

# Meeting Summary - 12<sup>th</sup> ASEAN+3 Bond Market Forum(ABMF) Meeting

23-24 April 2013, Shangri-La Jakarta, Indonesia

## I. INTRODUCTION

1. The 12<sup>th</sup> ASEAN+3 Bond Market Forum (ABMF) meeting was held on 23 and 24 April 2013 in Jakarta. The meeting was co-hosted by the Indonesian Ministry of Finance, the Indonesian Financial Services Authority (OJK), Indonesia Stock Exchange (IDX), the Indonesian Securities Clearing and Guarantee Corporation (KPEI), the Indonesian Central Securities Depository (KSEI), as well as ADB. The meeting was attended by 120 national and international experts from the public and private sectors. The focus of this meeting was to review, discuss and revise as necessary, and subsequently endorse the draft Phase 2 Interim Reports for i) key characteristics and process for the proposed regionally standardized bond issuance program, *ASEAN+3 Multi-currency Bond Issuance Framework* (AMBIF) in SF1, and ii) the identified bond transaction flows and policy recommendations to enhance straight through processing (STP) in the region for SF2. The meeting agenda and the participants' list can be found in Attachments 1 and 2, respectively.
2. Immediately prior to the 12<sup>th</sup> ABMF Meeting, the 5<sup>th</sup> ASEAN+3 Self Regulatory Organization (SRO) Working Group Meeting was held on 22 April, hosted by the Indonesia market SROs IDX, KDEI and KSEI. In addition to information sessions by individual SROs from several countries, the Japanese Securities Dealers Association (JSDA) presented a comparative analysis of the regional SROs. The analysis reviewed types, services, functions and future directions for five SROs. In addition, NAFMII (National Association of Financial Market Institutional Investors), as a new member, introduced its role, functions and features of the China Inter-bank Bond Market. In a session on moving forward, presenters offered ideas on a common trading platform and a common information platform in conjunction with AMBIF, and also reviewed different models on how a bond market could be structured, using examples from established markets. Some of the suggestions from this session have also been shared with ABMF members in the subsequent ABMF Meeting.

## II. KEY DISCUSSION RESULTS

### ***(SF1: Interim Phase 2 Report of SF1)***

3. The secretariat (Prof. Shigehito Inukai, Mr. Matthias Schmidt) reviewed the key messages of the proposed *ASEAN+3 Multi-currency Bond Issuance Framework* (AMBIF). The stated intention was to establish AMBIF in a very flexible manner to allow as many economies to participate as possible, while pursuing a step-by-step approach across its features and implementation processes. Technical assistance and other support would be given to economies that would opt to join AMBIF at a later stage. Following feedback from members and International Experts, SF1 had decided to avoid using the term 'approval' in its proposed process, instead using the summary description of 'regulatory process' for all activities related to the issuance of bonds in a given market. Cornerstones of AMBIF remain the focus on professional investors and professional market segments exempt from full disclosure. No automatic

regulatory process was expected and no major change to existing laws and regulations was anticipated as a result of an AMBIF implementation. Members confirmed the inclusion of only straight bonds and equivalent Islamic instruments.

4. The secretariat recommended a “Substituted Compliance Approach (SCA)”, in a slight variation from the originally proposed “Substituted Compliance Protocol (SCP)”. Using SCA, Home Regulator and Host Regulator would cooperate in processing a bond issuance, by incorporating a preliminary review process of one regulator into the regulatory process by the other regulator in an expedited manner<sup>[1]</sup>. A number of case studies were presented to members for the illustration of, and discussion on, two possible options for such regulatory cooperation, namely through the use of notices on AMBIF bond issuance by regulators (Option 1), or the posting of information relating to an AMBIF bond issuance on regulators’ websites (Option 2); these options and their details will be further developed. However, nothing should prevent a pilot issue under AMBIF to proceed, even if the options discussion were still ongoing. A number of challenges for an implementation of AMBIF were also reviewed, and are included in the Interim Report as elements for a later consideration; these include the lack of consistent accounting and financial reporting standards, foreign exchange and local currency requirements, as well as insufficient credit rating and pricing deficiencies. After the presentation by the secretariat, valuable comments were given by the members, and conclusions reached, including the following:
  - Members’ questions helped clarify that AMBIF would not necessarily require either Option 1 or Option 2, but that the final Phase 2 Report would merely describe the position of AMBIF, giving choices if multiple solutions were thought suitable, with the regulatory authorities making the decisions on what could be implemented. The Secretariat also clarified that a decision had not yet been made to what extent an agreement would have to be concluded by the time of the final Phase 2 Report, and whether signatures would be required.
  - A representative from Thailand enquired what if SCA was applied and some countries are ready for PA, would those with SCA still be able to participate? And, if PA could be used by everybody in future, indicating the need for MR, if only of minimum standards – what if regulatory authorities would like to include other requirements later? Also, the current AMBIF proposal only described six components – would additional requirements be up to the regulators in each market? In response, the secretariat stated that PA was a long-term objective, and not easy to achieve in the immediate future. Hence, SCA was the only practical approach to AMBIF as a common concept at this point. The intended flexible structure could mean that PA and SCA could co-exist, if it came to that, and there was no need to make a final decision at this stage. At the same time, regulators could indeed define or propose additional requirements that could be addressed by the group as they develop, in the current discussion, agreement is sought on necessary elements only. In this context, a number of members enquired how PA, or SCA, would work for markets where no regulatory process or approval was required.
  - A representative from Lao PDR commented that no policy recommendations had been put forward with regards to the challenges identified for an AMBIF implementation. The secretariat confirmed some of the items shown were meant to be addressed at some time later, simply because there had been insufficient time, and there was the need of addressing these issues correctly; the example of accounting and financial reporting standards was used to illustrate that specialist knowledge and accurate information was required before presenting the subject to members in detail.

- A representative from Korea encouraged comments from other regulatory bodies on whether 'regulator' may be better defined as, e.g., 'market operating institution', as in some markets, regulatory bodies may not have a direct function in the bond market, but have delegated authority to SROs or other market institutions. The secretariat felt that the definition of 'regulatory body or delegated authority', as used in the Interim Report, was seen to include all possible parties playing a role in the bond issuance process.
  - A number of participants commented on the focus of AMBIF on the supply side, naturally. It was commented that more details about the demand side should be considered for inclusion still in the course of Phase 2, such as the voice of issuers and investors. Would issuers be interested to do larger issue sizes, or only focused on yield; would professional investors be interested in buying more bonds, and different instruments? It was also felt that some details on future rules and market practices for AMBIF issuances should be provided, including, e.g., a description exactly how an issuance is going to work: would an issuer do a roadshow, determine the interest, then decide which market to issue in, and then kick off the SCA? Or would economies implement SCA and announce SCA arrangements. The market would want to know such practices. The selling of AMBIF issuances across borders should also be suitably referenced.
  - Representatives from China expressed their concerns about the absence of market mechanisms considered important, such as risk prevention, cross-border investigation and enforcement, as well as cross-border insolvency, from the proposed issuance framework. A study of such mechanisms might be beneficial to be included going forward. The secretariat conceded that such points were important points and recommended to start the dialogue on some of these items; for other subjects, it was not yet clear which topic would need to be addressed by which entity in the markets. The secretariat will carefully consider and advise, but several subjects may be beyond the remit of ABMF.
  - A representative from Malaysia opined that some members may still see the Interim Report as too general and not detailed enough on certain features; this may be particularly so among the private sector representatives. While it was understood to be a general framework, the proposal would have to account for the fact that many economies had specific detailed functions. At the same time, he pointed out that SF1 would need to consider possible differences in the regulatory process between multiple regulators in the same market, driven by an individual regulator's differing focus or mandate. In summary, more discussion on some of these subjects would be needed.
5. The secretariat expressed its sincere appreciation to members and experts for their thorough review and generous substantiated feedback on the draft version for the SF1 Interim Report, and for their contributions during the meeting. The conclusions from additional discussion during and on the side of the Jakarta Meeting were incorporated into the Interim Report still during the meeting days, to the extent possible. The completed SF1 Phase 2 Interim Report was subsequently sent by ABMF Secretariat to the ABMI Co-chairs on 25 April 2013, the day after the ABMF Meeting.
  6. Feedback prior and discussions during the meeting gave rise to a further refining of ABMIF and its components in the coming months. These include the need to show in more, preferably quantitative, detail the expected benefits inherent to AMBIF, a more comprehensive study on issuer and investor profiles and requirements, and the consideration of a regulatory process incorporating the information platform introduced during the meeting. An update on AMBIF will be presented to members at the 13<sup>th</sup> ABMF Meeting in Tokyo.

**(SF2: Interim Phase 2 Report of SF2)**

7. The secretariat (Dr. Taiji Inui) thanked members for their great feedback and contributions to finalise the SF2 Interim Report, and used this session to review for participants the specific feedback items received that resulted in changes to the draft version circulated before the meeting. This included, i) the proposed Model DVP Flow which was found to be redundant since some standards had changed; a model DVP flow will be revisited in Phase 3; ii) the trading system was confirmed as not a direct focus of SF2 and language was adjusted to reflect this; iii) the use of more specific terminology, such as 'FX spot dates', in the appropriate text sections; and iv) a number of language and formatting corrections, as were deemed necessary. After the review by the secretariat, a number of practical and valuable comments were received from the audience, including the following:

- International Experts commented on the report being well structured and now with the right level of detail. IEs also enquired why BIC was included as a mention in the body text, but not in the Executive Summary, which is more likely to be reviewed by the target audience. With reference to the message items, it was also pointed out that 'instruction identification' was not the same as 'sender reference'. In response, ISIN was positioned to readers with a higher priority than BIC, since a lack would affect an entire transaction's flow through the market; the not quite standard use of 'instruction identification' was, in fact, acknowledged and explained in the body text as the way in which in particular CSDs were employing the field. In addition, the question on the use of the term 'ISO 20022 compliant' was explained as purely the application of a typical technology term, and not meant to give the impression of a legally binding action by market participants.
- Part of the discussion centered on the mention of, e.g., account structure as a possible impediment for an efficient market. Some commented that it appeared odd that no policy recommendation on account structures was contained in the report; others confirmed that account structure did play a role in the flow of information and reconciliation. International Experts suggested to present this subject under 'investor protection' or similar, as prudential regulations in investor domicile or policy bodies' intentions in the domestic markets might give rise to a particular account structure. It was suggested to group this together with other indirect topics, such as tax, and to also look at their practical aspects.
- International Experts agreed that having an automated PSMS was conducive for a market, but also suggested to include cost & benefit information for consideration, so that markets would have an understanding of these factors, to the extent possible. Comments were also received on the recommendation of English as the language of communication; from a legal perspective, it may need to be considered which language would have to be submitted in the case of a dispute; here, members asked to hear other parties' experience in this regard. In this context, it was revealed that, e.g., BOJ had no intention to use English in communication while, in contrast, the European market integration was perceived a success as a result of the use of English as a communication standard.
- Several International Experts suggested to reference or otherwise incorporate the 'Principles for Financial Market Infrastructures', or PFMI, published by IOSCO. The resulting discussion concluded that many authorities including central banks were trying to use PFMI as reference or measures to conduct oversight and examination in their markets. This could potentially impact any SF2-proposed transaction flows. At the same time, PFMI is a fairly high level and general document, and does not cover the SF2 topics at the same level of detail; hence, a direct application to ABMF work may not always be possible. Even

the more direct recommendation for CCP and Trade Repository may not be directly relevant for SF2 since these recommendations were intended for consideration of market institutions and the purpose of implementation of such infrastructures; this was not within the remit of SF2 work.

8. Members asked the secretariat to revise or adjust a number of statements on their respective markets and features, in particular where such statements were incomplete or potentially misleading. In wrapping up, the secretariat (Dr. Seung Jae Lee) confirmed that these changes, together with additional feedback received on the side of the plenary discussion, would be duly effected still on the day of the SF2 meeting. The further detailing of some other subjects and additional explanations of several topics were held over until the final SF2 Phase 2 Report, with the agreement of members. For the final report, the secretariat would strive to revise text to reflect comments from the members, to make descriptions clearer, include cost & benefit information where possible, and to make policy implications and recommendations easier to understand. The completed SF1 Phase 2 Interim Report was subsequently sent by ABMF Secretariat to the ABMI Co-chairs on 25 April 2013, the day after the ABMF Meeting.
9. The secretariat appealed to members to provide active feedback on the proposed topics for the next phase (Phase 3) of ABMF activities, as the future agenda would form part of the discussions at the last two ABMF meeting of Phase 2.

***(Information sharing)***

10. In the context of the Sub-Forum 1 discussions, the Director of Government Debt of the Debt Management Office at the Indonesian Ministry of Finance (IMOF) shared with participants details about the Indonesian government bond market. Ms. Loto Ginting focused on describing the risk management approach taken by her office and the lessons learned during the Asian, Global and European financial crises. According to her, the government securities market had not been well designed from the beginning. The apparent deficiencies indicated the need for one institution to manage government debt, leading to the establishment of the Public Debt Management Office at IMOF, via the 2002 Government Debt Law. From 2005, the Indonesian budget financing started to rely more on bond issuance. Since 2006, Indonesia has been issuing retail bonds, and can also issue government Sukuk following the 2008 enactment of the Government Islamic Securities Law. Prior to issuing retail bonds, PDMO has consulted its Philippine counterpart to learn about retail market issuance. Even though foreign participation in government securities is high (33%), 70% of investors represented high quality entities with mid- to long-term objectives. While this signified a mostly stable environment, it also necessitated the need to further develop the domestic bond market, as a prudent measure.
11. In conjunction with the SF1 proposal on AMBIF, Dr. Hyun from KCMI introduced to members the idea of establishing and utilizing an information platform as part of AMBIF, as also referenced in the AMBIF regulatory process approach, Option 2. Dr. Hyun suggested two possible variations, namely i) for regulators to publish information on an AMBIF issuance on their own website, or ii) for regulators to post such information on a central information platform accessible to regulators and investors (AMBIF Investors) alike. The main purpose was to make data on AMBIF issuance, applications and

approvals readily accessible to regulatory authorities, but also eligible investors and other AMBIF participants. Dr. Hyun also showed a few mock-up screen shots containing the display of potential data, access maintenance and document attachment options, for an easy illustration of the idea. He suggested to enter into a discussion about the concept of an information platform, the variants presented and the elements necessary for such a common platform solution.

12. As part of ongoing information session in Sub-Forum 2 on standardization approaches, SWIFT shared with members the present state of adoption of the ISO20022 standard. New participants to the SWIFT network and services, such as corporates and fund managers are in part responsible for the drive towards ISO20022 adoption, taking full advantage of new, and cheaper technologies to connect. Other drivers included new infrastructure initiatives and automation efforts in specific areas, most notably the investment fund space. Accepted practices for a switch to ISO20022 included the renewal of legacy systems, further automation needs, and the ability to achieve interoperability with other systems or services. One of the key advantages of ISO20022 is its flexibility to accommodate existing local requirements through tools and best practice groups already well established. All presentation materials for the information sharing sessions are available at the Members section of the ABMF website (<http://asean3abmf.adb.org>).

### III. OTHER ISSUES and WORK PLAN

13. The secretariat updated members on the progress of the BCLMV Knowledge Support, detailing the planned mission to Cambodia at the end of May. This market visit would be part of Phase 2 of the Knowledge Support and would include specifically requested information sessions on i) auction of government bonds, ii) developing an interbank money market, and iii) detailing bond transaction flows and infrastructure. The visit would also be used to study the existing market and its features. The secretariat expects to share its findings with members at the next meeting.
14. The secretariat introduced NAFMII as a new National Member for China and shared the work plan and activities after the Jakarta Meeting (Table 1 and Attachment 7). One of the key tasks in the coming months would be to continue to provide input to the discussions among regulatory bodies on AMBIF and the proposed SF2 policy recommendations and future activities, respectively.

Table 1: Work Plan after Jakarta Meeting

23-24 Apr 2013	12 <sup>th</sup> ABMF Meeting in Jakarta
25 Apr 2013	Submission of Interim Report to ABMI Co-Chairs
2 May 2013	Recommendations approved by AFMCGM+3
29-31 May 2013	BCLMV Knowledge Support –Cambodia
Q3 2013	BCLMV Knowledge Support –Additional support (as needed)
25-26 Jul 2013	13 <sup>th</sup> ABMF Meeting in Tokyo, Japan
Oct/Nov 2013	14 <sup>th</sup> ABMF Meeting in Seoul, Korea

Nov 2013	Submission of Phase 2 draft report, Phase 3 activities to ASEAN+3 Deputies meeting
End Dec 2013	Finalize full Phase 2 Report; update Phase 1 Report
2014	Start Phase 3 ABMF activities Explore pilot issuance under AMBIF

15. The secretariat sought cooperation from members to keep meeting materials and the draft and approved Interim Reports confidential among members and participants until the end of Phase 2, when the full Phase 2 Reports would be published. As and when the need arises, public material may be prepared to be able to communicate the ABMF key messages appropriately.
16. The approved Interim Reports for SF1 and SF2, respectively, would be submitted immediately after the Jakarta Meeting to AFMCGM+3, via the ABMI Co-chairs. The secretariat acknowledged the strong and generous participation of members in getting the reports compiled in time.
17. The next (13<sup>th</sup>) ABMF Meeting will be held on 25-26 Jul 2013 in Tokyo, Japan. In addition to further updates on the SF1 and SF2 Phase 2 reports, the 13<sup>th</sup> ABMF Meeting is expected to focus on dialogue with the regulatory authorities and policy bodies on AMBIF and the proposed SF2 policy recommendations and future initiatives, as well as initial discussions on a Phase 3 approach and its proposed work objectives. An update on the BCLMV Knowledge Support efforts is also expected.
18. The 14<sup>th</sup> ABMF meeting will be held in Seoul, Korea, and is tentatively scheduled for mid-Oct 2013 at this point in time.
19. All presentation materials during the meeting have been made available at the Members Library section of the ABMF website (<http://asean3abmf.adb.org>).