit Markets
Corporate Banking, Treasury & Markets
CIMB Investment Bank
(Chairman of Debt Capital Committee, Malaysian Investment Banking Association)

7th ABMF Sub-Forum 1 Meeting in Hong Kong, China
8 February 2012
Outline

1. European Sovereign Debt Crisis Expediting Cross-Border Issuance and Investment in ASEAN+3 Local Currency Bonds
2. Funding Opportunities for Regional Entities through Cross-Border Local Currency Bond Issuances
3. Common Issuance Standards for Cross-Border Local Currency Transactions within ASEAN+3 (Case Studies)
4. ASEAN+3 Credit Guarantee and Investment Facility (CGIF)
European Banks are Likely to Continue Deleveraging Compounded by High Funding Costs

<table>
<thead>
<tr>
<th>Country</th>
<th>Banks</th>
<th>Leverage Ratio (Total Assets/Total Equity) - Multiple over Equity (x)</th>
<th>Market prices for CDS @ 10 Jan 2012 (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>Deutsche</td>
<td>69</td>
<td>215</td>
</tr>
<tr>
<td></td>
<td>Commerzbank</td>
<td>31</td>
<td>309</td>
</tr>
<tr>
<td></td>
<td>SocGen</td>
<td>28</td>
<td>380</td>
</tr>
<tr>
<td>France</td>
<td>BNP Paribas</td>
<td>35</td>
<td>287</td>
</tr>
<tr>
<td></td>
<td>Credit Agricole</td>
<td>35</td>
<td>308</td>
</tr>
<tr>
<td>Germany</td>
<td>Deutsche</td>
<td>43</td>
<td>215</td>
</tr>
<tr>
<td></td>
<td>Commerzbank</td>
<td>30</td>
<td>309</td>
</tr>
<tr>
<td></td>
<td>SocGen</td>
<td>24</td>
<td>380</td>
</tr>
<tr>
<td></td>
<td>BNP Paribas</td>
<td>22 ^</td>
<td>287</td>
</tr>
<tr>
<td></td>
<td>Credit Agricole</td>
<td>33</td>
<td>308</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>Banks</th>
<th>Leverage Ratio (Total Assets/Total Equity) - Multiple over Equity (x)</th>
<th>2008</th>
<th>Q3 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>CIMB</td>
<td>11</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Maybank</td>
<td>13</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>DBS</td>
<td>11</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>UOB</td>
<td>12</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>Mandiri</td>
<td>12</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>BCA</td>
<td>11</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>Bangkok Bank</td>
<td>10</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Krung Thai</td>
<td>13</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>ICBC</td>
<td>16</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td></td>
<td>China Construction</td>
<td>16</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Korea</td>
<td>Kookmin</td>
<td>15</td>
<td>13 *</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Woori</td>
<td>19</td>
<td>13</td>
<td></td>
</tr>
</tbody>
</table>

^ Q2, 2011  * Q1, 2011

Source: Bloomberg
European Banks are Likely to Continue Deleveraging Compounded by High Funding Costs …

<table>
<thead>
<tr>
<th>Exposure to US and European Banks</th>
<th>(% of domestic credit as of June 2011)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>100</td>
</tr>
<tr>
<td>France</td>
<td>80</td>
</tr>
<tr>
<td>Germany</td>
<td>60</td>
</tr>
<tr>
<td>UK</td>
<td>40</td>
</tr>
<tr>
<td>PIIGS</td>
<td>20</td>
</tr>
<tr>
<td>Rest of Europe</td>
<td>0</td>
</tr>
</tbody>
</table>

- High probability that the USD loans from European banks to Asian borrowers (ex-Japan) will not be fully rolled over, or will be sold off in 2012.
- Credit spreads in USD loans and bonds have also widened significantly:
  - High yield issuances of USD bonds shrunk significantly in 2H last year.
- This development will encourage Asian borrowers to migrate to local currency loans and bond markets, including cross-border issuances to finance their investment activities.

**Source:** Asianbondsonline, ADB

**Note:** Actual exposure at risk (based on “international claims”) should be much lower than the amount widely reported (based on “foreign claims”). E.g. in Malaysia, loans from European banks are mostly denominated in local currency and granted by their locally-incorporated subsidiaries (i.e. as foreign claims), rather than on USD (i.e. international claim).
Timely for established Issuers within ASEAN+3 to Tap Local Currency Bond Markets for More Reliable Source of Funding

➢ Offshore Chinese RMB or CNH market in Hong Kong has recently provided a good window of opportunities-
   • Issuers have flexibility to swap back proceeds to local currency
   • Could invest into China using Chinese RMB bond proceeds (natural hedge on currency exposure)

➢ Issuers’ considerations in tapping new source of financing-
   • What is the funding cost?
   • Is the market deep and liquid for regular issuances?
   • Is the legal & regulatory framework transparent & market-friendly?
   • Any mandatory rating requirement?

➢ Opportunities for other ASEAN+3 countries to deepen their financial markets

![CNH Issuance per Year, 2007-2011](chart.png)
Timely for established Issuers within ASEAN+3 to Tap Local Currency Bond Markets for More Reliable Source of Funding …

- **Japan** has a well-established financial market, through its samurai bond market and newly introduced inter-professional bonds

- Other relevant markets include Malaysia, Singapore and Thailand:
  - **Malaysia**: A total of MYR1.2 billion* was issued by ASEAN+3 entities in 2011, out of the MYR40 billion MTN programmes which have been launched since 2004
  - **Singapore**: A total of SGD6.2 billion* was issued by ASEAN+3 entities in 2011
  - **Thailand**: A total of THB20.8 billion* was issued by ASEAN+3 entities in 2011

* USD equivalent
Source: Bloomberg
Some of the Recent Cross-Border Issuances of Local Currency Bonds in ASEAN+3

Malaysia started the liberalisation of Ringgit bond market through issuances of local currency bonds by International Bank for Reconstruction & Development (IBRD), International Finance Corporation, Asian Development Bank as well as issuers from Korea and the Middle East. Recent transactions involving ASEAN issuers include:

- MYR750 million sukuk by TTM Sukuk Bhd, an SPV set up by Trans Thai-Malaysia (Thailand) Ltd
- CNY500 million Trust Certificates by Khazanah Nasional Berhad
- CNY1,380 million Unsecured Bonds by Genting Hong Kong Limited
- SGD1,500 Million Trust Certificates by Danga Capital Bhd
Case Studies on Recent Cross-Border Local Currency Bond Issuances in ASEAN+3
The Case Studies will Focus On -

| 1. Approval process | Assessing regulatory issues faced by ASEAN+3 issuers to seek cost-efficient funding within regional bond markets |
| 2. Distribution process | |
| 3. Documentation standards | |
| 4. Disclosure standards | |

We assume that credit rating issues, which are very critical for cross border issuance and investment within ASEAN+3, will also be addressed under the Asian Bond Markets Initiative (ABMI) in order for a significant progress to be made in ASEAN+3 local currency bond markets.
### Case Study #1
**Danga Capital Bhd : SGD1,500 Million Trust Certificates**

<table>
<thead>
<tr>
<th>Offering Summary</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issuer</strong></td>
<td>Danga Capital Berhad</td>
</tr>
<tr>
<td><strong>Obligor</strong></td>
<td>Khazanah Nasional Berhad</td>
</tr>
<tr>
<td><strong>Facility</strong></td>
<td>Multi-currency Islamic Securities Programme</td>
</tr>
<tr>
<td><strong>Islamic Principle</strong></td>
<td>Wakalah</td>
</tr>
<tr>
<td><strong>Underlying Assets</strong></td>
<td>Shariah-compliant shares and commodity murabahah investments</td>
</tr>
<tr>
<td><strong>Issue Size and Tenure</strong></td>
<td>SGD1,500 million, a combination of: (i) SGD600 million 5-year Trust Certificates, and (ii) SGD900 million 10-year Trust Certificates</td>
</tr>
<tr>
<td><strong>Issue Date</strong></td>
<td>11 August 2010</td>
</tr>
<tr>
<td><strong>Profit Frequency</strong></td>
<td>Semi-annual</td>
</tr>
<tr>
<td><strong>Distribution Method</strong></td>
<td>Accelerated Bookbuilding</td>
</tr>
<tr>
<td><strong>YTM</strong></td>
<td>(i) 2.615% p.a. for 5 years; (ii) 3.725% p.a. for 10 years</td>
</tr>
<tr>
<td><strong>Listings</strong></td>
<td>Singapore, Bursa Malaysia Securities Berhad (Exempt Regime), Labuan</td>
</tr>
<tr>
<td><strong>Format</strong></td>
<td>Reg S</td>
</tr>
<tr>
<td><strong>Governing Law</strong></td>
<td>English Law</td>
</tr>
</tbody>
</table>

**Investor Distribution by Investor Type**

- Private Banks 8%
- Sovereign Funds 6%
- Asset Management companies 19%
- Insurance 15%
- Corporates 1%
- FI 49%

**Investor Distribution by Region**

- Singapore 65%
- Malaysia 15%
- Hong Kong 14%
- Europe 2%
- Brunei 4%
Impediments on Cross-Border Bond Issuances within ASEAN+3 - Case Study #1

SGD1,500 million Trust Certificates by Danga Capital Bhd

<table>
<thead>
<tr>
<th>Relevant information</th>
<th>1. Approval &amp; Issuance process</th>
<th>2. Distribution process</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The SGD Trust Certificates are issued pursuant to a Multi-Currency Programme which allows the Company to issue in various currencies, including in Malaysia</td>
<td><strong>Approved &amp; Issuance process</strong></td>
<td>• The Offering Circular is not registered as prospectus with MAS, and therefore could only be offered to institutional investors in Singapore</td>
</tr>
<tr>
<td>• This Base Programme has been approved by the SC Malaysia and Bank Negara Malaysia (for foreign exchange requirements)</td>
<td></td>
<td>• The Trust Certificates were allocated to a diversified investor base from Singapore 65%, Malaysia 15%, Hong Kong 14%, Brunei 4%, and Europe 2%</td>
</tr>
<tr>
<td>• These SGD sukuk do not require approval from the Monetary Authority of Singapore (MAS), but received confirmation from MAS that the Sukuk qualifies for income tax exemptions in Singapore</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Notable observations</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• It is an expeditious issuance process which allows the Company to time the market for fund-raising</td>
<td>• Wide distribution to investors in ASEAN+3-</td>
</tr>
<tr>
<td>• Provides cost efficiency to issuer on documentation-</td>
<td>• This bond documentation is widely accepted by international investors and investors in ASEAN+3</td>
</tr>
<tr>
<td>q Base Programme can be registered in issuer’s home country, or in foreign jurisdictions</td>
<td></td>
</tr>
<tr>
<td>q Offering circular is tailored made for each issuance in ASEAN+3 country, by making reference to the relevant provisions and legal documents in the Base Programme (e.g. for provisions on trust deeds)</td>
<td>• International best practice allows two-tier markets (institutional vs retail)-</td>
</tr>
<tr>
<td>q Common transaction parties (e.g. trustee and shariah advisor) are involved for all bond issuance , and new parties can be included if issuer so decides</td>
<td>• Flexibility for issuers who intend to tap funds from institutional investors only</td>
</tr>
</tbody>
</table>
### Case Study #2
**Khazanah Nasional Bhd: CNY500 million Trust Certificates**

<table>
<thead>
<tr>
<th>Offering Summary</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issuer</strong></td>
<td>Danga Capital Berhad</td>
</tr>
<tr>
<td><strong>Obligor</strong></td>
<td>Khazanah Nasional Berhad (“Khazanah”)</td>
</tr>
<tr>
<td><strong>Facility</strong></td>
<td>Multi-Currency Islamic Securities Issuance Programme</td>
</tr>
<tr>
<td><strong>Issue Size</strong></td>
<td>CNY500 million (upsized from CNY300 million)</td>
</tr>
<tr>
<td><strong>Issue Tenure</strong></td>
<td>3-year Trust Certificates</td>
</tr>
<tr>
<td><strong>Islamic Principle</strong></td>
<td>Wakalah</td>
</tr>
<tr>
<td><strong>Issue Date</strong></td>
<td>20 October 2011</td>
</tr>
<tr>
<td><strong>Profit Frequency</strong></td>
<td>Semi-annual</td>
</tr>
<tr>
<td><strong>Distribution Method</strong></td>
<td>Accelerated bookbuilding</td>
</tr>
<tr>
<td><strong>YTM</strong></td>
<td>2.9% p.a.</td>
</tr>
<tr>
<td><strong>Denomination</strong></td>
<td>CNY1,000,000</td>
</tr>
<tr>
<td><strong>Listing</strong></td>
<td>Bursa Malaysia Securities Berhad (Exempt Regime) and Labuan International Financial Exchange Inc.</td>
</tr>
<tr>
<td><strong>Format</strong></td>
<td>Regulation S</td>
</tr>
<tr>
<td><strong>Governing Law</strong></td>
<td>English Law</td>
</tr>
</tbody>
</table>

#### Investor Distribution by Investor Type
- Private Banks: 15%
- Financial Institutions: 40%
- Asset Management: 45%

#### Investor Distribution by Region
- Malaysia: 37%
- Hong Kong: 26%
- Singapore: 30%
- Europe: 6%
- Middle East: 1%
- Others: 6%

---

Khazanah Nasional Berhad ("Khazanah")

CNY500 million Trust Certificates due 2014 ("Trust Certificates")

Pursuant to Khazanah’s Multi-Currency Islamic Securities Issuance Programme of up to RM10 billion

Joint Lead Manager /Joint Bookrunner

CIMB

October 2011
## Impediments on Cross-Border Bond Issuances within ASEAN+3 - Case Study #2

### CNY500 million Trust Certificates by Khazanah Nasional Berhad

<table>
<thead>
<tr>
<th>1. Approval &amp; Issuance process</th>
<th>2. Distribution process</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Relevant information</strong></td>
<td></td>
</tr>
<tr>
<td>- The CNY Trust Certificates are issued pursuant to a <strong>Multi-Currency Programme</strong> which allows the Company to issue in various currencies, including in Malaysia</td>
<td></td>
</tr>
<tr>
<td>- This Programme has been approved by the SC Malaysia and Bank Negara Malaysia (for foreign exchange requirements)</td>
<td></td>
</tr>
<tr>
<td>- These CNY sukuk do not require approval from HKMA</td>
<td></td>
</tr>
<tr>
<td>- Allocation to 35 international investors comprising FIs, AMCs and private banks from Malaysia (37%), Singapore (30%), Hong Kong (26%), Europe (6%) &amp; Middle East (1%)</td>
<td></td>
</tr>
<tr>
<td>- Islamic institutions accounted for 20% allocation of the transaction</td>
<td></td>
</tr>
<tr>
<td>- World’s first CNY Sukuk issuance, and first CNY offering by an ASEAN quasi-sovereign Issuer</td>
<td></td>
</tr>
<tr>
<td><strong>Notable observations</strong></td>
<td></td>
</tr>
<tr>
<td>- Expeditious issuance process that allows the Company to time the market for fund-raising</td>
<td></td>
</tr>
<tr>
<td>- Also, provides cost efficiency to issuer on documentation process</td>
<td></td>
</tr>
<tr>
<td>- Islamic bonds or Sukuk have been well accepted by international and ASEAN+3 investors</td>
<td></td>
</tr>
</tbody>
</table>
# Case Study #3

**Genting Hong Kong Ltd : CNY1,380 million Unsecured Bonds**

<table>
<thead>
<tr>
<th>Offering Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issuer</strong></td>
</tr>
<tr>
<td><strong>Facility</strong></td>
</tr>
<tr>
<td><strong>Rating</strong></td>
</tr>
<tr>
<td><strong>Tenure</strong></td>
</tr>
<tr>
<td><strong>Issue Date</strong></td>
</tr>
<tr>
<td><strong>Mode of issue</strong></td>
</tr>
<tr>
<td><strong>Clearing systems</strong></td>
</tr>
<tr>
<td><strong>Governing Law</strong></td>
</tr>
<tr>
<td><strong>Listing</strong></td>
</tr>
</tbody>
</table>
Impediments on Cross-Border Bond Issuances within ASEAN+3 - Case Study #3

CNY1,380 million Unsecured Bonds by Genting Hong Kong Limited

<table>
<thead>
<tr>
<th>Relevant information</th>
<th>1. Approval &amp; Issuance process</th>
<th>2. Distribution process</th>
</tr>
</thead>
<tbody>
<tr>
<td>• No regulatory approval is required from HKMA/HKSFC for offering in Hong Kong</td>
<td>The CNY bonds were distributed in Malaysia, Singapore and Hong Kong through an accelerated book building process over 2 days and priced at the tight end of the price guidance of 3.95% to 4.05%.</td>
<td></td>
</tr>
<tr>
<td>• Approval obtained from SC Malaysia, for distribution in Malaysia</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Issues to be addressed</th>
<th>Additional approval or regulatory compliance will likely be required if the bonds are to be offered to investors in other ASEAN+3 countries (except for Singapore)-</th>
<th>Better pricing may potentially be achieved for issuer if wider distribution can be made to other ASEAN+3 investors-</th>
</tr>
</thead>
<tbody>
<tr>
<td>□ How could we streamline this multiple approval process?</td>
<td></td>
<td>□ If we allow our institutional investors to invest in USD bonds which could have been issued by the same company (using Reg S offering), shouldn’t we extend the same approval to ASEAN+3 local currency bonds (i.e. denominated in CNY)?</td>
</tr>
<tr>
<td>□ Could we achieve mutual recognition of regulatory approval for ASEAN+3 local currency bond issuances?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Case Study #4
MYR600 million Sukuk by TTM Sukuk Bhd

Offering Summary

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuer</td>
<td>TTM Sukuk Berhad</td>
</tr>
<tr>
<td>Islamic Principle</td>
<td>Commodity Murabahah</td>
</tr>
<tr>
<td>Issue Size</td>
<td>RM600 million Sukuk</td>
</tr>
<tr>
<td>Tenures</td>
<td>5 - 15 years</td>
</tr>
<tr>
<td>Issue Date</td>
<td>15 November 2010</td>
</tr>
<tr>
<td>Rating</td>
<td>AAA&lt;sub&gt;IS&lt;/sub&gt;</td>
</tr>
<tr>
<td>Coupon / Profit Rate</td>
<td>4.00% - 5.05%</td>
</tr>
<tr>
<td>Joint Shariah Adviser</td>
<td>CIMB Investment Bank Berhad</td>
</tr>
<tr>
<td>Periodic Distribution</td>
<td>Semi-annual</td>
</tr>
</tbody>
</table>

Execution Highlights

- TTM Sukuk Berhad is a special purpose vehicle incorporated to facilitate Trans Thai-Malaysia (Thailand) (“TTMT”) Limited’s issuance of RM denominated Sukuk.
- TTMT is the result of the co-operation between the governments of Thailand and Malaysia to jointly develop the petroleum resources in the Joint Development Area, and is majority owned by PETRONAS and PTT PCL.
- The transaction marks the first time a Thai incorporated entity has raised funds through a RM denominated Sukuk and also represents the first cross-border project finance local currency Sukuk in Asia. The transaction also saw the longest issue of sukuk in Malaysia of up to 15 years by a foreign issuer.
- A series of cross currency swaps including one of the longest tenure in Malaysia was also structured on the back of the bond transaction to allow the Issuer to swap the proceeds into USD.
## Impediments on Cross-Border Bond Issuances within ASEAN+3 - Case Study #4

### MYR600 Million Sukuk by Trans Thai-Malaysia (Thailand) Limited

<table>
<thead>
<tr>
<th></th>
<th>1. Approval &amp; Issuance process</th>
<th>2. Distribution process</th>
</tr>
</thead>
</table>
| **Relevant information** | • A **Malaysian SPV** owned by TTM (Thailand) Ltd is set up to issue the RM sukuk  
• Approval from the SC Malaysia is obtained for the issuance of sukuk in Malaysia; Approval from Bank Negara Malaysia is also sought and obtained for cross currency swap (from MYR to USD) | • Issuer is able to tap the RM sukuk **investors in Malaysia** comprising Financial Institutions, Insurance Companies, Asset Management Companies and Government Agencies |
| **Issues to be addressed** | • It will be ideal if TTM (Thailand) Ltd or a Thai SPV could issue directly in Malaysia  
  ❑ Compliance with documentation requirements in Malaysia, unless rated BBB (international) or AAA (local rating)?  
  ❑ Tax and regulatory issues for TTM (Thailand) Ltd to use Shariah principles for the Sukuk issuance?  
  ❑ This could have raised the profile of ASEAN capital market with real transaction on cross-border issuance and investment activities within ASEAN | • Can these ringgit-denominated sukuk be placed out or offered to investors in Thailand?  
  ❑ How to recognise credit rating from Malaysia?  
  ❑ Governing law issue?  
  ❑ Certainty of approval from BOT and SEC Thailand, if an application is made? |
The Case Studies will Focus On -

1. Approval process
2. Distribution process
3. Documentation standards
4. Disclosure standards

Identifying solutions to minimise legal and transaction cost for issuers, without compromising investors’ interest
Overview of Disclosure and Documentation Issues

<table>
<thead>
<tr>
<th>Bond Description</th>
<th>Location where bond proceeds are utilised</th>
<th>Governing law</th>
<th>Disclosure standards</th>
<th>Documentation standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. SGD1,500 million Trust Certificates by Danga Capital</td>
<td>Singapore</td>
<td>English law</td>
<td>In line with international best practice</td>
<td>Offering Circular in Reg S standards (&amp; other documents listed in the Multi-Currency Base Programme)</td>
</tr>
<tr>
<td>2. CNY500 million Trust Certificates by Khazanah Nasional Berhad</td>
<td>Hong Kong</td>
<td>English law</td>
<td>In line with international best practice</td>
<td>Offering Circular in Reg S standards (&amp; other documents listed in the Multi-Currency Base Programme)</td>
</tr>
<tr>
<td>3. CNY1,380 million Unsecured Bonds by Genting Hong Kong Ltd</td>
<td>Hong Kong</td>
<td>Law of Hong Kong</td>
<td>In line with international best practice</td>
<td>Information Memorandun (&amp; other documents listed including Trust Deed)</td>
</tr>
<tr>
<td>4. MYR600 million Sukuk by TTM Sukuk Bhd</td>
<td>Thailand &amp; Malaysia</td>
<td>Thailand (Thai law security documents) &amp; Malaysia</td>
<td>In line with international best practice</td>
<td>Information Memorandun (&amp; other documents listed including Trust Deed)</td>
</tr>
</tbody>
</table>

No currency mismatch for regional issuers seeking cross-border investment
## Contents of Information Memorandum for CNY500 million Khazanah Trust Certificates

**OFFERING CIRCULAR**

Danga Capital Berhad  
Company No. 831649-X  
(incorporated in Malaysia with limited liability under the Companies Act, 1965)  
CNY500,000,000 Trust Certificates due 2014  
with recourse to  
Khazanah Nasional Berhad

### TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>DOCUMENTS INCORPORATED BY REFERENCE</td>
<td>v</td>
</tr>
<tr>
<td>SUMMARY OF THE OFFERING</td>
<td>1</td>
</tr>
<tr>
<td>STRUCTURE DIAGRAM AND CASH FLOWS</td>
<td>10</td>
</tr>
<tr>
<td>SUMMARY FINANCIAL INFORMATION</td>
<td>12</td>
</tr>
<tr>
<td>INVESTMENT CONSIDERATIONS</td>
<td>14</td>
</tr>
<tr>
<td>CONDITIONS OF THE TRUST CERTIFICATES</td>
<td>23</td>
</tr>
<tr>
<td>SUMMARY OF PROVISIONS RELATING TO THE TRUST CERTIFICATES IN GLOBAL FORM</td>
<td>44</td>
</tr>
<tr>
<td>USE OF PROCEEDS</td>
<td>46</td>
</tr>
<tr>
<td>EXCHANGE RATES AND EXCHANGE CONTROLS</td>
<td>47</td>
</tr>
<tr>
<td>DESCRIPTION OF DANGA CAPITAL BERHAD</td>
<td>48</td>
</tr>
<tr>
<td>DESCRIPTION OF THE KHAZANAH GROUP</td>
<td>50</td>
</tr>
<tr>
<td>SUMMARY OF PRINCIPAL SERIES TRANSACTION DOCUMENTS</td>
<td>68</td>
</tr>
<tr>
<td>SUBSCRIPTION AND SALE</td>
<td>73</td>
</tr>
<tr>
<td>REMITTANCE OF RENMINBI INTO AND OUTSIDE THE PRC</td>
<td>76</td>
</tr>
<tr>
<td>TAXATION</td>
<td>78</td>
</tr>
<tr>
<td>GENERAL INFORMATION</td>
<td>80</td>
</tr>
<tr>
<td>FINANCIAL STATEMENTS OF KHAZANAH NASIONAL BERHAD</td>
<td>F-1</td>
</tr>
</tbody>
</table>
Contents of Information Memorandum for MYR600 million TTM Sukuk

Table of Contents

RESPONSIBILITY STATEMENT .............................................................................................................. 4
IMPORTANT NOTICE AND GENERAL STATEMENTS OF DISCLAIMER ................................................... 4
DEFINITION OF KEY TERMS AND ABBREVIATIONS ........................................................................ 9

1. EXECUTIVE SUMMARY .................................................................................................................. 18
   1.1 General Information .................................................................................................................. 18
   1.2 Statutory Approvals ................................................................................................................ 18
   1.3 Background of the Issuer, TTM and the TTM Project Phase 2 ............................................. 18
   1.4 Credit Rating ............................................................................................................................ 19
   1.5 Summary of the terms of the Proposed Sukuk Issuance ....................................................... 19

2. TERMS AND CONDITIONS OF THE SUKUK ............................................................................. 23

3. CLEARANCE AND SETTLEMENT ............................................................................................... 71
   3.1 Introduction ............................................................................................................................. 71
   3.2 The Issuing, Trading and Clearing System .............................................................................. 71
   3.3 Form and Interest....................................................................................................................... 71
   3.4 Clearing and Settlement ......................................................................................................... 72
   3.5 Profit Payments and Redemption ............................................................................................ 72

4. SELLING RESTRICTIONS .............................................................................................................. 73
   4.1 Selling Restrictions at Issuance ............................................................................................. 73
   4.2 Selling Restrictions Thereafter ............................................................................................... 73
   4.3 General .................................................................................................................................. 73

5. USE OF PROCEEDS ....................................................................................................................... 74

6. TAX STATUS .................................................................................................................................. 76

7. RISK FACTORS ........................................................................................................................... 76
   7.1 Considerations Relating to the Sukuk .................................................................................... 76
   7.2 Considerations Relating to the Issuer .................................................................................... 77
   7.3 Considerations Relating to TTM ............................................................................................ 78
   7.4 PETRONAS and PTT Ownership ........................................................................................... 78
   7.5 Payments under the Services Agreement and Termination ................................................ 79
   7.6 Construction Risk .................................................................................................................. 79

8. THE ISSUER AND TTM ................................................................................................................ 80
   8.1 The Issuer ................................................................................................................................ 80
   8.1.1 General Corporate Information of the Issuer .................................................................... 80
   8.1.2 Shareholders and Share Capital of the Issuer .................................................................... 80
   8.2 TTM ....................................................................................................................................... 82
   8.3 Operations ............................................................................................................................... 84
   8.4 Overall Performance .............................................................................................................. 84
   8.5 Financial Projections .............................................................................................................. 85
   8.6 Litigation ................................................................................................................................ 85

9. THE SPONSORS .......................................................................................................................... 86
   9.1 PETRONAS ............................................................................................................................ 86
   9.2 PTT ....................................................................................................................................... 86

10. THE TTM PROJECT .................................................................................................................... 88
   10.1 Background ......................................................................................................................... 88
   10.2 TTM Project Phase 2 Description and Location ................................................................. 89
   10.3 Project Rationales ................................................................................................................. 91
   10.4 Sale of TTM’s Services ........................................................................................................ 91
   10.5 The Services Agreement ....................................................................................................... 92

APPENDIX 1
AUDITED FINANCIAL STATEMENTS OF TTM FOR THE FINANCIAL YEARS ENDED 2008 AND 2009

APPENDIX 2
REPRESENTATION LETTER OF THE CIMB GROUP
In Summary

- There are many eligible ASEAN+3 issuers (with strong credit quality) which are very suitable for cross-border local currency bond issuances and investments.

- However, tedious approval process or regulatory requirements may turn these issuers away from tapping the ASEAN+3 local currency bond markets:
  - Mutual recognition of regulatory approval for ASEAN+3 Multi-Currency MTN Programmes

- Documentation and disclosure standards for regular and established issuers within ASEAN+3 are well-accepted by international investors:
  - Providing benchmark for ASEAN+3 local currency bond issues
  - English law is commonly used for familiarity and/or ease of solvency considerations, but soundness of domestic law should be recognised.
Long-Term Objective – To Achieve Mutual Recognition of Regulatory Approvals for Cross Border Issuance & Investment within ASEAN+3

- Mutual Recognition of Regulations -
  - Approval in home country (Country A) should be good enough for host country (Country B)

- Critical to put the process for ASEAN+3 issuances on par with USD Reg S issuances -
  - Single regulatory approval for issuance of ASEAN+3 Local Currency Bonds Across ASEAN+3
  - No additional approval required for ASEAN+3 issuers
  - Qualified investors are sophisticated enough to assess ASEAN+3 credit with adequate disclosure

- Need to consider an ASEAN+3 Self-Regulatory Organisation (like ICMA) to ensure professional conduct of advisors, and market rules on cross-border offerings within ASEAN+3
Professional conduct is critical in ensuring sound and efficient execution of cross-border offerings

For example, on

- Book building requirements
- Clear obligations of transaction parties on e.g. disclosure of terms, distribution of programme documentation, execution of agreements
- Clear relationship among parties involved
- Procedures for meetings and conference call, amendments to documentation and etc

which have been clearly provided in ICMA Handbook on international cross-border transactions
Credit Guarantee & Investment Facility (CGIF)
CGIF can contribute towards the growth of cross-border local currency bonds

- The USD700 million CGIF should focus on facilitating cross-border local currency bonds issued by ASEAN+3 corporates in another ASEAN+3 country for their cross-border investment -
  - E.g. A cement manufacturer from Thailand, which acquired a cement manufacturing company in Malaysia, could utilise AAA rating of CGIF for a ringgit bond offering in Malaysia, and/or which can also be placed out in Thailand
  - Immediate acceptance of credit rating by investors in Thailand & Malaysia
  - Natural hedge on revenue streams and liability exposure for the Thai issuer (rather than issuing USD bonds)

- However, to promote CGIF among ASEAN+3 investors, national regulators across ASEAN+3 need to grant favourable regulatory treatment to CGIF (i.e. low risk weight for banks’ capital adequacy, and low risk asset status for insurance companies)

- CGIF must also have transparent and market-driven eligibility criteria, and competitive guarantee fee structure to attract bond issuers within ASEAN+3
Recommendations
In Conclusion

- Cross-border local currency bond issuances and investments are important to the growth of ASEAN+3 local currency bond markets, in view of the prolonged European sovereign debt crisis and decreased reliance on USD funding.

- It is feasible to allow ASEAN+3 Multi-Currency MTN programme for cross-border local currency bond issuances within ASEAN+3:
  - Mutual recognition of regulatory approvals for ASEAN+3 Multi-Currency MTN programme

- Standards on disclosure and documentation of ASEAN+3 local currency bonds already well-recognised by international investors.

- A regional SRO could be set up to ensure professional conduct of transaction parties in cross-border offerings of ASEAN+3 MTN programme.

- ASEAN+3 Credit Guarantee and Investment Facility (CGIF) should focus on guaranteeing cross-border local currency bond issuances, with favourable regulatory treatment from national regulators across ASEAN+3.
Disclaimer

This presentation was prepared exclusively by CIMB exclusively for information and discussion purposes only. In preparing this presentation, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources or which was provided to us by or on behalf of CIMB or which was otherwise reviewed by us.

CIMB is not acting as an advisor or agent to any person to whom this presentation is directed. Such persons must make their own independent assessment of the contents of this presentation, should not treat such content as advice relating to legal, accounting, taxation or investment matters and should consult their own advisers.

Neither CIMB, nor its directors, officers or employees make any guarantee, representation or warranty, express or implied, as to the adequacy, accuracy, completeness, reliability or fairness of any such information and accordingly, neither CIMB nor its directors, officers or employees shall be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

This presentation may not be copied, duplicated, reproduced or redistributed, in whole or in part by any means, without the prior written permission of CIMB. CIMB and its affiliates accepts no liability whatsoever for the actions of any party in this respect.
Thank You
Inauguration of the J-Sukuk Market

Its Implication for the Intra-Regional Cooperation for the Creation of a Common Professional Bond Market in Asia

February 8, 2012

Ryuichi Shiina, CFA
General Manager
International Affairs Division
Japan Securities Dealers Association
Inauguration of the J-Sukuk Market

*Its Implication for the Intra-Regional Cooperation for the Creation of a Common Professional Bond Market in Asia*

**Contents**

I. Background to Establishment of J-Sukuk and its Structure ................................. 2

II. Possibility of J-Sukuk as an ABMF Pilot Issue ......................................................... 22
I. Background to Establishment of J-Sukuk and its Structure
I-1. Momentum toward J-Sukuk (1)

- “Islamic Bonds” (=SUKUK): Strong driver for boosting Islamic finance
- Actively used in Malaysia and Gulf countries, etc. as an effective Shari’ah compliant and a long-term fundraising method
- Non-Muslim countries in the Asian & Pacific region such as Singapore, Hong Kong, Thailand, Korea and Australia are introducing the taxation measures and legal framework for realizing Sukuk issuance. (*Singapore has been doing Sukuk issuance since 2008). Amid such a trend, Japan seemed to be isolated and left behind.

![Trend of Sukuk Issuance amount in the world](image)

![Issuing Share by Country (2000-2009 aggregated)](image)

(Amount: Bil. US$)

(Source) TheCityUK, Zawya Sukuk Monitor, IFIS

© Japan Securities Dealers Association All Rights Reserved.
Stimulated by the trend in the Asian & Pacific region toward the introduction of Sukuk markets, new steps were contemplated in 2010 to facilitate Sukuk issuance under the Japanese legal system.

Since the latter half of 2010, the momentum within the governmental agency (Financial Services Agency (“J-FSA”)) has become explicit with such actions as:

(July 2010) **Recommendation by expert advisory group within J-FSA;**
“It will be necessary to foster a taxation environment to attract Islamic money by taking certain measures such as treating the dividends on Sukuk in the same manner as interest on bonds.”


“the FSA will promote the development of the environment for Islamic bond issuance in Japan”

(May 2011) **National Diet passed a bill to facilitate Sukuk issuance in Japan by way of amendment of the Asset Securitization Act (shisan ryudoka ho「資産流動化法」(ASA)), accompanied by amendments of relevant tax legislation so as to create a level tax playing field compared with conventional bonds.**

(Nov. 2011) **Amended ASA and related tax measures entered into effect.**
1-3. Crucial Points for Setting Up J-Sukuk

• Structuring J-Sukuk based on the Japanese legal concept of the “(Special) Bond-Type Beneficial Interests” under the “Specified Purpose Trust (SPT)”
  (The vehicle with the most similar features to the Sukuk under Japanese law is the “Trust”. And, in this case, the “Specified Purpose Trust” is the most appropriate vehicle as its conduit nature helps avoid double taxation.)

• Equal footing between J-Sukuk and conventional corporate bonds

• Foreign investors to be exempt from taxation on the distribution of profits received.
  (Alignment with the J-BIEM introduced in June 2010 by which interest on book-entry bonds paid to non-residents and foreign entities are excluded from taxation.)

• Domestic banks and other Japanese financial institutions to be exempt from withholding tax on the distribution of profits that they receive.

• Assume issuance of Ijarah-type Sukuk

• The purchase (buy back) transaction of the Underlying Asset from SPT to the originator (or the settler of the SPT) to be excluded from asset transfer related tax.
I-4. Amendment of Asset Securitization Act and Related Taxation Measures

➢ Amendment of Asset Securitization Act


Enacted: May 17, 2011
Promulgated: May 25, 2011 (Law No.49)
Enforced: Nov.24, 2011 (Government Ordinance No.338)

➢ Tax Measures

1. What’s a “Specified Purpose Trust (SPT)”?

A trust established under the ASA for the purposes of securitizing assets and enabling multiple persons to obtain the beneficial interests of the trust that are held by the grantor at the conclusion of trust agreement by dividing them into units.

※ Under SPT, it cannot give an instruction to the entrusted company, etc. regarding the administration and disposition of the specified assets.

2. What are “Bond-Type Beneficial Interests”?

A type of beneficial interest under a SPT, for which a predetermined amount of money is distributed.

3. What are “Special Bond-Type Beneficial Interests”?

A Special Bond-type Beneficial Interest is a kind of Bond-Type Beneficial Interests that also satisfy conditions prescribed in a Cabinet Order to the effect that the transaction involves a purchase undertaking (buy back agreement) granted by the originator and the underlying assets are not recognised as off balance sheet assets as a matter of the originator’s accounting treatment in accordance with generally accepted accounting principles.
The legal concept of “Special Bond-Type Beneficial Interests” was newly introduced to enable the buy-back transaction at maturity of the underlying assets of J-Sukuk to be exempted from the asset transfer related taxes that are usually levied on transfers of real estate (lands, building, etc.) in Japan.

The Special Bond-Type Beneficial Interests must be accompanied by the purchase undertaking, etc. and accounted for as an “on-balance transaction” of the originator in addition to the conditions required for the Bond-Type Beneficial Interests.
An institution acting as the originator (or settler in the context of the SPT Agreement) and a trustee, which would typically be a trust bank, enter into a specific purpose trust agreement (SPT Agreement) whereby the originator transfers the ownership of an asset (such as real estate) (“Underlying Asset”) to the trustee who holds the same on trust.

The originator acquires Special Bond-Type Beneficial Interests in exchange for the transfer of the Underlying Asset to the trustee pursuant to the SPT Agreement.

The originator sells the Special Bond-Type Beneficial Interests to investors which include Islamic investors.

Investors pay the amount equivalent to the purchase price for the Special-Bond Type Beneficial Interests to the originator.

The originator enters into an Ijarah lease agreement with the trustee in respect of the Underlying Asset.

The originator makes periodic rental payments to the trustee under the Ijarah lease agreement.

The trustee makes periodic distribution of profit to the investors by way of dividends on the Special-Bond Type Beneficial Interests, which are funded by the rental payments under the Ijarah lease agreement.

At maturity, the originator purchases (buys back) the Underlying Asset at a predetermined price equivalent to the Special-Bond Type Beneficial Interests amount then outstanding.

The trustee redeems the Special-Bond Type Beneficial Interests by utilizing the purchase price received from the originator.
I-8. Major Points of 2012 Taxation Measures (1)

(1) Tax exemption from income dividends and capital gains tax

(2) Exemption from the threshold of more than 50% domestic offering (solicitation)

(3) Tax exemption from registration license tax and real estate acquisition tax
(1) **Exclusion from taxation on the distribution of profits:**

The distributions of profit on the book-entry (Special) Bond-Type Beneficial interests payable to:

a. Foreign corporations and non-residents (who do not have permanent establishment in Japan) shall be excluded from taxation, and

b. Domestic banks and other Japanese financial institutions shall be exempted from withholding tax.

(2) **Tax transparency of the SPT:**

The conditions for deductibility of dividends paid by the SPT have been amended to the effect that the (Special) Bond-Type Beneficial Interests are exempted from the requirement that more than 50 per cent of the issue amount must be offered domestically.

(3) **Exclusion of asset transfer related tax:**

The purchase undertaking (buy back transaction) of the Underlying Asset from SPT to the originator (or the settler of the SPT) shall be excluded from:

a. Registration license tax; and

b. Real estate acquisition tax

(in respect of the SPT involving real estate as an underlying trust asset) in relation to the Special Bond-Type Beneficial Interests under the SPT.

(4) **Exemption from the capital gain tax:**

Foreign corporations shall be exempted from capital gain tax upon the secondary sale of the (Special) Bond-Type Beneficial Interests.
I-10. Sunset Clause of Tax Exempt Measures

- New taxation measures for J-Sukuk have a sunset clause; Tax exemption measure for overseas investors will expire by March 31, 2013
  - Registration license tax by March 31, 2014

- The product will have to have a solid record of use for the time limit to be postponed or perpetuated.

- If results are achieved, it will open the door to further expansion of Islamic finance related taxation measures.
 Listing facility at TOKYO PRO-BOND Market (Tokyo AIM)(1)

  - In May 2011, Tokyo AIM, a joint venture between Tokyo Stock Exchange and London Stock Exchange, started its “TOKYO PRO-BOND Market.” This bond market is authorized by J-FSA as a market dedicated to professional investors. “Bond-Type Beneficial Interests” under ASA are recognized as one of the securities eligible to list on this market.

  - TOKYO PRO-BOND Market Listing Regulations (licensed in May 17, 2011)
    Chapter 5 Definitions
    (Definitions)
    Regulation 25 The following words and expressions used in these Regulations have the meanings defined below.

    **Bonds** means the securities enumerated in Items (i) through (xiii) below.
    (omitted)

    (xi) Among beneficiary certificates of Special Purpose trusts (securities enumerated in Article 2, Paragraph 1, Item 13, of the **Act**), instances of the type that with regard to cash distributions during the trust period receive distributions in predetermined amounts

    ➔ Meaning “Bond-Type Beneficial Interests” of Special Purpose Trust under ASA
Listing facility at Tokyo PRO-BOND Market (Tokyo AIM)(2)

Professional Bond Market under FIEA

Various advantages for overseas issuers:
- Under the FIEA, the new issue falls under the solicitation for purchase from “Specified (or Professional) Investors” and not under the new offering nor secondary offering (consequently, the Securities Filing/Securities Report are not required.)
- The disclosure procedure may be written wholly or partly in English.
- “Specified Investors” and Non-residents (judicial persons and individuals) may trade in these securities.

※Scope of “Specified (or Professional) Investors”: Qualified Institutional Investors (financial institutions, etc.), listed companies, joint stock companies with capital of more than 500 million yen, government, Bank of Japan, and “Deemed Specifies (Professional) Investors” (subject to the application to, and verification by securities company) such as other joint stock companies, local public body, and judicial persons and individuals having financial assets and net worth of more than 300 million yen and with experience of transactions in financial instruments for more than 1 year.

Provided, however, that the current taxation measure regarding the special purpose trust (SPT) limits the method of distribution only to the private placement of “qualified institutional investors (as defined in the Tax Special Measurement Law)” in order to maintain the conduit nature of SPT.
I-13. Peripheral Infrastructures Supporting J-Sukuk

(3)

➢ Use of JASDEC’s Book-Entry Transfer System (1)

- On October 7, 2011, JASDEC (Japan Securities Depository Center, Inc.) published an implementation package* for starting to handle J-Sukuk through the use of Bond-Type Beneficial Interests under Special Purpose Trust.

* “Implementation Package for Bond-Type Beneficial Interests under Special Purpose Trust in the Book-Entry Transfer System for Corporate Bonds.” (English title is only for provisional purposes)

- Preparatory work is underway for starting to handle Bond-Type Beneficial Interests in the framework of book-entry transfer system for corporate bonds by spring 2012.

- JASDEC’s basic policy for handling J-Sukuk
  - Using the scheme of existing system
  - Transcribing terminology such as “interest”
  - Not differentiating between “asset-based” or “asset backed”
  - Shari’ah compliant nature is not required for handling
  - Limited to domestic issuance
  - Units for Bond-Type Beneficial Interest shall be cash amount
  - Currencies other than Yen are limited to those prescribed by ISO4217
I-14. Peripheral Infrastructures Supporting J-Sukuk
(4)

➢ Use of JASDEC’s Book-Entry Transfer System (2)
  - Items to be discussed when handling J-Sukuk within the system framework of corporate bonds:
    • Parallel existence of JPY denominated and foreign currency denominated J-Sukuk within the same product
      ⇒ Practically, there is a possibility that burdens will arise from change of flow, etc.
    • Practical aspects of delivery of an amount equivalent to the “accrued interest” of bonds
      ⇒ “Will have to be discussed separately among market participants”
    • Inclusion of name of originator within the official issue name
      【e.g.】 Name of originator + Issue No.+ (Special) Bond-Type Beneficial Interests (limited to Qualified Institutional investors (Shari’ah compliant)
      ⇒ How to handle the issue when it becomes Shari’ah non-compliant after issuance?
    • Amendment of “Guideline for Book-Entry Transfer System for Corporate Bonds”, “Q&A regarding Book-Entry Transfer System for Corporate Bonds”
    • How to assume the burden of handling operations and costs at the operational level (including IT expense)?
• Mainly applicable to Sukuk al Ijarah.
• However, thanks to the 2011 amendment of Implementing Rule of Asset Securitization Act, the interests in the Silent Partnership (equivalent to Mudaraba) and Partnership prescribed under Japan’s Civil Code (equivalent to Musharaka) are also allowed to be entrusted assets under SPT with a certain limitation.
• If the underlying assets are real estate, the Special Bond-Type Beneficial Interests can be used subject to a redemption period of less than 20 years.
• In contrast with Sukuk issued in other jurisdictions, the declaration of trust is not used.
• Partial redemption structure is allowed.
• Voting rights not attractive to Islamic investors? The investors (beneficiaries) do not have a voting right in respect of the management of the trust, except the termination of the trust, the approval of the accounting and a change of the trust proposed by the trustee.
• The dividend can be on a floating-rate basis.
I-16. Issues to be Discussed (2)

[ To whom can we sell J-Sukuk? ]

•To ensure the nature of the “Conduit” of SPT for the taxation purpose, the selling methods are limited to the following:
  a. Private Placement with Institutional Investors
  b. General Public Offering

Consequently, Private Placement with a small number of ordinary investors is excluded.

•On the other hand, as the sales restriction for overseas investors (less than 50%) is lifted under the new system, the entire J-Sukuk issue can be sold to overseas investors subject to the following points;

  With respect to the selling method (a) above, overseas “institutional investors” means those falling under the category of qualified institutional investors stipulated by the Definition Ordinance under the Financial Instruments and Exchange Act (FIEA):
  - Type 1 Financial Instruments Business Operator under FIEA, Asset Managers, Banks, Insurance companies, Trust companies
  - Foreign financial institutions (Is Takaful included in this category?)
  - Foreign governments, local governments, central banks, and international organizations of which Japan is member
  -Pension funds

And those entities should satisfy a certain criteria and file for J-FSA. Although, the Islamic funds and other foreign funds are not explicitly listed among those entities, they can invest in the J-Sukuk through asset managers, etc.
The first Islamic funds of a Shari’ah compliant “ethical investment” nature appeared in the 1970s in the Middle East. However, the rapid build up in this new type of Islamic fund occurred after the beginning of this century. Thereafter, the investor base expanded from only Muslims to include non-Muslim investors.

According to data on the size of global Islamic funds published by Eurekahedge, a research organ for alternative investment, the number of Shari’ah compliant funds was only 150 in 2000 but increased to 690 by the end-Aug.2010 with aggregate asset value of 72 billion dollars. The right graph shows the trend in the outstanding balance of Islamic equity funds according to another source.

(Source) TheCityUK, Ernst & Young
Market Size of Islamic Funds (2)

Breakdown by Nationality of Asset Management Company (End 2009)
- Saudi Arabia: 20%
- Kuwait: 13%
- UAE: 8%
- Malaysia, 26%
- Others, 12%
- US, 2%
- Singapore, 3%
- Pakistan, 3%
- Bahrain, 4%
- Indonesia, 5%

Breakdown by Domiciliation of Funds (End 2009)
- Malaysia, 28%
- Saudi Arabia, 20%
- Kuwait, 10%
- Caiman, 6%
- Bahrain, 5%
- Indonesia, 4%
- Luxembour, 4%
- Channel Island, 2%
- Others, 19%

Breakdown by Country Allocation to be Invested (End 2009)
- Middle East & Africa, 51%
- Asia & Pacific, 13%
- Europe, 2%
- Emerging, 1%
- Global, 25%

Breakdown by Asset Allocation (End 2009)
- Stocks, 53%
- Bonds, 7%
- Balance, 9%
- Real Estate, 11%
- Cash, 11%

(Source) Eurekahedge
## Size of Islamic Funds in Malaysia

<table>
<thead>
<tr>
<th>Publicly offered Funds</th>
<th>Number of Approved Funds by SC</th>
<th>2007/12</th>
<th>2008/12</th>
<th>2009/12</th>
<th>2010/12</th>
<th>2011/6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Islamic Unit Trust Funds</td>
<td>134</td>
<td>149</td>
<td>150</td>
<td>155</td>
<td>160</td>
<td></td>
</tr>
<tr>
<td>Total Industry</td>
<td>521</td>
<td>579</td>
<td>565</td>
<td>585</td>
<td>595</td>
<td></td>
</tr>
<tr>
<td>NAV (RM billion)</td>
<td>16.9</td>
<td>17.2</td>
<td>22.1</td>
<td>24.0</td>
<td>26.18</td>
<td></td>
</tr>
<tr>
<td>Islamic Unit Trust Funds</td>
<td>169.4</td>
<td>134.4</td>
<td>191.7</td>
<td>226.8</td>
<td>249.6</td>
<td></td>
</tr>
<tr>
<td>% of Total Industry</td>
<td>10.0%</td>
<td>12.8%</td>
<td>11.5%</td>
<td>10.6%</td>
<td>10.5%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Privately offered Funds</th>
<th>Number of Approved Funds by SC</th>
<th>2009/12</th>
<th>2010/12</th>
<th>2011/6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Islamic Wholesale Funds</td>
<td>20</td>
<td>19</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Total Industry</td>
<td>93</td>
<td>112</td>
<td>133</td>
<td></td>
</tr>
<tr>
<td>NAV (RM billion)</td>
<td>3.18</td>
<td>4.23</td>
<td>6.63</td>
<td></td>
</tr>
<tr>
<td>Islamic Wholesale Funds</td>
<td>13.96</td>
<td>18.66</td>
<td>23.12</td>
<td></td>
</tr>
<tr>
<td>% of Total Industry</td>
<td>23%</td>
<td>23%</td>
<td>29%</td>
<td></td>
</tr>
</tbody>
</table>

II. Possibility of J-Sukuk as an ABMF Pilot Issue
II-1. New System Based on Cross-Border Transactions

- J-Sukuk presupposes intra-regional and international coordination as it is intended that domestic entities mainly target overseas Islamic money with their J-Sukuk issues. (This type of issuing scheme is very rare in the history of the Japanese “bond” market.)

- There is strong momentum towards an active utilization of Islamic finance, particularly Sukuk, among ABMF members, especially Malaysia (the world largest Sukuk issuing country), Indonesia, Singapore and Brunei (these 3 countries accelerating recently their respective sovereign Sukuk issuance), and Thailand (which is preparing its legal environment for Sukuk issuance). Consequently, we cannot avoid consideration of this emerging asset class when discussing the standardization of Asian bond markets.

- The J-Sukuk market that will be launched this spring in Japan, has a possibility of being connected to the movement of Islamic money flow deploying in Asia.

- Also, international cooperation is indispensable in terms of promoting the use of this market by overseas issuers (originators) as described hereinafter. Accordingly, J-Sukuk fits the ABMF’s focus on creating a common professional bond market.
II-2. Prospective for Domestic Issuance

- The preparatory work on the peripheral Infrastructure needed for the J-Sukuk market to get started by April 2012 is steadily advancing based on assuming the use of JAEDEC’s book-entry transfer system. However, it is reported that potential domestic issuers are not overly enthusiastic due to the following factors;

  1. Overall fundraising activity by the Japanese corporations in the capital market is stagnant.
  2. Under the current extremely low interest environment, indirect financing (bank borrowing) is more advantageous.
  3. It is especially difficult to find corporations motivated to issue Sukuk.

- The primarily purpose for introducing J-Sukuk is to enable Japanese corporations, etc. to become issuers of this type of vehicle and have Islamic investors invest in those issues, thereby inducing Islamic money into Japan. However, as it is expected to take time to find domestic issuers due to the reasons mentioned above, there is a possibility that a market will not be realized within the period of validity of the related taxation measures, and the system itself will disappear.

- Consequently, as an interim solution, why not considering a reverse approach? —namely asking overseas issuers in the Muslim countries such as Malaysia or Indonesia (that are highly motivated to raise funds through Sukuk) to issue J-Sukuk with a similar approach to the Samurai (or Shogun) bond issues targeting Japanese domestic investors, thereby getting results of using this system.

  > There are various challenges to overcome in this approach. However, there is also a possibility that this project will become a good tool for building intra-regional cooperation in fostering the common Asian bond markets.
II-3. Attractiveness of J-Sukuk Market to Overseas Issuers

1. Upgrading and establishing a reputation as becoming the first issuer (of milestone issue)

2. Diversification of funding source, particularly with liquidity abundant Japanese financial market amid the deteriorated financial capability of European and US markets

3. Attractiveness of fundraising while making a profit from the record strong Yen

4. Possible application of credit enhancement facility such as JBIC’s
II-4. Reverse Approach: Domestic Issuance of Overseas Issuer
(Samurai Sukuk/ Shogun Sukuk) (1)

< Direct Issuance >

Listing on TOKYO PRO· BOND Market

Trust Company of SPT

Periodical dividend payment & Principal redemption

Issuance of (Special ) Bond-Type Beneficial Interests (Transfer)

On Shore

Off Shore

Transfer under Trust

Issuance of (Special -Bond-Type Beneficial Interests

Lease-Back

Dividend payment & Principal redemption against -Special Bond-Type Beneficial Interests

Entitlement under (Special -Bond-Type Beneficial Interests

Overseas Originator
( Malaysia Gov./ Indonesia Gov., etc. )

※The Challenge of this issuing scheme is whether a trust company based in Japan can manage to handle directly such overseas located assets as a business operation.
II-5. Reverse Approach: Domestic Issuance of Overseas Issuer
(Samurai Sukuk/ Shogun Sukuk) (2)

< Indirect Issuance (Repackage) >

Trust Company of SPT

Transfer under trust of (overseas issued) trust beneficial interests

Dividend payment & Principal redemption of (overseas issued) trust beneficial interests

On Shore

Off Shore

Overseas SPC, etc. (Issuing Trust Beneficial Interests by Declaration of Trust)

Issuance of (Special) Bond-Type Beneficial Interests (Transfer)

Periodical dividend payment & Principal redemption

Bond-Type Beneficial Interests

Investors

Transfer under trust of (overseas issued) trust beneficial interests

Overseas Originator

( Malaysia Gov./ Indonesia Gov., etc. )

Oversea Originator

Transfer under Trust

Lease-Back

※ The challenge of this scheme is whether the underlying assets that are overseas issued Sukuk are recognized as similar to the “financial liability” which the Shari’ah prohibits to trade.

( However, we can say that it is not 100% necessary to stick to Shari’ah compliance if the repackaged Sukuk are only sold to domestic investors.)
1. Operations under this scheme would seem to be rather difficult for domestically based trust companies (such as trust banks) which issue Bond-Type Beneficial Interests under SPT. It is unusual for them to be directly involved in the management of overseas assets transactions (whether it relates to Ijarah or other type of schemes)
   (*This is a personal opinion, no actual hearings have been held with trust banks, etc. *)

2. Accordingly, we come to the conclusion that it would be easier and more realistic as a business process to first arrange a normal issuance of trust beneficial interests (Sukuk) by way of purchasing the underlying assets through an overseas SPC under a declaration of trust. Next, the overseas issued Sukuk will be entrusted to the domestic trust bank that repackages the said Sukuk as underlying assets in issuing Bond-Type Beneficial Interests (J-Sukuk).

3. In this case, there is the question of whether treating overseas issued Sukuk as underlying assets will cause a conflict with the Shariah compliance or not. Although Sukuk are said not to be “debt”, they still can be deemed similar to “financial liability/credit” in the sense that they represent a promise to pay a certain investment profit. Thus, this scheme is challenging from the Shari’ah viewpoint that prohibits the trading of “financial liability/credit”. The actual cases are also rare.
4. Moreover, in this scheme, the taxation measures introduced for the sake of J-Sukuk are not fully utilized.

5. As the Asset Securitization Act is originally designed for the purpose of facilitating the securitization (liquidation) of the domestic assets, it requires an appraisal and evaluation process in the case of real estate. However, in such a scheme as Samurai Sukuk that has overseas assets as underlying assets, conducting appraisals/evaluations becomes an issue.

6. There is a possibility for a third party (such as an overseas SPC) other than the original Sukuk issuer to become originator. In this case, an identification of ownership of the final credit and the costs related to setup and operation of such a vehicle become issues.

7. There is the question of the issuing currency. Although yen denomination is preferable for placement in Japan, if overseas issuer cannot issue in yen for some reasons and decide to issue in local currency or US dollar, an arrangement for the currency swap of those currencies into yen becomes necessary. In this case, the issues are whether there are any Japanese financial institutions that will accept the swap counter-party risk and how to ensure its Shari’ah permissibility (Please refer to the page 31).

※ ISDA-IFM has published a Tahawwut Master Agreement (TMA) that deals with Shariah compliant swaps. However, it requires the use of commodity Murabahah transactions which Japanese financial institutions find difficult to deal with due to the current legal framework.
8. One challenge the placement/distribution process faces is how to realize a competitive yield for domestic investors who do not consider the Shari’ah compliance aspect but only buy based on economic rationality.

9. If J-Sukuk is to be issued on the basis of listing on the TOKYO PRO-BOND Market, the scope of eligible investors will be narrower than that initially intended by this market. Although this market primarily targets specified (or professional) investors, the currently available sales method will be limited to private placements with institutional investors due to the lack of taxation measures in connection with the conduit treatment of specified (or professional) investors. In the future, to promote the utilization of the TOKYO PRO-BOND Market, the requirement for the “conduit” recognition of the Special Purpose Trust which J-Sukuk is based should be relaxed and expanded to include Specified (or Professional) Investors.
**Currency Problem**

If the original Sukuk is denominated in a currency other than JPY (such as Ringgit, etc.) and the repackaged Sukuk should be in JPY, the hurdle becomes rather high. Reason: Generally, in addition to questions as to whether Japanese financial institutions can handle the credit risk of the issuing country or issuer as well as the local currency risk, there is another question as to whether they are required to conclude a Shari’ah compliant Currency Swap Agreement. If so, as the commodity transaction is incorporated in such a swap arrangement, Japanese financial institutions will find it difficult to deal with.

(Ref.) Challenge Matrix: One example

<table>
<thead>
<tr>
<th>Issuing Currency</th>
<th>Operational Capability of Trust Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>JPY (Overseas Yen)</td>
<td>Able to deal directly with overseas assets</td>
</tr>
<tr>
<td>Other than JPY (USD’s case can still be handled?)</td>
<td>Overseas based arrangement of currency swap is needed (the question is to which party the final credit of the deal belongs)</td>
</tr>
</tbody>
</table>
Tentative scheme: Double Repackaging Plan—Set-up of SPC in a tax-heaven that concludes TMA

Malaysia, etc. (Sovereign Issuer) → Sukuk Issuance (①) → Tax Heaven (SPC (Declaration of) → SPC (Declarative Interests) → Japan (Entrusting TBI(②) → Bond-Type Beneficial Interests (③) → Proceeds JPY (⑤) → Offering (④) → Guarantee (There is uncertainty as to its feasibility) → JBIC → Foreign Financial Institutions → Ringgit → Proceeds JPY (⑤) → TMA → Foreign Financial Institutions.

© Japan Securities Dealers Association. All Rights Reserved.
1 Publication / Press Release

- ~ ‘www.asianbondsonline.adb.org/abmfreport’

- Press release suggested by members, as a conduit to initiate information to constituents

- Reflection of ADB proofreading and members’ final review feedback in progress

- Target release of Report by end February 2012
Distribution of Report

- Distribution to Members and Experts, as well as ABMF Observers and TF3 chairs and members
- Download via link to AsianBondsOnline might be most realistic option
- PDF format expected to be too big for email
- Could consider separate files for SF1 and SF2
③ We are all Intermediaries...

- Hoping for International Experts to distribute as value added to their respective client universe

- Market visit participants could offer press release and link to their constituencies

- Please use your market contacts

- Target remains blanket coverage of securities industry stakeholders
Extending our Reach...

- ASIFMA and SWIFT have kindly offered to carry Report announcement through their own channels

- Perhaps we can call on colleagues representing Global SMPG to put in a good word...

- Due to first-time coverage of subjects, good chance to get trade press interested
⑤ Introduction to the Public

- Wider dissemination of key messages, both from ABMF Phase 1 Report and Phase 2 intentions

- Public conference at 8th ABMF Meeting possible, depending on venue, or other occasion

- Opportunity to engage market intermediaries not covered by previous dissemination efforts remains
Inviting Members’ Feedback

- OK to disseminate?
- OK to use own contacts?
- OK to reach out to Global SMPG?
- Do you have any questions?

Many thanks!
ADB Secretariat
Other Issues of SF1 and SF2

- Updates on the Phase 1 ABMF Report –

ADB Secretariat

7th ABMF Meeting
Hong Kong, 8-9 Feb 2012
Discussion during the Beijing meeting

- Three options were suggested for consideration
  - Option 1: By ADB secretariat
  - Option 2: By ABMF members
  - Option 3: By ad-hoc team

- Following aspects were discussed and shared
  - Close relationship with phase 2 activities
  - Updates as an official output of ABMF
  - Interest and involvement of ABMF members, regulatory authorities, and policy makers is important
  - Need of utilizing various sources rather than single source
  - Combination of option 2 and option 3 might be desirable
  - Need to be practical considering resource limitation
Basic approach

- Consider combination of option 2 & option 3
- Produce updates as official output of ABMF in periodical basis: annual or semi-annual
- Close cooperation among ABMF members, ADB secretariat and ad-hoc updating team throughout the updating process
Procedure for the updating

1. Collecting Information/Data
2. Revising/Updating
3. Confirmation by ABMF member
4. Publishing (ABMF Web)
Procedure for the updating

- (Step 1) Providing/collecting information and data
  - ABMF members by themselves
  - ADB secretariat team
  - Utilizing existing professional network (e.g. SMPG) could be beneficial
  - Who will coordinate and collect?

- (Step 2) Revising and updating the reports
  - ABMF members can directly do it
  - ADB secretariat team and ad-hoc team can also do it
  - Again, who will coordinate?
Procedure for the updating

- **(Step 3) Review and confirmation by ABMF members**
  - ✓ This is necessary to make it official ABMF output
  - ✓ Need to think about who will facilitate the procedure for the consultation with ABMF members

- **(Step 4) Publication of updated reports**
  - ✓ Basically ADB ABMF website (official)
  - ✓ For convenience of users, we can think of additional sites (mirror site/linked to official site)
Ad-hoc updating team

- To efficiently update the reports
- To include multilateral networks and involvements
- Establish under ABMF on voluntary basis
- Participation (Tentative)
  - ADB secretariat team
  - SWIFT (to utilize SMPG network and other resources)
  - Other experts appropriate and available
- Provide key support for Step 1 and Step 2)
  - Facilitating information collection from various sources
  - Directly and indirectly revising and updating the reports
Updating procedure and responsibility

Collecting Information/Data

Revising/Updating

Confirmation by ABMF member

Publishing (ABMF Web)

Updating Team
(ADB Secretariat, SWIFT, & Others)
- Support collecting info/date
- Support revising/updating
- Facilitate ABMF member confirmation

ABMF members
- Provide inputs for Info/data
- Provide revision/update
- Confirm the revision/update

ADB Secretariat

Mirror system (Optional, ex: SWIFT)
Request for Feedback

Members and experts are invited to provide their feedback on the proposed options.

Questions welcome

Many thanks!

ADB Secretariat
Supplementary slides
: Options proposed during the Beijing Meeting
Option 1: By ADB secretariat

1. Collecting Information/Data
2. Revising/Updating
3. Consultation with ABMF member
4. Review by respective member
5. Publishing (ABMF Web)

Inputs from ABMF member & and others
ADB Secretariat team
Option 2: By ABMF members

Collecting Information/Data

Inputs from ADB Secretariat, ABMF members, & others

Revising/Updating

Respective ABMF member

Review and Confirm

ADB Secretariat team

Publishing (ABMF Web)
Option 3: By ad-hoc team

- Collecting Information/Data
  - Inputs from ADB Secretariat, ABMF members, & Others

- Revising/Updating
  - Consultation with ABMF member
    * Voluntary basis
    * SWIFT and others

- Publishing
  - (ABMF Web)

- Market Practice Updating Team (MPUT)
  - Publishing in mirror system (Optional, ex: SWIFT)

  - Review by respective member