

**ASEAN+3 Bond Market Forum (ABMF) - Seventh Meeting
Hong Kong Monetary Authority, Hong Kong, China**

8 and 9 February 2012

Meeting Minutes

I. Summary

1. The 7th ASEAN+3 Bond Market Forum (ABMF) meeting was held in Hong Kong, China, on 8 and 9 February 2012. The meeting was co-organized by Hong Kong Monetary Authority (HKMA) and Asian Development Bank (ADB).

2. The main objectives of the meeting were to update members on the progress of the Phase 1 Report (the Report) completion and publishing plans, and to present and further discuss the planned activities for Phase 2 in Sub-Forum 1(SF1) and Sub-Forum 2(SF2).

3. Due to the significant size and the sheer volume of information, there has been a delay in finalizing the Report. The final version of the report was completed around the Hong Kong meeting and members have started to receive the final version for their own proofreading and confirmation. Members are required to provide feedback on the final version by 24 February. After members' feedback is incorporated into the final document, ADB's internal procedure to produce the Report as an official output of ADB will be pushed through, which may take a minimum of 2 weeks. With such required procedures, the publication of the Report is now envisaged by the end of March 2012.

4. Following the discussion during the Beijing meeting, ADB secretariat team (the Secretariat) provided more detailed plan to disseminate the Report, including on-line publication including AsianBondsOnline, distribution through International Experts and industry networks, press release, and public conference. A final decision on the public conference will be made in conjunction with the chairs after taking more stakeholder feedback. As for updating the Report, the Secretariat proposed an approach that incorporates establishment of ad-hoc updating team to provide inputs for updates and lead cooperation with ABMF members, based on member feedback since the last meeting. The proposed approach is expected to be formally adopted by members during next ABMF meeting.

5. The Secretariat detailed the planned activities and proposed work plans for ABMF Phase 2. Key points of the discussion on Phase 2 activities during the meeting includes the following:

- Members confirmed that the key activity of SF1 will be introducing regional common bond issuance program focusing on professional markets, which has tentatively been labelled as AMBIP, Asian Multi-Currency Bond Issuance Program. SF1 will be researching and discussing standardisation of documentation, procedures and underlying legislation for the issuance of AMBIP. Members discussed the detailed scope and approaches of AMBIP, including the specific documentation types (e.g., Reg-S or Rule 144A), mutual recognition as a practical method for standardization, and bilateral approach versus multilateral approach in pursuing standardization, all of which required further discussions before getting clear conclusion.
- It is shared among members that there is a need to extend invitation to market practitioners with issuance background and also the regulatory authorities for efficient discussion of AMBIP. It is also discussed setting up working group which can contribute to AMBIP discussion. In this context, some members including

Korea and Philippines proposed to start SRO meeting on a voluntary basis and it was supported by other members. However, the details of participants and function of such SRO meeting will be subject to further discussion among the members.

- SF2 will focus on i) an expansion of bond transaction flows to corporate bonds, ii) the study of corporate action flows for interest payments and redemptions, as well as iii) a fit & gap analysis of a number of current market messages related to bond transactions against the ISO20022 standard. For members' reference to kick off the Phase 2 discussion, detailed market practices for corporate actions of several economies were shared during the meeting. It was also shared with members that if needed due to time constraints, priority will be given some parts of the focus areas, for example fit & gap analysis. SF2 is expected to provide recommendations and a proposed roadmap for the implementation of such recommendations at the conclusion of Phase 2.

6. In addition to regular SF1 and SF2 session, information sessions detailed the functions and work of CLS Bank and the CSD-Link solution favoured by HKMA, Bank Negara Malaysia and Euroclear. Members also heard about the emergence of Islamic bond issuance in Japan, and the upcoming Qualified Institutional Buyer (QIB) concept in Korea. The Secretariat continued to update members on the latest development for the Regional Settlement Intermediary (RSI) and Legal Entity Identifier (LEI) initiatives.

7. The Secretariat briefed the members the consultation result with ASEAN+3 Asian Bond Market Initiative (ABMI) Task Force 3 (TF3) chairs on the Phase 2 membership; total of 46 members for SF1 and 34 members for SF2 were confirmed. On behalf of members, the Secretariat expressed warm welcome for those institutions newly joining Phase 2 activities.

8. The broad work plan for Phase 2 was presented by the Secretariat as summarized in Table 1.

Table 1: Work Plan for Phase 2 AMBF

8-9 Feb 2012	7 th ABMF meeting in Hong Kong, China
2 Mar 2012	ABMI TF3 meeting (first reporting of Phase 2)
Mar 2012	Public conference for Phase 1 Report (optional)
17-18 Apr 2012	8 th ABMF meeting in Manila, Philippines
2-3 May 2012	AFDM+3 and AFFM+3 in Manila, Philippines
Sep 2012	9 th ABMF meeting
Oct 2012	ABMI TF3 meeting (second reporting of Phase 2)
Nov 2012	AFDM+3
Dec 2012	10 th ABMF meeting
Feb 2013	11 th ABMF meeting
Mar 2013	ABMI TF3 meeting (third reporting of Phase 2)
Apr 2013	12 th ABMF meeting (finalizing Phase 2 report)
Apr 2013	AFDM+3 (submitting the Phase 2 report)
May 2013	AFMM+3 (Phase 2 report to be approved)
2 nd Half 2013	Pilot issue through the common bond issuance program

9. The next meeting of ABMF Phase 2, or the 8th ABMF Meeting, will be held in Manila, Philippines (tentative), on 18 and 19 April 2012. It is targeted to conclude on the

detailed activities for ABMF Phase 2 and to discuss the survey or data collection plans for SF1 and SF2. The Secretariat will send a formal invitation to ABMF members and observers in March 2012.

10. The 9th ABMF meeting will be on September 2012, with the date to be fixed later. The dates for subsequent ABMF meetings are still to be determined, also in line with the progress of discussions on the Phase 2 activities.

11. All presentation materials have been uploaded to the Members Library section of the ABMF website (<http://asean3abmf.adb.org>), and the final version of the Report including SF1 comparative analysis and market guides and the SF2 market descriptions, bond market infrastructure and transaction flow diagrams are also available on the website.

II. DAY 1: ABMF Sub Forum 1 (SF1)

Welcome Remarks by Mr. Esmond Lee, Executive Director, Financial Infrastructure Department, Hong Kong Monetary Authority

Mr. Lee expressed his warm welcome to all members and participants and delightedness to host the 7th ABMF Meeting. He opined that while the Asian crisis seemed to be so long time ago, its lessons were still relevant to date. One key lesson was to create or promote a resilient bond market in the region. He pointed out that many of the savings in the region are invested in low yielding instruments in other parts of the world and this signals underdeveloped Asian bond markets.

Against this backdrop, ABMI was established in 2003 to create resilient bond markets in the region and devise ways to fully and effectively make use of Asian savings. One of the original key objectives was related to today's ABMF topics: to achieve efficiency in post-trade processes across borders. Besides ABMI, a number of initiatives have been undertaken by CSDs and central banks, such as the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP), aiming to develop bond index funds and market infrastructure, where HKMA and other institutions joined with Euroclear in 2008 to take one step further towards a common operations platform. These initiatives represented different approaches but shared common objectives: how to harmonise practices and make transactions more efficient. Hence, the work of ABMF fits in well with the aims for standardisation and harmonisation.

Another objective was the creation and operation of efficient and cost-effective settlement infrastructure, such as the Regional Settlement Intermediary (RSI) studied under the Group of Experts (GoE) of ABMI. Mr. Lee stressed that discussions continued among parties in the region, but pointed out that actual implementation action was needed to be put into place before conclusion was made in long-term plan. A gradual implementation was desirable because this approach was most practical, as taken by the CSD linkages.

The main reason for issuers to issue bonds was raising money, and bondholders to buy bonds was interest income. However, Mr. Lee added that bonds can also be used as collateral, so that the bondholder can obtain credit. This became an increasingly important factor of the bond market development. In this context, he pointed to the next day's session on the common platform and other presentations focused on cross-border collateral.

Mr. Lee closed his speech by thanking members and participants for coming to Hong Kong and with wishes for a fruitful discussion over the next two days.

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

Mr. Muraki thanked Mr. Esmond Lee for the good introductory remarks, HKMA for hosting the 7th ABMF meeting, and HKMA for a cocktail the following evening.

Mr. Muraki briefly updated what was in store for Sub-Forum 1 (SF1). The Phase 1 Report was almost complete, and currently under a final review by ADB secretariat team, intended to be shared with members soonest for a final proofreading and feedback opportunity, with the hope to publish the Report by the end of March. The volume of the Phase 1 Report was very substantial, already having been referred to as a telephone book, but it reflected great contributions from all members and experts. Mr. Muraki expressed his sincere thanks to all involved, consultants, members and experts alike.

He stated that for SF1, the ADB Secretariat would like to further clarify the Phase 2 objectives and share some of the proposed activities that the team had defined. Mr. Muraki closed his remarks with thanks to all participants.

Session 1: Updates on Finalization of Phase 1 Report – Mr. Seung-Jae Lee, ADB Secretariat

Mr. SJ Lee updated members the current status of Phase 1 report and sought understanding of the members for the delay in finalizing the Report, which had been originally targeted by the end of December 2011. But with continued and valuable comments from members, additional revisions were required and the extra time was also needed for editing and layout work, all of which contributed to a delay towards publication. Mr. SJ Lee stressed that the ADB Secretariat has been trying to ensure the highest quality for the Report.

He explained to members that ADB had started sending the final version of the Report for the final review and confirmation by members; the Report had been uploaded to the ABMF members' site. He circulated two hardcopy samples of the final version Report among members during the meeting, for members' easy reference. Mr. SJ Lee was hoping to have final comments from members starting from 17 February. The remaining part of the Report (individual market guides of some economies) would be distributed by 17 February, with one week time for members to review and comment. Hence, ADB Secretariat was hoping to have the complete feedback for Phase 1 Report by 24 February. The intention was to include all comments received by the end of February. Then, the Report would undergo a mandatory publishing process of ADB, typically lasting 2 weeks. Considering the remaining procedures, the publication was targeted at the end of March. Mr. Lee hoped to have members' support for the proposed approach.

Mr. Muraki thanked Mr. Lee for his representations and opened Session 2 by inviting Prof Inukai to share with the audience the SF1 plans for ABMF Phase 2.

Session 2: Developing common bond issuance program (Part 1) – Prof. Shigehito Inukai, ADB Consultant

Prof. Inukai thanked the Chair and proceeded to share the approach and plan of SF1. Before starting his presentation, Prof. Inukai introduced Mr. Noriyuki Suzuki as a new International Expert for SF1, who would add his comments later.

Prof. Inukai previewed the content of his slides and focused on the significance of a common intra-regional market, which could be achieved by connecting individual markets

in the region. He pointed out that initially connecting markets on a bilateral basis might be a practical starting point, although the focus should be on intra-regional.

Prof. Inukai reminded the audience that the key objective for SF1 Phase 2 was to facilitate cross-border bond issuance in the region. He believed the preferred approach was to focus on the existence or establishment of professional markets or similar exempt regimes, which waive full disclosure requirements; this particularly included private placement provisions across jurisdictions. Prof. Inukai was convinced that a focus on the existing professional elements would in effect lead to a common professional market.

The key outcome of Phase 2 would, thus, be an organised and well-documented intra-regional professional market, leading to the proposed regional issuance programme, tentatively labelled AMBIP (Asian Multi-currency Bond Issuance Program). The intention was to achieve standard regional documentation in order to support such common/regional market, with participation from lawyers, investment bankers, custodians and other intermediaries.

According to Prof. Inukai, an indispensable condition to have a common market accepted would be the understanding and mutual recognition among regulatory authorities and policy makers. Thus, he was proposing to invite more regional regulators and policy makers into the Phase 2 discussions. He felt it was a key to recognise common denominators for the concepts of professionals, exempt markets and disclosure conditions. In this context, he presented status quo concept of professional investors and existence of professional markets, which is different across the jurisdictions. He stressed that work should begin with what market features were available; there was no intention to change laws and regulations from the beginning, in view of the ABMF timeline.

Prof. Inukai next briefly touched on the expected results, to be explained later by Mr. Schmidt. Members should be able to i) define for themselves a common set of goals across all the market features mentioned so far and ii) identify their own path to achieve these common goals at a pace achievable for each jurisdiction. First emphasis should be on allowing cross-border transactions across markets, utilising a mutual recognition framework. Prof. Inukai touched on the exempted versus full disclosure market concepts and pointed out that offers were typically defined through their disclosure. Exemptions from disclosure could come in many variations, such as being exempt from full disclosure, a limited disclosure for professionals only, and the use of private placement concepts. Members should jointly decide which route to take.

Mr. Suzuki explained in detail the Reg-S and Rule 144A provisions. Prof. Inukai stated that ABMF should ultimately aim for a Rule 144A market in each jurisdiction, and illustrated the progression from the status quo in ASEAN+3 towards the key Phase 2 outcomes with several diagrams. He stressed cross-border flows of regional securities would have to be achieved through a mutual recognition of a common regime. Here, Prof. Inukai showed a number of examples highlighting the key elements needed to be in place, and considering a number of jurisdiction-versus-issuer and -investor constellations. If all the key elements were covered, that would allow any issuer from the region to issue in any of the jurisdictions, with any investor from the region being able to subscribe to, and later buy and sell any such issues in any jurisdiction. This would create a common regional market.

In summing up, Prof. Inukai stressed that the proposed approach was the multiple of domestic bilateral, professional, private placement or exempt markets, with the ultimate aim of a multi-lateral ASEAN+3 regulations approach. He conceded that a bilateral approach was not enough for a common market and only a multi-lateral approach would allow ABMF to achieve the ultimate goal, even if it may be tough to get there. Thus, again, it may be possible to start with bilateral arrangements but developments could most

definitely not stop there. In using this approach, individual countries can set their own goals and pace to achieve the ultimate objective.

Prof. Inukai then identified the key areas of discussion for Phase 2. One focus would relate to the relevant laws and regulations and self-regulatory functions, in order to recognise common denominators for professional concepts. This included what would allow jurisdictions to mutually recognise exempt market concepts. SF1 would also further study the levels of information disclosure and underlying investor protection concepts, market participants and their codes of conduct, as well as types of suitable securities for the future market. All these topics would have to be discussed in greater detail. The other focus would be related to market practices and functions of SROs, the standardisation of the underlying issue documentation and the synchronisation of the individual concepts of eligible issuers. Here, the emphasis would be on domestic SRO, as mentioned, since they already governed each domestic market. SF1 would also attempt to define the new issue underwriting procedures and hoped to standardise rules and practices for the secondary market activities.

In this context, Prof Inukai emphasised that there was no intention to judge whether a market was good or not, and stressed the importance for SF1 members to understand the current situation across jurisdictions. Prof Inukai also labelled the significance of SROs in the domestic markets as critically important. The Beijing meeting saw plenty of discussions on the SRO roles and functions that were important as features for the proposed common market. However, a general discussion on a regional SRO may not be necessary for the time being. Instead, the creation of a regional SRO was indeed a future possibility, and could be modelled after, e.g., the International Capital Markets Associations (ICMA). At the same time, according to the IOSCO definition, an SRO is typically limited to a single domestic jurisdiction, and assuming one of many possible roles, ranging from an industry association to an exchange or a quasi-regulatory body. Hence, SRO governance would typically not go beyond a domestic, on-shore role. Prof. Inukai opined that once SF1 discussions would reach a full multi-lateral level, discussions on a regional SRO might be beneficial. Until then, the importance will have to lie in the domestic focus. Unless a jurisdiction featured certain market qualities, such as good securities laws for investor protection, a good business conduct, effective governance, other jurisdictions might not be keen to connect. This led to the need for an SRO to focus on the individual domestic issues and features. Prof. Inukai displayed the existing SROs and some of their key functions, and stressed that the existing SROs tended to complement regulatory authorities, have rule-setting abilities and governed market participants.

To discuss a common professional market and the proposed issuance programme, Prof. Inukai reiterated that it was important to include participation from market practitioners, regulators and policy makers. A broader participant base would contribute to a more informed discussion. He introduced the concept of a group discussion forum, or a working group, to aid the SF1 main discussion. As mentioned, the SRO topic was important but not necessarily a prerequisite for the SF1 discussion and outcomes. The proposed group would be on a voluntary basis and expected to discuss at a later stage, e.g., self-regulations and codes of conduct and would be expected to advise SF1 on such specific topics.

In terms of planned activities, Prof. Inukai mentioned that it was now clear on what Phase 2 discussions will focus on: the investor definition(s) to be targeted, disclosure documentation and the market processes to be observed. He felt that the information asymmetry is highly likely to improve due to the strong efforts by members in Phase 1 and resulting Report. The comparative analysis of the Report can continue to be improved during Phase 2. Prof. He stressed again that the discussion should focus on a few narrowly defined subjects in order to achieve the desired outcomes, and emphasised for members to consider a pilot issue by the conclusion of Phase 2.

Prof. Inukai then invited Mr. Suzuki, from Barclays Capital in Tokyo, who spent 30 years in the capital markets in Europe, the US, and Japan, to share his views on Reg-S and related issues. Mr. Suzuki detailed the US market segments and related concepts to members. He informed that Regulation D, or Reg-D, segment issuances were not suitable for SF1 purposes, since issue conditions were quite specific and the resale of bonds was prohibited. Rule 144A issuance, with some limited documentation requirements, was exempt from full disclosure, with no specific disclosure rules since trading was only between professional investors. Together with normal public offerings, these were the issuance segments for the domestic US market. Reg-S prohibited the flow back of resident issuers' bonds into the domestic market and also prohibited the trading or investing in offshore bonds by domestic investors, since no disclosure had been filed originally in the domestic market. In effect, Reg-S business did not represent cross-border transactions. Conversely, fulfilling Reg-S requirements was considered using a safe harbour for offshore issuance, since issuance would not need to follow a specific domestic market's documentation and disclosure requirements and their inherent limitations.

Mr. Suzuki illustrated examples of a bilateral cross-border approach that would allow issuers and investors in both markets to issue and sell bonds under a mutually recognised regime. In effect, this was a Reg-S approach since it was not compatible with the respective domestic markets, but would allow a Rule 144A issuance with certain documentation on the basis of mutual/bilateral recognition. He also presented an example that showed an expansion of bilateral mutual recognitions, leading to a multiple of bilateral cross-border approaches with the ultimate aim of a multilateral agreement between (all) the markets. The approach shown was a closed concept, without outside investors, effectively representing a pure intra-regional approach as previously mentioned. In combination, its features allowed each investor to access each market as desired, and issuers to issue in markets where capital raising was seen as most beneficial, and where underwriters and agents were able to facilitate such access to and from each market. Mr. Suzuki followed up with a quick comparison of offshore versus onshore concept, providing some examples to achieve a better understanding of the perspectives he had mentioned so far.

Mr. Suzuki highlighted some of the work areas, those related to laws and regulations and the others related to market practices and functions of domestic SROs. In conclusion, Mr. Suzuki stated that a Reg-D concept couldn't have a liquid market. Instead, SF1 should focus on Rule 144A, which would mean minimum disclosure using standard documentation in a market occupied by professional participants.

Prof. Inukai then asked Mr. Schmidt to detail some of the issues to be considered. Mr. Schmidt reminded the audience the Beijing meeting, where a number of important points were touched upon, including the meaning and significance of 'offshore', the restrictions for currencies and the differences in development across individual domestic bond markets. He noted that 'offshore' tended to attract negative connotations from members and might also create the wrong perceptions among regulators. 'Offshore' would also, by definition, require a currency other than the one(s) used in the domestic market(s) since many currencies were not internationalised; however, that was not what ABMF was trying to achieve. Instead, the focus was indeed on domestic markets. He concluded that the terms 'regional' or 'intra-regional', meaning within ASEAN+3, were more suitable attributes for the proposed common market place. In terms of market access, the market guides and the comparative analysis in the Phase1 Report already showed that most ASEAN+3 markets permitted foreign institutional investors to buy and sell domestic bonds, sometimes with investor registration or specific reporting requirements. This, in fact, provided a strong basis for a professional-only market segment across the economies.

Mr. Schmidt pointed that some ASEAN+3 countries had limited the exposure of their currencies for economical or other reasons and stated that a change of this status should not be pursued by ABMF. Rather, it would be considered as a pre-condition for ABMF discussion. On the other hand, many economies already permitted the access to and conversion of their currencies for foreign investors. This implied that a local currency (LCY) clearing infrastructure already existed across the ASEAN+3 markets and could be used for the processing of future cross-border trades in LCY. According to him, member countries had been keenly aware of differences in market development between their own and other markets and this had been acknowledged at the inception of ABMF. He felt that these apparent differences had not, however, affected the constructive dialogue or discussions among members in ABMF. One of the key objectives for Phase 2 would, thus, have to be the ability for all markets to contribute actively to these discussions, while allowing individual countries to join or interface with key Phase 2 outcomes according to their own capabilities.

As for the process of convergence, Mr. Schmidt described the ability for member countries i) to jointly define a set of common goals or objectives and then ii) to make their own way at their own pace towards these goals or objectives. Individual roadmaps could be drawn up to chart each market's path and required timeline. This would allow discussing specific topics individually, in conjunction with others or in parallel, and progress each topic at the pace of discussions. The definitions of and discussions by topic would also allow for an easy reporting process in the output of ABMF Phase 2.

In combining the above conclusions, Mr. Schmidt advocated that the Phase 2 key outcome would be an organised and well-documented intra-regional professional market across jurisdictions, evident through a common bond issuance program of AMBIP with a standardisation of relevant documentation. Such regionally standardised bond issuance program could lead to opening up the markets for qualified issuers and investors in the region and beyond.

Mr. Muraki thanked Prof. Inukai, Mr. Suzuki and Mr. Schmidt for their good presentations and suggested to continue the Q & A session after the break.

Session 2: Developing common bond issuance program (Part 2) - Q&A Session

Mr. Muraki introduced Mr. Toru Ishiguro, a senior lawyer from Mori Hamada & Matsumoto, as a new International Expert for Phase 2, and suggested to kick off the Q & A session with a few brief remarks from him.

Mr. Ishiguro thanked the Chair, introduced himself and expressed his great appreciation for what had been achieved in ABMF Phase 1. He felt the material distributed prior to the meeting was a good introduction of the expected accomplishments in Phase 2. He opined that the term "market" represented all practitioners in a given market, including the private participants and the regulators. Perhaps it would be practical not to attempt to create a "common market" for all ASEAN+3 countries because it would be quite difficult and time consuming with existing regulatory and market differences. He felt that private sector initiatives targeting at a creation of the "intra-regional market", as opposed to the "common market" would, thus, gain importance as a way to proceed in a timely and realistic manner. Also, he pointed out that starting with a "bilateral approach" appeared to be more realistic and productive in this process.

Mr. Ishiguro also pointed out that one of key points was to avoid the use of 'offshore market' terminology, which would indeed be very ambiguous and therefore confusing. He also suggested not to use the terms "Reg-S" or "Reg-S market" because these terms

apparently had been used erroneously in previous meetings. There was no need to refer such concept, whatever meaning the user wanted to assign to it. The focus was on the domestic market of each jurisdiction and the key objective was to create an intra-regional market after all.

Mr. Cichy of HSBC enquired whether the mutual recognition referred to agreements between SROs, governments, or regulators or, potentially, all of the above. Prof. Inukai responded that the point should be discussed in Phase 2. Mr. Schmidt added that it may not be practical and beneficial to define specific outcomes before their suitability had been properly researched and discussed among members. Mr. Ishiguro added that some jurisdictions did not have a professional investor concept or similar exempt regimes yet; however, among some of the markets there may already be found a basis to start forming a regional framework.

Mr. Yang of KOFIA asked to clarify whether a bilateral approach seemed to be favoured and would it not be possible to consider a semi-multilateral approach, i.e. connecting a number of more developed markets, such as Hong Kong, Japan, or Korea and China. He felt that a multilateral approach might be the ultimate goal. He also wanted to know who would be doing all the work required in the work plan, and proposed that presentation files for meetings should be provided to members one month before the meetings for members' full review. Prof. Inukai responded that he understood Mr. Yang's concerns and that the underlying philosophy was probably the same, even if a bilateral approach was favoured as a first step, because it would lead to a multilateral agreement between markets. He felt that in reality, the actual approach would be a mixture of both approaches. Prof. Inukai emphasised that a lot was to be done, and that members would discuss further and decide on necessary priorities; then, members and consultants should collectively execute the agreed plan. Having just listed the necessary work items, the next step would be the need to draw up detailed set of tasks to be able to execute.

Mr. Castillo of PDS congratulated the consultants on presentations and mentioned that he sensed some concerns, such as how to achieve the intended outcome, and who to do it. He stressed that there was a need to develop detailed plans on what was needed, since members would have to take the activities and propose results to the regulators and their own constituents. He felt a bit confused on where to go from here.

Mr. Takahashi from Nomura Securities added that the proposed concept seemed evolutionary in nature and that, rather than creating a common market outright, a practical approach should be favoured. According to him, an Asian Reg-S market may be difficult to distinguish from the Eurobond market, hence, connecting the domestic markets seemed to be a beneficial approach. However, Mr. Takahashi enquired what exactly common issuance represented was. He was still unclear on the details of issuance, required disclosure, and relevant documentation.

To these points, Prof. Inukai responded that the team did not yet have a clear formula on how to execute the planned activities, stressing that the team had so far focused on defining the proposed approach and that details were for members to discuss and for the team to work out further following direction from members.

Mr. Tagai from J.P. Morgan then tried to reconcile the views expressed. He reminded the audience that any outcomes would have to translate to business benefits, and be communicated back to the individual markets' participants teams and to gain traction there. He recommended the use of plain language for that. If he understood correctly, the aim was to extend domestic markets beyond their own jurisdiction. From a business point of view, an underwriting in Hong Kong and another market, where both countries had a mutual recognition regime, only one legal entity would be required for the underwriting.

That would be a significant business benefit. As for bilateral versus multilateral approaches, he pointed that the key should be regional consistency. He cited that multiple bilateral agreements might become an issue if agreements turned out as very different. Any approach should, however, also allow the fast tracking of agreements beyond agreed milestones. Mr. Tagai reiterated Prof. Inukai's intention to canvas the opinions of market participants regarding the needs on issuance. He felt it beneficial to reach out to issuers and underwriters in, e.g., Hong Kong, Japan and Korea to obtain such information and suggested this survey could perhaps be done in conjunction with the dissemination of the Phase 1 Report.

Ms. Chua, from Securities Commission Malaysia, recalled that the Beijing meeting had already seen many benefits and that the discussion was now focusing on mutual recognition. It was important to define what mutual recognition meant to all parties. This may be aided by a clearer, more detailed action plan, with to-dos and the respective parties who are targeted to implement such actions. Ms. Chua emphasised that mutual recognition meant understanding each other's regulations, and encompassed discussions with regulators and between regulators. She felt a future mutual recognition may not (need to) include all aspects of the relevant regulations, but could be limited to aspects that ABMF would like to focus on. According to her, the real challenge would be to get all regulators to sit down and discuss these points.

A representative from NAFMII showed his appreciation for the team's work and wanted to draw specific attention to some points: 1) All achievements so far had been achieved as a result of ASEAN+3's support. It would be crucial to ensure the same support going forward; 2) Many countries were still developing their bond markets and a broad inclusion of stakeholders was important to have a precise understanding of their opinions and objectives; 3) To promote a more interconnected, harmonised intra-regional market, it was necessary to check all proposed actions against these objectives. Members should not incur costs or initiate measures that would further segment the markets; 4) ABMF should see how to best utilise existing experience in the region. It might be important to study the US and European experiences, but the regional reality was indeed different from those markets. For example, ABMF could begin by reviewing whether markets already had existing agreements in place that members could learn from and could apply to ABMF's work should they be relevant.

In response to some of the above points, Mr. Suzuki confirmed that a bilateral approach had the ultimate goal of fostering a multilateral regime across many or all market. However, he expressed his belief that member might soon realise that the best approach might be bilateral in nature. He felt that whether Phase 2 should start with a bilateral approach, or aim straight for a multilateral one may be for the members to discuss and decide; realistically, bilateral may be easier from a practical, business-oriented perspective. He also mentioned that using the term 'programme' might suggest a comparison to, e.g., the typical medium-term notes (MTN) programmes in the Eurobond market; ABMF was discussing a scheme to have multiple local currency offerings across markets, and may need to clarify intentions as such.

Mr. Mori from Bank of Tokyo-Mitsubishi UFJ opined that the proposed concept was very challenging. He recommended to map out the market needs and requirements in greater detail and gave the example that Japan had created an exempt market but there appeared to be no immediate issuer demand in the Japan domestic market. This pointed to the need to do more market research; otherwise any efforts may be in vain.

Ms. Loto from the Indonesian Debt Management Office reminded members why ABMF discussions were meant to continue into a Phase 2. She recalled presentations at the Jeju meeting which showed that intra-regional cross-border transactions were very small, due

to different regulations and practices that were prohibitive for transactions across domestic markets. Ms. Loto felt that to solve such impediments, and to promote the stated ABMI and ABMF objectives, a clear standardisation of such practices would be required to achieve more active trading. She suggested to further discuss which (role) model ABMF would want to achieve, and once firm on a model, ABMF could promote transactions under such model. In addition, the ABMF roadmap could identify items that need to be addressed or changed to achieve a convergence, compliance. If such convergence would appear as not achievable, members could consider alternative models or paths in order to achieve the regional objectives.

Mr. Kanjanaphoomin from ThaiBMA expressed his support for studying the professional market. From an issuer perspective, ABMF would want an issuer in country A to also be able to issue in country B. This would seem to point at the regulatory level, hence the need to understand regulations in countries A and B. Now, these countries may have different standards. ABMF might start work by just bilateral agreements. In fact, members could consider a 'mutual plus' approach, meaning agreements with defined but suitable deviations or exceptions from a common standard. This would mean that markets could arrive at mutually agreeable standards more easily.

Mr. Loong from CIMB sensed a need to have market forces determine how cross-border activities should take place. He also reminded members that ASEAN securities commissions were already spending joint efforts in trying to achieve cross-border issuance by working on a common template. He felt that, additionally, there was the possibility to have bilateral discussions and conclusions already at this stage, rather than later during Phase 2. He also opined that members needed to be mindful of the markets already existing outside of the region and imposing not too much restrictions and regulation.

In a wrap up of the morning session, Mr. SJ Lee of ADB acknowledged the interesting discussions, with lots of important and relevant points mentioned. He recalled that in Beijing meeting, many members appeared as they were not clear enough on the way forward. Now, he felt the messages were clearer; the discussion would focus on the professional investor concepts that could be exempt from some (if not all) disclosure requirements, and the final objective were to see a common issue programme – meaning a standardised approach of documentation and processes. He pointed out that members should distinguish what to be done from how to do it; the former now became much clearer. He opined that many presenters and members had focused on the possible approaches of how to do it, rather than what needed to be done; perhaps, members could discuss further on how to do it, as long as all members could agree on what needed to be achieved.

As for bilateral or multilateral approach, Mr. SJ Lee cited the Chiang Mai Initiative (CMI) as an example for a successful and gradual approach, where ASEAN+3 authorities moved from multiple of bilateral agreements to a multilateral agreement ultimately. He stated that key efforts should always be aimed at a multilateral solution, even though some members might begin with bilateral basis to get there. He argued that bilateral approach, if chosen by some of the members, should be in-lined and based with multilateral understand among ABMF members.

As for standardization methods, Mr. SJ Lee opined that mutual recognition could be a practical approach, which would allow each member to base progress on their own regulations while accepting concepts of other jurisdictions. The focus of mutual recognition should be on the qualified investors segment to ensure successful consultation results. He agreed that the detailed meaning of mutual recognition, for example recognition by whom or in what format, would be a critical issue to discuss in subsequent meetings. He also reiterated the need to invite regulatory bodies into this discussion, since members were touching the boundary of regulation. In sum, Mr. SJ Lee opined that members should not

limit themselves to specific approaches or aspects yet: Rather, it would be desirable to explore all possible options further. He closed his remarks by reminding the audience that ABMI members had already understood the difficulties of direct harmonisation approach, and had in fact directed ABMF to find an alternative that would be palatable form them.

Session 3: Establishing regional forum of SROs, Mr. Sung-Uk Yang, KOFIA

Mr. SU Yang thanked HKMA for organizing the meeting and reminded the audience of the Beijing meeting, where KOFIA proposed the establishment of a working group to discuss key issues on the SF1 agenda and report conclusions back to SF1. He then clarified further the details of the proposal on the working group: The working group would focus on topics related to the cross-border issuance programme. He suggested for the working group to have meetings typically one month prior to ABMF meetings and that the respective ABMF meeting host country could offer to accommodate the extra meeting. Participation in the working group would be on members' own account, similar to the ABMF meetings. Interested parties would need to discuss the hosting, convenors and a secretariat function. He suggested rotating the organiser role. KOFIA would like to volunteer as an initial organiser, to be agreed among potential participants.

Mr. SU Yang then introduced the new QIB (Qualified Institutional Buyer) trading system for Korea, which would be effective in May 2012 with the key purpose for small and medium enterprises (SMEs) to access capital. The proposed market will be for professional investors only, following the definition in the Financial Investment Services and Capital Markets Act (FSCMA). Smaller financial institutions and private investors are excluded from a risk management perspective. Issuers are expected to be unlisted SMEs, foreign corporates and foreign sovereigns. The issuance scope will be limited to bonds, and equity-linked instruments. The trading platform will follow the FreeBond application and be the only trading avenue for the QIB market. KOFIA will issue the governing rules effective 2 May 2012, covering areas from user registration and cancellation to bond registration, trading system operation and reporting. The rules will also include provisions for the 'obligation of notification' to KOFIA, meaning the need to provide information at time of registration and the confirmation that participants are aware of the particular limitations of the market; however, the QIB market will require no specific disclosure, since it will be a private placement market. Special conditions will be in place for foreign members.

Mr. Kanjanaphoomin from ThaiBMA enquired what would be required to place a bond into the QIB market. Mr. Yoon from KOFIA reiterated the limitation to private placements, without specific disclosure needs. He stressed there was no particular underwriting requirement and conceded that there was still much to be defined and achieved until the launch. To the question on whether a rating would be required, Mr. Yoon informed that since QIB was a professional only market and issuers would be SMEs, no specific rating requirements had been imposed yet.

Mr. Suzuki wanted to understand better the proposed market concept in respect of whether there was a direct relationship between issuer and QIB, or a minimum documentation would be prescribed, such as under Rule 144. Mr. Yoon replied that, initially, KOFIA attempted a benchmarking against the Rule 144 market but the end result turned out differently. In the QIB market, securities companies are expected to be agents of the issuers, and will be required to provide a certain amount of information about issuers and securities to be traded. Mr. Suzuki suggested that this looked similar to a direct relationship between issuer and QIB, but since the issuer did not have direct access, the relationship would be between the securities house and the QIB. To which Mr. Yoon responded that if QIBs wanted trading access, they must use the QIB system; however, if

QIBs were only interested in placements, they could opt to achieve this outside KOFIA's platform.

Mr. N Yang from SAFE pointed that the Inter-bank Bond Market of China would constitute a professional market, although China did not have the exact legal definition on it, where only institutional investors could have access and participation required approval from regulators. He also referred to the significant progress in the opening of the China bond market, with more than 15 foreign institutions already accessing the Inter-bank Bond Market. He expressed his hope that more foreign institutions would enter the Inter-bank Bond Market, particularly from ASEAN+3. Finally, he commented that it would be very difficult to achieve if a single, common market was indeed the proposed outcome of Phase 2. He referred to the comments in the morning that markets were at different stages of development. Despite China was now the 2nd biggest bond market in Asia, and the 6th biggest in the world, it was still very small compared to the US, Europe and Japan. He felt that the conundrum faced by ASEAN+3 markets was that despite all the recent achievements, still a lot of work was necessary to further improve the markets. Hence, members needed to work together and share lessons from other markets, to achieve the next level of development.

In response to Mr. N Yang's comments, Prof. Inukai pointed out that the Inter-bank Bond Market indeed had its own characteristics, in that participants and intermediaries were professionals – so the market definition was clear from a practical perspective. However, a definition was not so clear from a legal perspective. Prof. Inukai recommended to read through the comparative analysis part in the Phase 1 Report, and mentioned that the tables shown today were just a brief sample overview of the markets' distinctions and similarities. As far as the China Inter-bank Bond Market was concerned, the full comparison stated that China had developed differently from other markets, in view of exemptions and the legal basis. He felt that this was a good opportunity to use all the collected and compiled information to compare market features, and arrive at conclusions on similarities and distinctions.

With appreciation to the Phase 1 Report, Dr. Hyun from KCMI mentioned that it was critical to consider the professional investor and exempt regimes since not all concepts were accepted or practised everywhere. He asked how many countries share the same or similar regulations, and what would it take to get to a more common regime. In response to Dr. Hyun, Prof. Inukai recommended to him and the audience to read in detail the comparative analysis part of the Report available from the ABMF website, which had carefully scrutinised relevant regulations and compiled the relevant information. Once validated and ready to publish, readers would be able to understand the markets' status quo and the different versions of individual market features. He mentioned that unless everybody understood the status quo, it would be not easy to move on towards Phase 2 work.

Mr. Loong wanted to find out from Mr. SU Yang whether medium-term notes (MTN) would be under the QIB market. Mr. Yang clarified that no direct link to the QIB market was suggested.

Ms. Chen from Citibank commented that there was currently a lot of information on what foreign institutional investors could invest in, in particular relating to the Chinese market. She felt it might be beneficial to target lower hanging fruit, i.e. what markets could compromise on to allow more investor access, instead of focusing on the more difficult area of issuance. In response, Mr. Schmidt stated that the focus on issuance was driven by the needs identified earlier and directions given by ABMF TF3 and it was because market access at large was principally working already, as discussed in the meeting.

Information Session 1: Local currency bond issuance in the region, Mr. Thomas Meow, CIMB

Mr. Meow thanked the chair and members for the opportunity to detail some of the practical aspects of what had been discussed so far today. He wanted to address lack of practical examples, and identified some of the emerging trends in recent cross-border bond issuance. In his outline, Mr. Meow cited as the European debt crisis in emphasising the need for the right solutions in Asia, or ASEAN+3, but also pointed out that he wanted to show funding opportunities for regional entities. Since 2008, European banks had been contracting significantly, and they were expected to continue deleveraging for some time. The LCY bond markets in ASEAN+3 were beneficiaries of that shift in focus; he had seen more enquiries and more parties looking to seek funding. This has led to issuers and intermediaries to try to widen their market exposure. It was now seen as timely for ASEAN+3 issuers to seek funding in the region, as a reliable source for funding. In this context, Mr. Meow pointed out that Reg-S should not be looked at as US regulation per se but how as a concept it had helped European and other markets to thrive; for example, the Hong Kong RMB market was considered as REG S-like. This was evident in the use of templates for prospectus and like documentation that originated under Reg-S. Other examples of recent cross-border issues were Samurai bonds in Japan. Other markets with relevant activity included Malaysia, Singapore, and Thailand. Mr. Meow felt that such trend would continue until a resolution of the European debt crisis.

He moved on to show 4 case studies of how specific issuers have tapped the regional markets, with a focus on the approval process, distribution, documentation standards and disclosure requirements. Case study 1 detailed an issuance by Khazanah in the Singapore market in the form of Sukuk, effectively being a multi-currency Islamic securities programme. Listing was in Singapore (65% of volume), on Bursa Malaysia and in Labuan. Reg-S type formats and English law had been adopted for documentation; the issue targeted the institutional market, hence, was not registered with MAS, but achieved an exemption for withholding tax for Singapore investors under a Sukuk promotional tax scheme. Mr. Meow clarified that clearing had been done through Singapore clearing infrastructure in response to a question from Mr. Esmond Lee from HKMA.

Case study 2 saw Khazanah tapping the RMB offshore market, under the same issuance programme. This RMB-Sukuk effectively tested the same programme in a different market. Again, Reg-S format documentation was used under English law. In this context, Mr. Meow stressed the multiple usability of documentation, e.g. in Singapore, Malaysia, Hong Kong, in case of a Reg-S documentation and English law combination. Listing on Bursa Malaysia and in Labuan but clearing had to be effected through CMU in Hong Kong, due to the requirements of the RMB offshore market. He highlighted that there were no specific differences between this RMB issue and other RMB issuances, such as dim sum bonds. Mr. Meow was then asked to explain the purpose of listing and choice of listing place for each case and responded that all issues had a listing focus for profiling, not trading purposes and stated a need to support the issuer's home exchange. He felt that the value of listing was no longer relevant for more sophisticated investors and pointed out that while the 2nd issue was listed only on Bursa Malaysia and in Labuan, all types of regional foreign institutional investors participated. To a question on the apparent dual or multiple listings, Mr. Meow responded that Malaysia had two exchanges for the listing of non-MYR bond issues.

Case study 3 focused on a straightforward issue of RMB bonds from a Hong Kong company, again using Reg-S documentation, this time under Hong Kong law. Listing at SEHK and clearing via Euroclear, but sold to Malaysian investors and in Singapore. Mr. Meow pointed out that this bond had been issued before the recent publication of the Securities Commission guidelines on private debt securities (PDS Guidelines), which

constituted a major achievement. The PDS Guidelines now make the issuance process much clearer. Although Securities Commission approval is now required, CIMB believed that selling in the local market of such an issue should entirely be possible. In response to questions, Mr. Meow stated that no approval for selling in Singapore was required if distribution was to institutional investors only, and that a listing on different exchanges in the same currency would not result in different price quotes on the exchanges, also since trading, including arbitrage attempts, would happen in the OTC market only. Mr. Meow confirmed that listing was less and less driven by prudential regulations, also since even individual investors were becoming more sophisticated. In this context, Mr. Li from HKMA clarified that a bond listing would possibly save individual investors from undergoing a so-called suitability assessment.

Mr. Meow reiterated the key point that issuance was possible even before the regulatory approval was required, but that even with regulatory approval, similar issuance was still ok. He was not sure how long it might take if such process to be followed by all markets, but it would be considered a major achievement if it was possible. To this, Mr. Castillo of PDS confirmed that it would be necessary to take stock of regulatory gaps, in case they existed.

Case study 4 detailed an issuance by a Thai-Malaysia joint venture to finance a pipeline in Thailand; hence, the Thai company was tapping the Malaysian market. An SPV was set up in Malaysia, effectively making it a domestic issuance. At the time, the Thai regulations were not ready to allow a tapping of the Thai market. Now, Thailand permits FX bonds (i.e. non-THB bonds) to be sold to domestic investors, as permitted under Securities Commission guidelines and with Bank of Thailand approval due to the foreign currency component. Mr. Meow believed if such issue was made efficiently, it should allow other issuers to consider this path. To tap the Sukuk market, the SPV was required to follow the Islamic securities framework, also to be tax effective. Mr. Meow highlighted that taxation was a typical consideration for such structures and stressed that taxation cannot be ignored for an integrated bond market, to make sure that good features and attractive pricing to go hand in hand

Mr. Meow then provided an overview of the governing laws across the four case studies. He highlighted that the cases reviewed were the latest issues, and that others had gone before, so no new ground was broken. In terms of lessons learned for parties involved, the investors turned out to be more sophisticated than was originally thought; they were able to accept a range of issuers, across currencies. The differentiator for efficient issuance was seen in the Reg-S format documentation.

In summary, Mr. Meow opined that many ASEAN+3 issuers were quite suitable for cross-border local currency issuance and as investments. Reg-S was a well-accepted documentation standard. He offered that members should consider going forward whether such standard may warrant a regional adaptation, including whether there was sufficient common ground among markets, or a need to bridge between local and global standards, and a future regional standard.

He reminded the audience that the long-term objective was to achieve mutual recognition of regulatory approvals for cross-border issuance and concluded that the aim should not be to create a regional SRO for the sake of having one, but instead to focus on cooperation among the domestic SROs who had the membership of the local trading parties to effectively represent the constituents of a proposed common market.

Mr. Meow pointed out that the Credit Guarantee and Investment Facility (CGIF) was now running, and looking for business. It may address the rating issues, and also the pricing issue, since CGIF should attract the highest possible rating and favourable pricing. In terms of pricing, Mr. Meow mused that multiple markets would only make sense if these

markets had comparatively low issuance costs, including a CGIF charge, to be able to attract investors. He believed that issues would have the ability to achieve beneficial treatment by regulatory authorities when using CGIF.

Mr. Suzuki commented that the history of ICMA was driven by a regulatory vacuum in the European markets at the time. Since not limited to a single market, no specific regulator was responsible for the Eurobond market – hence the participation by trading and market intermediaries. But, an institution such as ICMA did not have enforcement powers, and in case of a violation, the respective member would just be forced to leave the organisation. Hence, it was based on the concepts of voluntary acceptance and compliance. Mr. Suzuki stated that this situation was a bit different from the landscape observed in ASEAN+3. Mr. Meow conceded that there was still a difference between some SROs, with not all of them having the ability to regulate effectively. He also felt that ICMA not having enforcement powers would be contrasted by a regional SRO, in that a regional one would be more meaningful because many individual SROs already had significant enforcement powers. Mr. Loong from CIMB added that the case studies shown were in fact issued either through market providers that were ICMA members or by institutions that were ICMA members, hence, a certain standard would be observed by default.

Information session 2: Developing Islamic finance in the region, Mr. Ryuichi Shiina, Japan Securities Dealers Association (JSDA)

Mr. Shiina outlined a new market segment that will be introduced in Japan this year: Currently, the Islamic finance market exceeds USD 1trillion globally, and Sukuk are recognised as a veritable investment possibility. In 2010, Japan started to consider the issuance of Sukuk, following the acceptance by the government of the equalisation of tax requirements and tax reform requests that were included in the 2011 tax reform outline. As a result of market efforts, the Diet passed the amendments to the Securitisation Act in 2011, including an amendment on taxation to create a level playing field. The structure of Japanese Sukuk (J-Sukuk) would follow Japanese law by using the trust concept, with the 'specified purpose trust' as most suitable format

J-Sukuk issuance would assume the Ijarah (sell and buy back) concept. Mr. Shiina detailed some of the features of a specific purpose trust, the related 'bond-type beneficial interests' and 'special bond-type beneficial interests'. He then explained the process of a J-Sukuk origination, stating that despite the apparent numerous steps, most in fact happened on the same day. Mr. Shiina mentioned that the favourable tax treatment had a sunset clause, expiring in 2013 and 2014, respectively. He felt that a solid issue track record would be necessary for the tax exemptions to be extended.

A J-Sukuk would be listed on the Tokyo PRO-Bond Market, which would require a listing rules amendment to admit J-Sukuk as an eligible security for listing. Due to the limitations inherent in the relevant taxation measure, the proposed market in J-Sukuk would be smaller than the one normally targeted by PRO-Bond. Settlement of J-Sukuk would be via the use of JASDEC's book-entry transfer system. JASDEC already provided an implementation package for J-Sukuk processing parameters and processes to members in November 2011.

Mr. Shiina then focused on some of the features and issues to be further discussed. He referred to the fact that partnerships and silent partnerships were now also allowed as underlying structures, due to the law change in 2011. One key issue was to whom to sell the J-Sukuk. Another major consideration was whether takaful, i.e. Islamic insurance cooperatives, would be included in the category of foreign financial institutions.

Mr. Shiina also provided market size information for Islamic funds, noting that Malaysia had a huge allocation of Sukuk funds. He also raised the possibility of a J-Sukuk as the pilot issue for ABMF Phase 2. Among ABMF member countries, there was a strong momentum towards a more active utilisation of Islamic finance, in particular in the form of Sukuk. Thus, Mr. Shiina concluded that Sukuk cannot be ignored as an asset class when trying to standardise the regional bond market.

Mr. Shiina rounded out his remarks with the prospective for domestic J-Sukuk issuance and the potential attractiveness of a J-Sukuk market to overseas investors. One other key aspect of the new market could also be the so-called reverse approach, i.e. the issuance of J-Sukuk by overseas issuers, including the underlying assets being held outside of Japan. This would create a Samurai Sukuk or Shogun Sukuk asset class. Mr. Shiina saw that the potential issues would be low, due to lack of experience of Japanese trust companies with overseas assets, and the added complexity of the structuring of both overseas and domestic instruments and their abilities to comply with Shariah principles. One possible rectification of these concerns was the scheme labelled 'Double Repackaging Plan', requiring the set up of a special purpose company in a tax haven.

Ms. Loto commented that Mr. Shiina had explained that J-Sukuk could be issued in the Tokyo PRO-Bond market, and may be helped by a credit guarantee. She relayed that the Indonesian Ministry of Finance had tried to follow the progress of such concept. In fact, Indonesia was considering to issue Samurai bonds on the PRO-Bond without using a credit guarantee. Mr. Muraki responded that, presently, a particular issuer was looking at the market and checking demand and conditions. Due to the ongoing debt crisis in Europe, the issuer was still being cautious but continued to talk to market participants. Mr. Muraki believed that such a proposed issue could come at any time. Mr. Shiina added that Indonesia had already issued a Samurai bond using J-BIC. Ms. Loto confirmed this past issue but stressed that Indonesia, since achieved investment grade rating, was now considering to issue without a credit guarantee, whether as a J-Sukuk or in the form of normal bonds, using the PRO-Bond market concept. Mr. Muraki then illustrated the key issuing requirements for PRO-Bond, e.g., that there is a need to have a rating from one of five accepted credit rating agencies, documentation can be in English, and the proposed issue needed to have an approved underwriter.

Mr. Loong commented that the structure and tax incentives appeared to be much improved in comparison to Malaysia, since Malaysian investors did not enjoy such tax benefits. He enquired whether Japan would allow foreign Shariah advisors, and what type of documentation would be acceptable, e.g., Reg-S type of documents. Mr. Shiina confirmed that JSDA had previously sought advice of a Shariah advisor in Malaysia and also consulted with the regulator, and was getting a positive reply that foreign Shariah advisors could principally be possible. The documentation standard, however, had not yet been decided. Mr. Shiina believed that the key for standard documentation would lie in what the actual documentation of the underlying deal would look like, so that decision makers had empirical input.

Mr. Suzuki referred back to Mr. Meow's presentation, and mentioned that his presentation had presented offshore Asian bonds issuance, but what members had been talking about was the domestic/onshore issuance with cross-border participation. Mr. Suzuki wanted to point out that it was good to have both such avenues for consideration and wanted to hear Prof. Inukai's and Mr. Meow's opinion. Prof. Inukai responded by stating that Reg-S meant, in fact, a Eurobond and that of the 4 cases presented by Mr. Meow, numbers 1 to 3 were, in effect, Eurobonds, or issues where some domestic elements had been combined with key Eurobond characteristics. Case 4 was a domestic bond.

Mr. Suzuki recalled two perspectives for a Reg-S concept: 1) being a safe harbour from any specific domestic market requirements and 2) to mean that no offer of such bonds could be made in any domestic market. Hence, both perspectives did, in principle, not directly apply to the intended direction of discussion. Mr. Meow then conceded that the referenced issues had been using Reg-S type standard documentation and offering information, as well as using lawyers with Reg-S experience, but had not necessarily followed exact Reg-S provisions. He offered the audience one other perspective, in that since Asian local currencies were typically not reserve currencies, markets needed to rely on domestic demand, meaning an offer in the domestic market was a mandatory consideration. Prof. Inukai added that members needed to consider that Singapore and Hong Kong were both domestic but also international markets; in particular in Hong Kong, there was no clear distinction between the two market perspectives.

With his final remarks, Mr. Shiina clarified that for the clearing and settlement of a future J-Sukuk, JASDEC would have to be used, not the services of Euroclear and others. However, in future, underlying deals for J-Sukuk may also utilise non-Japan assets, which would also influence the permissible facilities for clearing and settlement.

Session 4: Other issues of SF1

Mr. SJ Lee briefed the members on the updating process for the Phase 1 Report. As agreed previously, the key elements should be i) collecting of information and relevant data, ii) reviewing and revising, iii) a necessary confirmation from ABMF members and iv) the publication via the ADB/ABMF website. During the Beijing meeting, it was suggested that all updated reports should be ABMF output. For the update process, 3 options were proposed in Beijing. The first option was exclusively by the ADB Secretariat, which would be safe but would represent a resource constraint. The 2nd option saw updating by ABMF members, the most secure way but also fraught with possible resource constraints. Hence, the 3rd option of establishing ad-hock updating team was also considered.

Members generally considered all updates to be considered as official ABMF output and were happy to contribute to the updates, and at the same time, would prefer all available resources to be utilised. Mr. SJ Lee proposed a hybrid approach, combining options 2 and 3, in a way of requiring stronger involvement of ABMF members. Proposed updates should be on a periodical basis, such as annual or semi-annual, with the exact frequency to be finalised later. Close cooperation between members and ADB Secretariat would be required. Ultimately, updates should be published via the ABMF website which would be the official site, and possibly via additional sites for the convenience of the users. The proposed process appeared as the most practical approach and could be considered a good compromise between the various options considered. Mr. SJ Lee suggested members to have a consultation with ADB secretariat team if any members wanted to do updates separately or differently.

Mr. Schmidt presented the Phase 1 Report dissemination plans. In addition to the publication via the ADB/ABMF website, it was envisaged to use all members as intermediaries in their respective capacities and using their own constituencies. ASIFMA and SWIFT had kindly offered the use of their networks to ensure a wider distribution of the report, and the Global SMPG as well as other industry groups were considered as further channels for dissemination. Due to the sheer size of the Report, a distribution via web-link from the original ADB server in PDF format was considered most realistic. As for the direct introduction to the public, a special conference could be considered either in conjunction with the 8th ABMF meeting in Manila or on another suitable occasion. Such conference would allow ABMF to engage market participants not previously covered by

the dissemination efforts. [Note: during Day 2 of the meeting, Euroclear had kindly also offered its infrastructure as a further distribution channel for the 1 Report.]

Mr. SJ Lee asked members to let the secretariat team know about their preferred option for updating the Report and believed the detailed process could be finalised by the next meeting. Mr. Lee also stressed the urgent need to determine how to address the introduction of the Report to the public at large. The ADB team had been considering several options. One possibility was to hold a public conference in Manila, but it was also possible to have a standalone, smaller scale public conference in a location such as Hong Kong or Singapore to maximize distribution effect. For a public function in Hong Kong, the secretariat would liaise with, e.g., HKMA to find the right venue and participants. Mr. Lee sought the members' input in the course of the meeting or after on this issue. Mr. Muraki commented to consider holding such conference when the news was still fresh, meaning immediately after finalisation of the Report. Mr. Esmond Lee offered to provide needed support when the conference would be in Hong Kong.

As Chair, Mr. Muraki then invited Mr. SJ Lee to report to members on the finalised ABMF membership for SF1 during Phase 2. Mr. Lee presented to members the results of the consultations that have been carried out over recent months with ABMF TF3 members. Considering SF1 had new participants, he shared with the members the key function of ABMF, which was providing ASEAN+3 officials with non-binding policy recommendations on the development of the regional bond markets. He also explained that three types of membership would continue to be available; National Members nominated by each country's TF3 member and assumed to represent each economy; National Experts nominated by National Members and endorsed by TF3; and International Experts nominated by National Members and endorsed by TF3. ADB was a member as the secretariat. ABMF had the ability to invite ASEAN+3 policy authorities as observers to participate the meeting.

Mr. SJ Lee stressed that by general agreement, the chairmanship should continue from Phase 1 into Phase 2. SF1 now had 46 members, being 33 National Members and 13 National Experts. New National Experts included the Indonesia Clearing and Guarantee Corporation, Bank of Korea, Korea Securities Finance Corporation, and the Malaysian Investment Banking Association. He once again introduced new International Experts, Mr. Ishiguro and Mr. Suzuki, and extended a warm welcome on behalf of all members and experts. Lastly he emphasised that it was good to see representatives from Myanmar now participate on a regular basis and he extended a warm welcome to the two participants from the Central Bank of Myanmar.

Mr. Muraki also offered his warm welcome to all new members and experts, and stated the SF1 proceedings were about to be concluded. Prof. Inukai added a comment that the day's discussions had been very fruitful and that a lot of ground had been covered. He stated that further comments from members and participants were welcome and much appreciated.

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

Mr. Lee began his remarks with stating that he sensed the need to clarify further the key focus of Phase 2, although it became much clearer than the Beijing meeting. With that in mind, he clarified that ADB Secretariat team had no intention to push members towards a particular solution, or proceed without member consent. However, he also noted that there was a need for the Secretariat to facilitate the discussion to ensure progressing towards ambitious objectives of Phase 2.

He reminded the members that the basic objective of the ABMF discussion was to promote LCY bond transactions in the region. To achieve this goal, the members had been discussing on how to facilitate cross border bond transactions by making it easier for issuers and professional investors the processes of issuing and investing in bonds, respectively. Rather than debating on specific terminologies such as Reg-s or Rule 144A, it looked more important for him that the members could share the basic focus of discussion, the details of which could be clarified further through subsequent meetings and discussions. He also pointed out that the ABMF discussion on common bond issuance program should be pursued with regional perspective, differently from already existing individual initiatives, and with gradual approach considering the diverging developmental stage of bond markets of the economies.

Mr. Lee also pointed out the importance of practical approach in ABMF discussion. To ensure the delivery of the output, the members agreed to focus on professional markets first rather than public offering market. At the same time, mutual recognition had been proposed as a practical approach. Members could consider other approach such as direct harmonization, but it could be too much demanding to achieve with limited timeframe of ABMF activities. It looked possible to develop common bond issuance program through mutual recognition, as ASEAN members were already discussing it in their equity markets. However, mutual recognition still would be a difficult task for the ABMF members, and the support and involvement from regulatory bodies would be critical with regards to documentation and applicable legislation. By the same token, it would not be practical to address complicated policy issue, for example taxation or foreign currency regulation, directly in the ABMF discussion. Rather, it would be more practical to admit such current policy regulation as given condition.

Mr. Lee reiterated that the ABMF should fully consider the demand side of the market. In this respect, market consultations and surveys were quite important, and members should always be guided by the business needs principle. SF1 should also find ways to guide regulators towards creating a more conducive market environment. At the same time, it is needed for ABMF to develop common bond issuance program

Mr. Lee stated that the next steps would be the detailing of the Phase 2 approaches, and a translation into specific action points. Based on the day's presentations and discussions, the secretariat would identify what needed to be further clarified and discussed. Mr. SJ Lee would like to come back to this point the following afternoon, so that the group may be able to conclude on an approach for our next steps.

As for the concept of working group, he pointed out that it could be consisted of existing SROs with other participants, and the specific topics of SF1 could be referred to such working group, where they could be discussed and the results shared back into SF1. If there were specific comments or ideas on this concept, Mr. Lee would like to hear more from members or participants by the following afternoon.

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

Mr. Muraki expressed his appreciation for the good presentations and discussions during the day. The discussion was reaching a point where a decision was necessary on which approach to pursue for Phase 2. He believed that this was what members would want to see by the next meeting. The members also needed to talk about the possible public conference, with not much time left considering possible preparations. Again, Mr. Muraki asked members to share their views or thoughts with the chairs and secretariat. He referred to one other important point, the suggested focus on business benefits introduced

in the morning, and expressed his conviction that, ultimately, it would be those benefits that would allow the business community to look at what ABMF was trying to achieve.

Mr. Muraki closed his remarks with another big thank you to HKMA for organising the meeting.

III. DAY 2: ABMF Sub Forum 2 (SF2)

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

Mr. JH Lee, Chairman of SF2, welcomed the members and observers to the SF2 meeting, and gave his special thanks to HKMA for hosting the meeting. After briefly reviewing the plans for the day, he invited Mr. Seung Jae Lee for updates of Phase 1 Report.

Session 5: Updates on Finalization of Phase 1 Study Report, Mr. Seung-Jae Lee, ADB Secretariat

Mr. SJ Lee thanked the Chair and briefed the progress in Phase 1 Report up to date. Due to a delay in finishing the report, ADB Secretariat was now aiming for publication by the end of March. For the first batch of report materials uploaded to the website, members were asked to kindly provide their feedback by Feb 17. Once the second batch of materials would have been made available to members, feedback should kindly be returned by Feb 24. Then, ADB Secretariat will incorporate any feedback into the Report before handing it over for an ADB-specific proofreading exercise. In this context, he noted that the Philippines Bureau of Treasury had suggested for members to receive their country report via email, to be able to easily access their respective materials. He also stated that there would be no further circulation of the sample report hardcopies during the day, since the hardcopies were based on older report versions.

Session 6: Focus of Phase 2 activities (Part 1)

Issues and approaches – Dr Taiji Inui, ADB consultant

Dr Inui thanked the Chair, and expressed his gratitude to members and participants for the support and feedback received in the last few months. He then reiterated the already agreed activities for SF2 Phase 2: the continued identification of transaction flows, messaging and market practices, this for corporate bonds and also for interest and redemption payments; the conduct of an ISO20022 fit & gap analysis and to propose a roadmap and policy recommendations to standardise and harmonise transaction flows. In addition, SF2 would continue to practice information sharing on a number of topics with direct relevance to the key objectives. He envisaged the output for the DVP flows for corporate bonds to yield a market infrastructure diagram across the markets, similar to the one just completed for government bonds. For interest payment and redemption processes, the same type of flow charts should be produced.

Dr. Inui proposed survey on corporate actions processes in the ASEAN+3 markets. He mentioned that a number of initiatives had already been carried out on corporate actions as a general field, and proposed to concentrate on interest payment and redemption corporate actions. The activities around the issuance of bonds had also originally been considered within the proposed Phase 2 scope, but due to available resources and the set timeframe, he suggested considering this topic at a later stage.

One key element of SF Phase 2 activities would be the fit & gap analysis of business flows and related market practices. The target would be typical cross-border transactions and local procedures. In this, a model flow should be compared against the markets' individual processes. In addition, SF2 would carry out a fit & gap analysis of the most typical messaging items across the markets against ISO20022 settlement instruction and confirmation messages. The expected output should yield details of any technical barriers, or market practices not conducive to STP. At the same time, the output would contain those messaging items that differ from international standards. SWIFT had kindly offered the use of their new MyStandards tool, though Dr. Inui pointed out that the consultant team did not have any direct experience with the tool. He invited Mr. Sato, Mr. Kech, and Mr. Mori to comment on the tool, based on their own recent experiences.

Mr. Sato mentioned that JASDEC had been using MyStandards to achieve an improvement in message standardisation. He felt that the system worked well and provided guidance on which processes were able to avail themselves of standards, and which items could be considered for future standardisation. However, the system was not free of limitations that may have to be addressed, mostly resulting from a very large number of items in a single message. His suggestion was to have SWIFT consult on the matter. Mr. Sato believed it to be beneficial for SWIFT to present the MyStandards tool to ABMF at the next conference in Manila.

Mr. Mori commented that MyStandards was an easy to use and practical tool. He relayed that since ISO 20022 was based on 1000 pages of documentation, it was good that MyStandards provided the opportunity to check and enquire on specific standards very quickly. However, he pointed out that there was a cost to consider.

Mr. Alexandre Kech, Head of SWIFT's Asian Standards team, then clarified that MyStandards had been built for multiple purposes, both for banks and other institutions. The tool would allow individual firms to conduct a self-assessment of their processes. The payment of a fee, however, would only apply if commercial firms wanted to provide specific information and templates, typically as extracted files, for their own implementation or client implementation purposes. There was no charge for industry groups and associations, such as ABMF. SWIFT would also like MyStandards to become the standard tool for the recording of market practices. This is why it will have to be free of charge for such purposes. The benefit of MyStandards would be that, e.g., ADB consultants could capture the market specific flows into the tool, then evaluate possible differences and also compare to global or other standards. SWIFT would be demonstrating MyStandards the following day to a group of interested parties and to all members at the meeting in April.

Dr. Inui proceeded to show a matrix of the possible cases of cross-border DVP transactions that should be used as input for the fit & gap analysis, 16 cases in all. He used example cases to illustrate some of the relevant processes in cross-border transactions and highlight some of the necessary prerequisites for efficient cross-border processing.

In this context, Mr. Esmond Lee felt that SF2 should concentrate on the cases 1 to 4, and 13 to 16 shown in Dr. Inui's presentation. While there may be cross-border collateralisation across currencies, however, there would typically be trade and settlement in the same local currency for transactions in the secondary market. The other cases may not typically be evident. Dr. Inui thanked Mr. Esmond Lee for his very relevant feedback and mentioned that he had wanted to include cases 5 to 12 as theoretically possible cases in support of the cross-border collateralisation referred to by Mr. Esmond Lee. The theoretical cases would be in support of a future cross-border and cross-currency environment in a future common market.

In the fit & gap analysis, Dr. Inui intended to concentrate on the 10 most common message elements for settlement instruction and confirmation messaging. He used a typical domestic process flow to overlay such key elements to demonstrate the significance of this exercise. Members would be asked to complete a common elements analysis, in a matrix form, using the English element names for easier comparison. Dr Inui mentioned that message items that have no standard equivalent can be considered domestic market standards and should be marked as such.

He then posed the questions to members whether a fit & gap analysis based on the 10 most common elements was in fact sufficient, and whether SF2 should cover all the relevant messages or should indeed consider other, additional message types.

Dr. Inui then detailed the proposed roadmap and policy recommendations. According to him, the roadmap should identify technical barriers, including such market practices that effectively prevented STP from occurring. Part of the roadmap work should provide possible quick fixes and medium- to long-term solutions to address or remove such barriers or impediments. The roadmap should also contain an ISO2022 migration plan – here, Dr. Inui expressed his hope that SWIFT would be able to support this part of the study. A medium to long-term plan should be considered to allow each market to converge onto available standards at their own pace and considering their own capabilities and resources. Dr. Inui would also like to include any technological advancement related to bond trading and settlement into the roadmap, and details of their schedule, the merits of using such technologies and any grounds and reasons for considering them.

A follow-up on the Phase 1 survey should also be conducted, including an update to the flows and diagrams constructed. The focus in particular should be on matching, since a number of distinctions and market practices were identified in Phase 1. Dr. Inui also felt that a number of items relating to cross-border STP would merit further study to identify and address further opportunities for standardisation and efficiency. Adding to that, the structure and format of securities account numbers and country codes should warrant further attention. Here, he used the example of the difference between ISO country codes and those employed by ADB.

In closing, Dr Inui asked members, in preparation of the Phase 2 detail work, to send to him soon after the meeting, available information on their respective markets, which should include DVP flows for corporate bonds and also the respective flows for interest and redemption payments for both government and corporate bonds. He would also appreciate to receive information on any specific market practices covering these processes, perhaps in the form of latest market guides from within the industry.

A question from Ms Nellie Dagdag from the Philippines on whether the flows would be extended to include indirect participants, such as asset managers and custodians, was to be addressed in the general Q&A session after all country presentations had been heard.

Mr. JH Lee, as Chair, then invited Mr. Chang from KSD to share the detailed processes for interest and redemption payments for government and corporate bonds in the Korean market.

Transaction flows of Korea – Mr. Jun-Woo Chang, KSD

Mr. Chang used Korea Treasury Bonds (KTBs) as an example since they represented the highest volume and had the highest available yield in the Korean market. Registrar for government bonds was the Bank of Korea. He then detailed some of the significant features of KTB, including issuance methods and procedures and details on the KTB

issuance plan for 2012. He stressed that the secondary market was signified by high volume and very low spread, using data charts from AsianBondsOnline. He then proceeded to give an overview of the OTC market and the relevant procedure for foreign institutional investors.

As for KTB payments, the process was fundamentally the same for interest and redemption. Interest was payable every 6 months, and for redemptions the payment date was the maturity date. In case that date fell on a holiday, payment would happen either before or after the holiday, depending on the nature of the holiday. The payment process started with the government providing funds at the Bank of Korea, who in turn would make the money available to KSD's account for onward payment to correspondent banks according to their underlying information provided. The correspondence banks would then pay out to the KTB holders accordingly.

Mr. Chang briefly touched on the concept, qualifications and duties of the primary dealers who have been playing a leading role in the development of the Korean bond market. Of the current 20 primary dealers, 12 were broker/dealers and 8, banks. He then focused on taxation, emphasising that previous withholding tax exemptions had been repealed in Nov 2010, leading to a distinction by purchase date for capital gains. However, the interest from KTB bought prior to the deadline was still subject to withholding tax.

Corporate bond were deposited in KSD and registered in KSD's name. Bank bonds may be registered in the books of their respective issuers. Mr. Chang proceeded to give an overview of trade and settlement, giving some OTC market volume and foreign investment information.

As typical registrar and depository, KSD's Entitlement Management team provided central payment services to the corporate bond market. Mr. Chang detailed the flow of interest and redemption payments, introducing KFTC (Korea Financial Telecommunications and Clearing Institute) as an intermediary in the payment process. KFTC acted as a netting agent of payments to and from the branches of commercial banks used by the issuers.

Mr. Esmond Lee suggested to further discuss KFTC in the Q&A session as it implied to be some sort of central counterparty or credit guarantor – he would like to better understand its purpose. Mr. Schmidt seconded the same, and enquired how the alternative payment arrangements in case of a holiday were determined, to which Mr. Chang stated this was laid down in the issue conditions of the respective bonds.

Mr. Zain from BPAM wanted to clarify whether there were separate segments in the market and Mr. Chang confirmed that was no such segments and it was a single market. Also, both wholesale and retail market quotes would have the same price for the same bond issue. The subsequent question on what might have caused the visible market spike in 2004 shown in the slides, Mr. Chang committed to find out the answer and revert.

Mr. JH Lee then invited Ms Margeret Tang to share with the members the processes for interest and redemptions payments in the Indonesian market.

Transaction flows of Indonesia, Ms. Margeret Tang, KSEI

Ms. Tang briefly touched on bond trading to introduce the market participants. The focus for bond trading in Indonesia continued to be in the OTC market. Reporting of trades to Bapepam was required within 30 minutes after the trade, and facilitated by IDX on behalf of Bapepam; the actual reporting was typically done by the custodians upon receipt of settlement instructions from the trading parties.

One of the key structures of the Indonesian market was that government bonds are held by Bank Indonesia as depository, and corporate bonds are held by KSEI. However, KSEI also acted as a sub-registry for Indonesian government securities should clients wish to use this service. Most bonds are settled T+2 and the settlement amount was agreed on a gross basis, because withholding tax was to be applied at the time of sale, for both capital gains and interest. The same withholding process applied at the time of redemption.

Custodians needed to repeatedly pre-match instruction details to obtain and include tax amounts into the final settlement amount. The tax rate was being determined based on the buyer domicile, hence, the need for clients to provide tax documentation in relation to desired treaty benefits. The buyer's broker or custodian was deducting the applicable tax. In Ms Tang's opinion, this emphasised that taxation was the most complicated part of bond settlement in Indonesia.

For interest payments, KSEI as the paying agent – both for corporate bonds and as the sub-registry for government bonds - was required to deduct the applicable tax. KSEI participants or account holders hence needed to supply tax relevant documents to KSEI prior to payments. Since KSEI was not a bank, it made use of 5 payment banks and, after deduction of the applicable taxes, these payment banks would make payment to customers on the basis of KSEI instructions. The proof of the tax applied would be distributed to customers via their custodians.

For redemption processing, KSEI needed bondholders to provide their respective purchase price, to be able to comply with capital gains tax requirements. A capital loss can be offset against corresponding interest on the same bond, up to a maximum amount. Otherwise, the redemption payment process was the same as for interest payment.

In response to earlier comments from Mr. Li regarding potential differences of currencies, Ms. Tang pointed out that KSEI had observed a desire by foreign institutional investors to settle bonds in their home currency. That would mean an FOP settlement in Indonesia, and a cash settlement or payment outside of Indonesia. However, government securities can only be settled on a DVP basis. Ms. Tang felt that this subject was something worth discussing in further detail. In this context, Mr. Schmidt enquired whether investors presently had a choice of currency at the time of interest payment or redemption. Ms Tang confirmed that this was not practiced in Indonesia.

Regarding taxation on interest, Mr. Kech enquired whether in case foreign institutional investors did not send the tax relevant documents in time, there was a tax reclaim process. Ms. Tang stated that it would depend on whether the tax withheld had already been paid to the tax office; if not, any justifiable amounts could be deducted from the tax payable to the tax office; if not, a tax reclaim would have to be filed directly to the tax office. Mr. Loong asked whether tax documentation was required once or on a continuous basis. Ms. Tang said this would depend on the investor. Banks may do one time submission. Non-banks were required to submit a two-page form of which the first page was to be submitted once, and page 2 for each issuer. Ms. Tang confirmed this process was indeed cumbersome and often referred to as an impediment by foreign institutional investors. Mr. Loong stated that his question had been driven by an enquiry from CIMB's trading floor on how to standardise tax documentation for the regional markets. Mr. Kanjanaphoomin from ThaiBMA wanted to confirm whether investors could use capital losses to offset tax on interest and whether there was a maximum amount. Ms. Tang confirmed that an offset was possible, up to the amount of tax on interest payable. On the question whether withholding tax applied based on the bond holding period, Ms. Tang confirmed a pro rata temporary treatment. Mr. Kanjanaphoomin and other members also asked whether they could kindly obtain the offered sample of the mentioned 2-page tax form for non-banks.

Transaction flows of Japan – Mr. Yuji Sato, JASDEC

Mr. Sato mentioned that interest and redemptions payments to bondholders would follow the multi-layer holding structure from issuer to the paying agent, then from paying agent to the account management institutions, or AMI, to the individual bondholders.

In effect, the paying agent tasked with the interest payment on behalf of the issuer would kick off the process by requesting the amount of interest payable, before income tax, from the issuer. The issuer would then pay to the paying agent based on the amount requested by the paying agent. At the same time, each AMI would provide the bondholders' tax status data to JASDEC. JASDEC would consolidate said bondholders' tax status data and make a payment request for interest payable, after income tax, to the paying agent. Next, the paying agent would approve the payment request from JASDEC, and subsequently, on the interest payment date, the paying agent would pay the specific interest amounts to the respective AMI via the Bank of Japan's payment network. Bondholders would receive the interest amount into their own accounts maintained at the AMI. To close out the process, the paying agent would pay the total income tax amount to the tax office at the seat of the issuer, and each AMI would pay applicable local tax to their domicile's local tax offices, respectively.

In the case of a redemption payment with a final interest payment, the payment process would be the same as for interest payment, with the notable addition of a few steps. JASDEC would process the redemption of the bond by deleting the balance of the bond from the book entry system on a DVP basis, and send a redemption notice to the paying agent. And, in closing the process, the paying agent would delete the bonds in the issuer's register.

Mr. Chan from Deutsche Bank enquired who in effect calculated the income tax on interest payment. Mr. Sato confirmed this was done by the paying agent who will also pay the tax to the tax office. To the question whether tax documentation was one time effort, Mr. Sato explained that foreign institutional investors had to follow a specific process in order to obtain approval from JMOF to enjoy tax benefits but that once obtained, it would be one time effort.

KSD's Mr. Chang wanted to check whether the paying agent paid to the tax office every payment day or only once a month. In response, Mr. Mori, as a market practitioner, confirmed that payments to the tax office were made by the 10th of the following month. Mr. Chang relayed that this was the same practice in Korea. In this context, Mr. Suzuki commented that securities firms required the client's tax status at the time of account opening; this information was then transmitted to the tax office and stayed on file, unless a change in status or of the securities firm. The recorded tax status would be applied in the tax process. Mr. Kanjanaphoomin asked how withholding tax would work in the secondary market, and whether Japan had capital gains tax. Mr. Sato confirmed that Japan did not impose capital gains tax for foreign institutional investors, only for local investors, and any withholding tax was applied based on the traded price.

Mr. Suzuki stated that accrued interest was principally subject to withholding tax but that the explanation might be too complicated to provide on this day; but, there was no capital gains tax as such for domestic parties since this became part of an investor's income tax liability. Dr. Inui suggested checking the relevant conditions and reverting to members once established.

A member from SAFE enquired who the paying agents and Account Management Institutions (AMI) were. Mr. Sato stated payments agents were basically domestic banks,

and AMI were Japanese banks, trust banks, and securities firms. Foreign institutional investors were presently unable to maintain a direct account with JASDEC.

Ms. Tang asked whether a capital gain tax were forcing foreign institutional investors to amend settlement instruction because of tax components, since Indonesia did not enjoy STP of settlement instructions as a result of necessary tax adjustments. This was not the case in Korea, and Mr. Cichy from HSBC confirmed that Indonesia was unique in this case, whereas in other countries the tax component was subsequent to settlement., Mr. JH Lee, as SF2 Chair, commented that taxation was not a primary focus of SF2, so he would like the discussion to return to the main topics after the break.

Session 6: Focus of phase 2 activities (Part 2)

Mr. JH Lee reconvened the meeting to continue with the discussion on the scope and activities for SF2 Phase 2.

Mr. Kawai mentioned the key points intended for Phase 2, consisting of the identification of flows and procedures, the fit & gap analysis, as well as the definition of a roadmap with all its desired ingredients. The flows would include government bonds and corporate bonds, plus corporate actions processes for interest and redemption payments. He did wonder, though, whether all five flow types would be able to be covered as proposed. On the fit & gap analysis, the intention was to measure the distance between the current status and any possible standardisation. Mr. Kawai saw a two-step approach, in identifying gaps between the various flows first, and then the gap between the current flows and ISO20022. If cross-border collateral transactions would enter the discussion, some of the proposed flows with multiple currencies may need to be considered. As for the direct evaluation of settlement messages, the plan was to focus on just 10 message elements, even though some may think that this was not sufficient. MyStandards might be considered to be employed in the process.

Mr. Kawai also mentioned that there might have been some confusion in the course of the last meeting, in that a roadmap should address the regulatory and other barriers identified, e.g., during the GOE. That, however, would go beyond the ABMF mandate. Instead, it would be desirable to update such barriers in the process of the Phase 2 work, and to the extent that ABMF work would encounter such barriers. This would be a good reference for members and future discussions in general.

Dr. Inui wanted to address some of the specific questions recorded earlier. He clarified that seller and buyer of bonds should be equal to the deliverer and receiver of securities, and it may be important to recognise that each side of a transaction would be represented by a number of entities or parties, including custodians and broker/dealers. This may lead to a number of additional items for discussion on cross-border transactions.

Mr. Esmond Lee pointing out that an SBL transaction could include a swap of USD versus local currency; this would require collateral, and would like to make use of domestic or available regional securities. Hence, in this cross-border, cross-currency environment, collateral would become very important and needed to be considered on a daily basis. Mr. Esmond Lee highlighted that counterparties were not necessarily borrowing from central banks, but instead from each other. However, given recent events and crises, collateral would be mandated. He referred back to the previous day's comments that people used to buy bonds for interest or yield, but increasingly now for the use as collateral. He drew the conclusion that the function of collateral management was not needed only in a few years time, but in fact already now. He felt that otherwise the safety of markets and their

economic development and growth would be at stake. Mr. Tagai agreed and made reference to the presentations this afternoon on cross-border collateralisation.

Mr. Kech from SWIFT suggested that transaction status reports should be included in the messaging analysis. The status was in fact very important for the cross-border nature, and the lack of the correct status at the right time could lead to a loss of money. On corporate actions, he remarked that the Global SMPG had already provided a standard requirements for a corporate actions flow or process. As an additional point, MyStandards would combine the market practice definition with the gapping against ISO20022. Mr. Kech pointed out that ABMF might want to consider incorporating into the work plan the concept of requesting to ISO the inclusion of specific market practices identified into ISO standards; SWIFT could help facilitate such application process.

In response to the comments from SWIFT, Dr. Inui pointed out that that status messages might be beyond the available capacity, which were indeed important but could be tackled on the basis of available time. Ultimately, the level of details would be up to members. With regards to the MyStandards, each member could possibly use the tool but Dr. Inui was wondering whether the tool would be able to accommodate rather specific or unique market practices in ASEAN+3. If from the results of the gap analysis, member countries would wish to migrate towards the ISO20022, Dr. Inui expressed his view that SWIFT would be able to then help such members accordingly.

A member from Lao PDR enquired whether such information would also be provided for Lao PDR. Dr. Inui responded that a number of markets had not been included in the Phase 1 report, including Brunei, Lao PDR, and Myanmar. A building on existing data and the expansion to corporate bonds and corporate actions would, hence, not be possible for further study. However, Dr. Inui encouraged these member countries to define for themselves to what extent they would like to participate in these efforts, in particular to already define for themselves now how messaging should be done in future. The submission of the information requested earlier was not mandatory and Dr. Inui invited these members to send whatever information was available. The intention was not to create extra work, but instead to make available existing material that could be referenced in the process of defining the actual SF2 Phase 2 survey.

After these contributions, Mr. JH Lee commented that Dr Inui would be able to conclude on the scope and activities for Phase 2. Dr. Inui would now use the feedback and information discussed to compile a proposed questionnaire to members, for presentation prior to the Manila conference in April. He felt that the flows and roadmap have been agreed at large, whereas the fit & gap analysis may require further discussions. For the fit & gap analysis, the focus on 10 message elements did appear to be a practical approach that had not found any opposition. The roadmap was expected to include references to barriers encountered in the process of the definition work. The first look at the corporate actions flows during the morning session brought a number of questions on taxation, which was also a topic to be discussed in SF1. ADB Secretariat would advise where and how best to have such discussion. SF2 will focus primarily on technical barriers.

As Chair, Mr. JH Lee suggested considering a prioritisation of subjects, since quite a number of items had been proposed for the scope and activities. Mr. Kawai proposed to defer the decision on prioritisation until the next meeting, using the proposed questionnaire as a guide on which items to focus on or to de-emphasise.

Mr. SJ Lee from ADB Secretariat then reflected on the scope of SF2 Phase 2 identified at the Beijing meeting. Phase 1 had already produced transaction flows and Phase 2 was expected to expand on that, with corporate bond and corporate action flows. Phase 2

should focus on output, specifically geared toward feeding information into ABMI TF3. This should include policy recommendations as desired by TF3.

Information Session 3: Regional Settlement Infrastructure

RSI Options given by GoE report - Mr.. Shinji Kawai, ADB Secretariat

Mr. Kawai explained the progress on Regional Settlement Intermediary (RSI) in ABMI. He mentioned that the concept of RSI has not prevailed in the region due to a number of reasons; these included the limited number of cross-border transactions in the region, and a very low cost efficiency. Technical barriers drove the costs even higher. However, he stated that everyone involved, including policy makers, knew the benefits that an RSI would bring to the region.

He then pointed out that the Pan-Asian Alliance was a remarkable model. It appeared, however, to be quite different from the RSI and, in fact, represented more of a mixture between other concepts discussed. There were pros and cons of an RSI, and the region was still searching for the most suitable model for the region; it seemed to be possible more than one RSI or similar institution in the region, hence options and opportunities continued to exist. With regards to collateral management, as mentioned by Mr. Esmond Lee and affirmed by Mr. Tagai, it was important not only to smoothen typical liquidity based services, but also strengthen this concept from a regulatory point of view, for the stability and fault-free functioning of the markets. He also reminded the audience that cross-border DVP transactions could also be augmented by cross-border collateral management and similar initiatives.

Mr. JH Lee then invited Mr. Shu-Pui Li from HKMA to provide information on the linkage of national central depositories in the region.

Linkage of NCSDs in the region – Mr. Shu-Pui Li, HKMA

Mr. Li shared the information that HKMA would be announcing the launch of the Pan Asian CSD Alliance pilot platform in 2-3 months. One of the key drivers for the new platform had been the increasing need for collateralisation in the industry, providing the challenge for participant institutions to obtain credit. Another driver had also been the lack of automated functionality for specific corporate action services; here, Mr. Li referred to the merger between the two Hong Kong railroad providers KCR and MTR some years ago which had to be processed manually in its entirety.

Mr. Li recapped the concept of the Pan Asian Alliance for the audience. Basically, the intention had been to build a post-trade infrastructure for bond clearing and settlement in the region. This infrastructure should help facilitate the development of cross-border bond investments. It was initiated by a number of central banks and CSDs in the region, back in 2008. Euroclear joined as an expert based on its vast experience in Europe and elsewhere. To participants, it was obvious from the start that a common platform would take quite some time to build. Hence, a gradual approach was taken, with a pilot platform as an initial solution and the ultimate intention to later augment this platform with more capabilities and services as requirements from participants grew. The participants' expectation was that the platform and suite of services would evolve organically rather than being defined from the outset.

Mr. Li explained that this approach was taken to avoid new system developments to the extent possible, i.e. to minimise additional investment. Thus, the focus was put on leveraging on existing systems and infrastructure, such as to make use of the existing

linkages between, e.g., RENTAS and CMU RTGS systems. Some new developments were intended to bind together and augment the existing components. This approach allowed for a shorter timeframe and lower cost.

As a key service, the alliance would offer a path for e.g., Malaysian investors to hold and settle cross-border foreign securities on a DVP basis via the connection of Bank Negara Malaysia to Euroclear. The same would be possible vice versa from Hong Kong. Early participants were HKMA, Bank Negara Malaysia and Euroclear. Mr. Li saw one advantage for Hong Kong as a participant since it already offered RTGS for 4 currencies: HKD, USD, EUR, and RMB. He expressed the hope of the participants to see the execution of transactions soon after launch.

In terms of add-on services, Mr. Li stated that the pilot platform was envisaged to incorporate cross-border collateral management capabilities at some stage. In this context, he relayed that UK fund managers came to Hong Kong in January, visited the HKMA and issued a joint declaration on offshore RMB clearing in the UK. Mr. Li highlighted that to support such developments, there would be a need to transfer liquidity across borders. He mentioned that when looking at the original arrangement for e.g., tri-party repo, and the existing 4 global systems, namely Euroclear, Clearstream, J.P. Morgan, and The Bank of New York Mellon, gaps had been identified for Hong Kong participants. Showing the process, Mr. Li pointed out under current arrangements bond issues, collateral givers and takers would need to be part of the global systems. Most Hong Kong banks, however, may only have a connection to Euroclear, but not the global systems.

The proposed collateral management service on the pilot platform would start with two partners - J.P. Morgan and Euroclear – and not require system development since CMU would simply act as an agent on behalf of its members. Members would need to sign a tri-party repo agreement with CMU, who in turn would sign a tri-party agreement with a provider; this arrangement would in effect extend the service and access to all CMU members. HKMA's experience with global counterparties indicated a very keen interest from foreign institutional investors or global firms to access the holdings of local firms. This included interest in collateral both in HKD and USD. The proposed service had been labelled 'CSD-intermediated access to global tri-party repo system', was envisaged to go live in the first half of 2012, and its benefit included the access described, the resulting commercial or business benefits, as well as increased transparency and monitoring of local market activity.

In its phase 2, the platform was envisaged to include direct links from local RTGS systems to global tri-party repo systems. An additional focus would also be on increased settlement efficiency for both local and foreign participants. Mr. Li reckoned these features would take about another 12 months to create, and participants were presently discussing detailed specifications.

The 2nd major service component for the pilot platform has been targeted at corporate actions and was driven by the past manual workload. The solution was first intended for the use by HKMA/CMU itself, and then could possibly be made available to other pilot platform participants. In the process of specification, participants found that the process of communicating corporate actions was not standardised and typically done in a mix of methods and standards and proprietary processes. At the same time, HKMA was seeing more complex bonds being issued going forward, and felt a need to be prepared to have the relevant functionality available in time. The solution's focus was to achieve harmonisation across multiple CSDs in the region for improved efficiency and lower operational risk. One more potential consideration was to use the new functionality for the mark-to-market process when conducting repo business, e.g. for the active provision of

margin services. This would enable participants to supplement their domestic platforms with more sophisticated functionality.

Mr. Li summarised that the way forward should see the announcement of the pilot platform first, then HKMA would continue to work with the participants to gradually increase the service provision through the platform, and gradually migrate existing services onto the platform. He emphasised that no capital outlay had been required to join, instead it had just been necessary to lay the legal foundation. He expressed his hope that more countries would eventually enjoy the platform. Again, he reiterated that the underlying idea had been for participants not to own anything new or special, but instead combine the existing infrastructure and build functionality on the basis of such solid foundation. He saw the possibility of the proponents of the RSI concept to look at the ideas presented.

Cross border collateral management - Mr. Masayuki Tagai, J.P. Morgan

Mr. Tagai stated that collateral management was already being conducted in many ways today. He explained how a system would work together with market infrastructure and noted that the Pan Asian Alliance discussion had started in late 2008, which was incidentally when J.P. Morgan had started its own internal discussion as well.

Mr. Tagai then stressed the need for and relevance of collateral. To illustrate, he showed a typical range of financing options available today, with the resulting increasing needs for collateral. He observed an evolution on the financing side, starting from clean lending as a first step, typically based on relationships. This would evolve to secured lending where arrangements may often be undocumented. The 3rd step would involve repo arrangements. In times where liquidity was getting scarce, counterparties with bilateral exposure would ask for collateral, while central banks would ask for collateral or minimum reserve. At the same time, many countries - also in Asia - were starting to establish clearing houses for OTC derivatives, providing new infrastructure, rules and participants. All this drew on the pool of available collateral assets in a given domestic market. Hence, as markets became more international, the ability to obtain domestic liquidity based on assets in other parts of the world increased. Using a global market overview, Mr. Tagai mentioned that Asia's repo market had significant potential to grow and the same would apply to the derivatives market.

According to Mr. Tagai, key aspects of collateral management services included the identification, valuation and movement of such collateral, and the reporting to participants along the way. He referred to the HKMA agency programme already covered by Mr. Li and added the key point had been the RTGS facilities in Hong Kong across 4 currencies. The chosen approach took into consideration how to make the Hong Kong market safer, and to contribute to greater global liquidity. J.P. Morgan's function in this regard was not that of a banking participant, but as a partner to institutions on the lookout for liquidity opportunities.

Mr. Tagai then identified the complete legal structure of a tri-party repo transaction. For the CMU arrangement, HKMA would remain as the repo agent, and J.P. Morgan only acted as the collateral agent, in effect accessing securities globally that would satisfy qualitative collateral criteria. He stressed that, in contrast to public opinion, J.P. Morgan did not compete against Euroclear but instead, both institutions worked together on complementing the most efficient way of obtaining collateral. Mr. Tagai showed a repo flow and described the need for DVP in terms of providing escrow services, i.e. only release a repo buyer's money if all collateral obligations had been met. In addition to securities versus cash transactions, he relayed that the market also increasingly observed securities versus securities transactions, also called substitution, to either improve or rearrange the type of collateral in play.

Mr. Tagai concluded by detailing the collateral allocation process across different asset classes and qualitative considerations, while leaving with the audience one of the key considerations as being the concentration risk in same or similar assets or in relation to specific counterparties. Mr. Tagai then thanked the Chair for the opportunity and offered to take questions on the information provided.

Q&A Session for Information Session 3

Mr. JH Lee thanked the three speakers in Information Session 3 and opened the floor for questions on the presentations just heard.

Ms. Tang asked Mr. Tagai what the account name for a collateral account would be, e.g. in the CMU example. Mr. Tagai responded that accounts would be in the name of HKMA, but segregated by (ultimate) beneficial owners. He stressed that interest on assets was passed to the seller, with no entitlement to the collateral agent, and noted that the buyer received title to the securities but the seller remained the beneficial owner. The collateral agent would calculate the manufactured interest.

Ms. Tang then expressed her thoughts to HKMA on account relationship; if a Hong Kong entity would be interested in Indonesia, they would open an account with HKMA, and HKMA in turn would maintain an account with KSEI. She pointed out that presently, foreign institutional investors had a relationship with a domestic custodian. The proposed approach might be hard to implement because local custodians might not be happy when required to move the existing relationships. Mr. Li responded that the picture drawn was only one of the possible options. For example, Indonesian investors with interest in Hong Kong could avail themselves of an additional channel. He emphasised that the intention of the CSD alliance was to open more choices for regional market participants.

Mr. Chan from Deutsche Bank enquired whether there would be regulatory changes required to accommodate CSD-to-CSD account relationships. Mr. Li conceded stated that he was unable to answer this for all markets, and expressed his hope that perhaps ABMF was the right forum to make such market connectivity happen.

In the context of the pilot platform functionality, Mr. Kech from SWIFT reiterated that corporate actions standards existed and were being used in many markets and by many participants.

Information Session 4: Mitigating FX risks in the region – Mr. Lyn Mathews, CLS Bank

Mr. JH Lee invited Mr. Mathews to share information on the role and functions of CLS Bank and its mission to mitigate FX risks in the region and in general.

Mr. Mathews started his presentation with remarks that CLS had relevance for the ABMF discussions, in particular because of increasing cross-border bond transactions where FX would always be an important component. He wanted to use this opportunity to introduce CLS, show the benefits of its use and provide updates on recent FX market developments.

Generally, a CSD would not convert a currency, but FX was necessary to facilitate global settlement flows. Hence, CSDs should have an interest that the correct currency was available at time of settlement and the underlying FX trades were as secure as possible. CLS' core mission was to mitigate settlement risk in the global market. This was achieved

using the payment versus payment mechanism. The CLS board and regulators supported the expansion of the currencies to be settled through CLS, particularly in Asia.

In recent developments, FX transactions increased by 20% between April 2007 and April 2010, to USD 4 trillion a day, and with the volume growing faster than the value. As a result of automated trading, average daily volumes had increased significantly, in effect had doubled over the last 3 years. The market composition was changing as well, with now 65% of all FX being cross-border. CLS also saw continued Asian growth, with particular growth in offshore RMB transactions.

Most of the regulatory initiatives were observed in the derivatives market. One key initiative was the mandated clearing of FX derivatives; a number of Asian markets were in the process to establish clearing houses. Mr. Mathews emphasised that the FX industry had argued that FX transactions were different from derivatives and should be allowed to remain outside the derivatives' requirement for mandatory clearing. But, in summary, he stressed the regulatory focus on the need for safe settlement.

The implication for CLS from these initiatives was the need to comply with new and improved regulatory standards; CLS must meet or exceed standards set by, e.g., IOSCO. Compliance also led to enhanced performance and capacity to meet market and participants requirements. CLS had no plans to play a leading role in the building of an FX trade data repository, but was happy to collaborate where required.

One key principle of CLS was that the only settlement method permitted was cash for cash. This was because a single default might result in a chain reaction and cross defaults. In this context, Mr. Mathews relayed that in 1996, a report was issued that evaluated total settlement risk and found that certain daily FX transactions created a risk for counterparties by exceeding available capital. The report's key message was that settlement risk had to be addressed urgently and stringently. CLS was, hence, recognised as 'important settlement infrastructure'. Mr. Mathews detailed the nature of CLS as a special purpose bank under US law and the oversight of 22 central banks whose 17 currencies were settled in CLS.

He then explained how CLS worked in the context of a typical trade life cycle. Payments were settled either via direct or nostro accounts, and were made with finality. CLS offered a 5-hour settlement window (7am CET to 12 noon) and 3 hours for Asian currencies. CLS settled spot, forward and swap transactions. However, Mr. Mathews stressed that CLS did not guarantee settlement or would not fund underlying transactions. If two transaction messages did not match, settlement was rejected. This approach would ensure no loss of principal.

CLS was a bank and held accounts with the central banks whose currencies were settled within. Settlement members had to have proven financial capabilities and access to liquidity and, in turn, could offer CLS access to their own customers as third party participants. The participants had no direct relationship with CLS and could consist of banks, non-banks, funds, or multinational corporations. CLS also had among the members liquidity providers, in a respective currency, in the event of failure scenarios. However, Mr. Mathews relayed that CLS has never had to use them, but they were required to exist as per CLS regulations.

He then moved to explain the benefits of using CLS, in addition to the declared settlement risk mitigation. Some members only made 22 payments per settlement cycle due to the netting process across all transaction. In fact, 96% of all transactions could be netted on a typical day while providing real time information on transaction status. CLS also provided central banks with valuable information in times of crisis. This was augmented by

operational efficiencies and the use of standards and by maximising STP. CLS also played a role in managing other risks in FX. For example, CLS had achieved high standards of payment protection by the insistence of having the absolute finality of a settlement embedded in legislation.

Mr. Mathews reported that FX by investment funds was the fastest growing type of business among 3rd party participants. In this market segment, USD 1.4 trillion was settled on each quarterly settlement date. He pointed out that a number of countries in ABMF had provident or similar pension funds that settled transactions in CLS through member banks.

The strategic priorities for CLS included same-day settlement, and an expansion of available currencies, in particular in Asia. In a first phase, CLS is introducing a new North American afternoon settlement window, and then a further extension to cover Asian currency trades in a next step. The most suitable way to undergo expansion of currencies was seen in a comprehensive global outreach programme. The programme was launched in November 2011 in Moscow, and then would take in Brazil in March 2012. I would be heading to Singapore for a one-day summit in conjunction with MAS, probably in July, with the central banks of all ASEAN countries to be invited. Mr. Mathews stressed that CLS cannot offer services without the absolute support from the respective central banks. At present, the only currency included from ASEAN was SGD; in the region, currencies included AUD, HKD, JPY, KRW and NZD.

In terms of participation criteria, the minimum sovereign rating had been cut to BB-, opening the possibility for other currencies to be eligible. As a result, discussions with, e.g., the Bank of Thailand on the inclusion of the Thai Baht was progressing well. In addition to the expected inclusion of the RMB in due course, discussions were ongoing with regards to the Indonesian Rupiah and the Philippine Peso.

Mr. Mathews emphasised that the focus on Asia had increased since he was involved in the Group of Experts discussions for RSI three years ago. CLS has achieved a welcome collaboration and was working with authorities of many countries. If his presentation somehow came across as a sales pitch, it's because it was in a way, but with the full support of regulators. CLS essentially operated on a non-profit basis, as a utility for the industry at large. He encouraged members to talk about the developments mentioned with their respective regulators and/or their own constituencies.

Mr. JH Lee thanked Mr. Mathews for the comprehensive information provided on CLS, and then invited Mr. Mohd Shaharul Zain from Bond Pricing Agency Malaysia to share the experiences on bond pricing and valuation.

Information Session 5: Pricing of bonds and sharing information

- Valuation: the role and importance in emerging bond market, Mr. Mohd Shaharul Zain, Bond Pricing Agency Malaysia (BPAM)

Mr. Zain thanked members for the opportunity for the presentation, and accepting BPAM as a National Member for Malaysia for SF2. The focus of the presentation was on price discovery and valuation, BPAM's speciality. Mr. Zain signalled his interest to participate in case ABMF would want to form a working group on these particular subjects.

Mr. Zain stressed that valuation and price discovery were fundamental components of a functioning bond market. He opined that bond market inherent nature was to be illiquid, and that liquidity could only be achieved to a point. Because of investors who held to maturity, liquidity also could decrease for lower credit, private placements and complex structures. As a result, markets faced the difficulty in price discovery for trading, investing,

reporting and issuance. Price discovery was even more important for cross-border issuance and trading.

Mr. Zain cited some of the advantages of having a robust valuation framework, with the benefits evident for the market at large that will in the longer run help the market development. He also showed a map with the location of the regulated, self-regulatory or independent valuation providers. Malaysia had followed the Korean model in defining a regulated bond pricing agency; different frameworks existed for different markets. In the case of BPAM, market participants appreciated that the provider was directly regulated, but Mr. Zain pointed to its need to establish credibility at the beginning and the high start-up costs because of the infrastructure required for the expected rigorous processes. He also reported that some SROs had reported difficulties to achieve economic viability of their bond pricing activities, though this did not affect their credibility. In this context, Mr. Zain believed that global providers and approaches might not be directly applicable to smaller, developing markets.

He then detailed the four most common approaches to valuation and price discovery, their assumptions and how they worked in practice. In effect, the valuation process was a combination of many inputs and influencing factors. Mr. Zain stressed that with a few available parameters, and reliable sources, one could already build a fairly reliable model. He also stressed the significance and relevance of accounting standards for the calculation and use of valuation information. The valuation of Sukuk was principally the same as for normal instruments. Mr. Zain then introduced to the audience IFRS 13 on fair value measurement, with different types of input given different treatment, ranging from direct pricing (level 1) to intrinsic value (level 3).

Mr. Zain then demonstrated how all of these elements influenced the primary and secondary markets, using the example of Malaysia, the 4th largest bond market in Asia, and the largest Sukuk market. One key lesson was to have multiple yield curves, and also distinct yield curves for both conventional bonds and Sukuk. For this, robust financial engineering knowledge was required and the market structures needed to be understood regardless of instrument type. He also gave some examples of actual bond pricing before and after the introduction of efficient price discovery, with a resulting significant improvement of the spread. He also stated that a link between market development, in terms of volume and value, and efficient pricing could be observed.

Mr. Zain relayed some of the observed trends, in that demand had increased for reliable and market relevant valuation data at local and global level, requests for technology transfers had increased, and global information vendors increasingly sought out premium bond data for redistribution. In conclusion, he stated that a market had to have an adequate approach to valuation and price discovery, but at the very least a decent set of reliable yield curves.

After JH Lee opened floor for Q&A, Mr. Schmidt asked whether BPAM had observed differences between the treatment of bond pricing between trading and accounting approaches. Mr. Zain responded that there would always be deviations and different opinions, and these would need to be resolved through a defined process. On the question whether portability of the solutions shown was possible, Mr. Zain opined that, depending on the right inputs and availability of key data, and using a consistent methodology, a certain level of portability would be possible. He felt that while this may not result in a perfect solution, at least pricing and valuation would no longer be arbitrary. Mr. Suzuki pointed to the obligation between counterparties and by market makers to provide realistic quotes, typically two-way quotes, which would at least provide a basic bond pricing framework. To that, Mr. Esmond Lee remarked that it may not be common in Asian markets that dealers always provided two-way quotations, since going short might be

difficult for some reasons, e.g. legislation or positions. This was true for the domestic markets, but even more for cross-border business. Mr. Esmond Lee opined that there was no efficient and deep regional market for securities borrowing and lending in bonds. He felt that this should be looked at when thinking about how to activate the secondary market, since the most common purpose might still be buy and hold. He also felt that this brought the discussion back to the lack of liquidity and how that could be addressed. Mr. Zain agreed with this suggestion but pointed out that while the liquidity could be increased, it would never be able to the point of the equity market; liquidity was desirable but it had limitations.

Ms. Loto enquired whether BPAM also evaluated the pricing quality of bond transactions, and possibly gave qualifications. Mr. Zain explained that up to now, no qualitative statements on deals had been provided. On why the comparative yield was given as one month, and whether that would be standard or rather too long, Mr. Zain responded that one month had proven to be a decent sample size for comparisons; after all, there were always two components to price/yield movements, market movement and bond movement; Mr. Zain stressed that for longer periods, it may be more difficult to tell the influence of both components apart.

Mr. JH Lee thanked Mr. Zain and other members for their good discussion, and invited Mr. SJ Lee from ADB Secretariat to provide details on other issues relating to SF2.

Session 7: Other issues of SF2 – Mr. Seung-Jae Lee, ADB Secretariat

Mr. SJ Lee briefly reviewed the ABMF Report update options, advocating the proposed 4-step process, using an updating team that included the ADB Secretariat and members, and possibly SWIFT, on a voluntary basis and would facilitate member consultations. Members would review proposed updates and clear or validate the relevant information. The updated reports through ABMF home page would be considered as official outputs of ABMF. The publishing through an optional mirror system to facilitate faster, efficient dissemination, could also be considered at a later stage.

Mr. SJ Lee briefed the finalised membership for SF2 Phase 2, now consisting of 34 National Members and National and International Experts. He noted the changes in the participants and on behalf of all members welcomed 5 new institutions, as well as one new International Expert.

Future work plan and Wrap up - Mr. Seung-Jae Lee, ADB Secretariat

Mr. SJ Lee first expressed his appreciation to all members for their active participation during the meeting. Mr. Lee mentioned that ABMF already had six rounds of meetings, and the publication of the Phase 1 Report was now expected by the end of March. He allocated 5 working days for the members' review of the respective bond market guides and other materials and apologised to members for this tight schedule in view of the urgency to complete the materials. The Hong Kong meeting was the first for Phase 2, and was used to clarify the Phase 2 scopes and activities, to share relevant information, and to announce the finalised Phase 2 membership, even though ADB Secretariat was waiting for official confirmation from ABMI TF3.

Mr. Lee hoped to have complete agreement on all scopes and activities for Phase 2 in Hong Kong, but now he felt the need for further discussions by members. For SF1, members will focus on the study of the professional markets and the launch of a regional standardised bond issuance programme, AMBIP being the working title. The focus would be on issuing bonds in any participating economy with standardised documentation and

disclosure procedure. AMBIP discussion would be different from existing individual initiatives in that i) it would be the first regional initiative under ASEAN+3 to create a common market, and ii) it would aim to introduce a more attractive program both in cost efficiency and issuing convenience, by tapping some of regulatory issues during the discussion. Although regional initiative, AMBIP discussion would adopt step by step approach: At starting point, ABMF could consider only a subset of ASEAN+3 economies that are willing and able to join the AMBIP. Other markets could join at a later stage when they are ready, and until their joining, ABMF would support them with information sharing and other assistance when needed. For efficient discussion on AMBIP, invitation could be expanded to market experts when needed, and also to regulatory bodies.

He shared his thoughts with members on some of the characteristics of AMBIP; offshore might be possible depending on the concept of how offshore is understood. The example given was issuance in jurisdiction A, a buyer from jurisdiction B, using a bond issued in the currency of jurisdiction C – that would constitute offshore for some markets, but not for all. Mr. Lee stress that any specific possibilities would not be excluded at this stage of the discussion. He also emphasised that the AMBIP discussion would accept the current infrastructure, legislation, and policy position of each jurisdiction as they were. While some type of market conditions might not be fulfilled, some of such conditions might also not be within the mandate of ABMF and the scope of AMBIP at this stage.

In terms of methods of achieving standardization, Mr. Lee opined that it would be unrealistic to target direct harmonisation among all member countries. On the other hand, if the discussion only focused on cross-border issuance without touching regulatory issues, the outcome might not be so attractive. Considering these factors, mutual recognition had been proposed as an appropriate approach of standardization. Mr. Lee recalled that members had enquired on the format of such mutual recognition; while the actual process to be followed was not yet clear, it was envisaged to achieve a formal agreement between regulatory bodies and the relevant SROs. This could range from formal treaties to institutional MOUs, final decision on which could be made later depending on the participating economies preference.

As for bilateral or multilateral approaches, he summarized that bilateral should always be a subset of a multilateral approach with regional cooperation perspective. ABMF should not end up with a multitude of individual and heterogeneous bilateral arrangements. Rather, bilateral arrangements, if there were, should be guided by collective discussion and understanding under ABMF. As long as bilateral approaches were backed by regional multilateral perspective, then it could be considered as one of the options for the members. During the course of discussion, members could chose direct multilateral approach from the outset if they were comfortable to do so, or they could chose to go in a way of multiples of bilateral approach if they prefer. In any cases, the outcome should be considered as the output of ABMF, which meant that the approach, work, scope, and output would be discussed, shared and carried by all ABMF members.

With regards to the proposed working group, there seemed to be a need for an efficient discussion forum to provide professional input into the main SF1 discussion. It appeared not yet to be clear to what extent the benefits of such approach could be maximised. For any relationship between SF1 and a working group to function, SF1 would request the working group to address and discuss certain professional issues and report back on such discussions to SF1. Members who were interested in participating in the working group should seek out other members to discuss the procedure and make-up of such working group. KOFIA had offered to organise the inception, as had PDEX to hold a first meeting of such working group on the side of the 8th meeting in Manila. ADB Secretariat would attend such meeting(s) as an observer to ensure congruence between the working group discussions and the expected input into the SF1 discussions. Mr. Lee then asked

members whether SF1 could continue down this path and invited comments from the audience.

Mr. Yanase commented that Japanese ABMF members and other market participants, all specialists from the securities industry, had been meeting since September 2011 on standardising the documentation for the purpose of listing on, e.g., the Tokyo PRO-Bond market. He wanted to highlight that these participants had been meeting as a private initiative, and had not yet been given regulatory endorsement. He also commented that when talking about SROs, these were organisations that in effect had been authorised by regulators and the respective regulations. In this case, he felt that, perhaps, it should be considered whether consent from regulators would be necessary for SROs to discuss cross-border initiatives. At the same time, ABMF had been working based on the understanding that markets were at different stages of their development. That might make a single, standardised issuance programme very tough. Instead, it could be considered to start work by following a step-by-step approach. He reiterated for members to understand that, e.g., the parties involved in the Japan standard documentation initiative had been working on their own time, as a service to the market. Mr. Yanase concluded that it was important to make sure the above points to be understood among the members.

Mr. SJ Lee then asked members about any concrete proposal on how to activate such discussion as in Japan, to which Mr. Yanase responded that it would be necessary to convince individual parties to join. Mr. Lee in turn enquired whether members would want to discuss this matter further, or whether they would let interested parties kick off a working group. Mr. Yanase remarked that SF1 should move slowly, rather than immediately aim for a common approach. He was convinced that a formal SRO, and the blessing from regulators was needed to achieve what had planned for SF1 Phase 2.

Ms Chen from Citibank opined that the first part in a common market should be to define the targeted institutional investor, who they were and if it was known who they were, how to include them into the discussion. She believed that this would lead to a clearer idea of the desired or required market features. According to her, the sought-after liquidity could in fact be fragmented by a regional issuance of the same issuers.

Mr. Loong observed that members still seemed to have different sets of expectations but he felt that the working group should get started. Otherwise members would not be creating a market for cross-border transaction, but only talk about facilitating those. Mr. Yang from KOFIA restated that the proposed working group was not intended to limit participation only to SROs, but instead should have anyone who was interested. He mentioned that some formality would eventually be needed in the course of discussions. The proposed working group was a discussion group after all, and needed to be able to table subjects and return output for SF1. Although KOFIA was happy to be an initial organiser, he was happy for PDEX or any other institution to become an organiser. Mr. Esmond Lee confirmed that HKMA was happy to join such group in any shape or form, willing to be the venue or a facilitator, and also to invite the SFC.

Prof. Inukai added his comments that members and secretariat should leave the working group to be organised among interested parties. As Mr. Yanase suggested, the results of the discussion about standard documentation in Japan could be injected into the working group and openly be discussed further. Mr. SJ Lee enquired again whether it was agreeable to members that a working group could proceed, or whether members wanted to discuss the matter further. Mr. Yanase remarked that SF1 intended to cover mutual recognition, which was not an easy task, and repeated that it was important to consider the market needs in any approach.

With time limitation, Mr. SJ Lee concluded that the discussion on working group could not be finalized during the meeting and would be subject to further discussion among the members. He also recommended the interested members to continue communicating after the meeting, since there was a strong demand from the floor for participation in the discussion. As a next step for SF1, ADB Secretariat sought members' confirmation on its work to further clarify the scope and activities for Phase 2; this would include the validating of the details on the market features in the SF1 Comparative Analysis, and the preparation of a questionnaire for Phase 2 to cover the relevant information needed for further study.

The key activities for SF2 would include the identification of corporate bond transaction flows, their messaging and related market practices. This also included corresponding flows for interest and redemption payments across debt instruments. A cornerstone of Phase 2 would be the ISO20022 fit & gap analysis of key messaging and process elements. The expected output would include a proposed roadmap and related policy recommendations to standardise messaging and harmonise transaction flows. SF2 would also continue to dedicate time to share information on relevant industry developments, such as LEI and financial transaction data collection. The next step for SF2 would include the drafting of a questionnaire that would also aid in further detailing the planned activities, including the consideration of tax issues. The questionnaire had the aim to identify transaction flows for corporate bonds and the chose corporate actions and would also support the specific focus and approach to the fit & gap analysis.

As a final remark from the perspective of SF2 activities, Dr. Inui stated that he had found a new consideration in the form of taxation. If the ADB Secretariat and members agreed, he would want to include taxation issues in the discussion and work of SF2 Phase 2, not so much from a fiscal or legal, but instead from a messaging and efficiency perspective.

Mr. Lee then briefly related the proposed schedule for ABMF for the year 2012. The questionnaires and further detail work in SF1 and SF2 would proceed from after this meeting to the beginning of April, then be shared with members and discussed at the Manila meeting. This period would also be used to conduct informal consultations with regulatory bodies and policy makers on them joining the ABMF discussions, while the working group was expected to be formed during this time as well. The Manila meeting would be followed by a reporting on the progress to the ASEAN+3 Finance and Deputy Ministers Meeting (AFMM+3/AFDM+3) via ABMI, with the 10th anniversary seminar of ABMI immediately afterwards. To what extent participation from ABMF chairs and co-chairs might be required was not certain at this time. May and June would see the conduct of the proposed surveys, followed by the market visits in July and August while proposals for the first draft of a Phase 2 Report should be considered and could be presented at the 9th ABMF Meeting in September. A second reporting to ABMI in October and the 10th ABMF Meeting would round out the year 2012.

Table 1: Work Plan for Phase 2 AMBF

8-9 Feb 2012	7 th ABMF meeting in Hong Kong, China
2 Mar 2012	ABMI TF3 meeting (first reporting of Phase 2)
Mar 2012	Public conference for Phase 1 Report (optional)
17-18 Apr 2012	8 th ABMF meeting in Manila, Philippines
2-3 May 2012	AFDM+3 and AFFM+3 in Manila, Philippines
Sep 2012	9 th ABMF meeting
Oct 2012	ABMI TF3 meeting (second reporting of Phase 2)
Nov 2012	AFDM+3
Dec 2012	10 th ABMF meeting
Feb 2013	11 th ABMF meeting
Mar 2013	ABMI TF3 meeting (third reporting of Phase 2)

Apr 2013	12 th ABMF meeting (finalizing Phase 2 report)
Apr 2013	AFDM+3 (submitting the Phase 2 report)
May 2013	AFMM+3 (Phase 2 report to be approved)
2 nd Half 2013	Pilot issue through the common bond issuance program

Closing remarks by SF2 Chair, Mr. Jong-Hyung Lee. KSD

As Chair of SF2, Mr. JH Lee thanked all members and observers for their active participation, HSBC for the very nice cocktail event, and HKMA for the great dinner and the gracious hosting of the event. He then declared the SF2 proceedings of the 7th ABMF Meeting as closed.