

Briefing note: the 14th ABMF meeting on 6-7 Nov 2013 in Jeju Island, Korea

(Prepared by ABMF secretariat for ABMI TF3. Internal use only)

I. Key results of the meeting

1. (Background) The 14th ASEAN+3 Bond Market Forum (ABMF) meeting was held on 6-7 Nov 2013 in Jeju Island, Korea. The meeting was hosted by Korea Securities Depository (KSD), Korea Stock Exchange (KRX), Korea Financial Investment Association (KOFIA), KOSCOM, and ADB, supported by the Ministry of Strategy and Finance of Korea (MOSF). Around 130 ABMF members, experts, and observers participated in the meeting. The meeting agenda is in Attachment 1.
2. (Review of Phase 2 SF1 and SF2 final reports) Draft Phase 2 (2012-2013) final reports of both Sub-Forum 1 (SF1) and Sub-Forum 2 (SF2) were presented by the secretariat¹ and discussed with the members. The SF1 report described the key components of and recommendations for the ASEAN+3 Multi-currency Bond Issuance Framework (AMBIF) and SF2 presented detailed bond transaction flows with policy recommendations for standardization and future works. Both SF1 and SF2 reports will be revised to incorporate the comments from the members and finalized by the end of 2013 for submission to ABMI TF3.
3. (Establishment of a small group for AMBIF implementation) For implementation of AMBIF in 2014, it was proposed by the secretariat and the co-chair of ABMI TF3, the Ministry of Finance of Japan (JMOF), to formulate a small group where interested regulators and delegated authorities participate on a voluntary basis and discuss AMBIF implementation. Bilateral consultations among the small group members are also expected to expedite the implementation. The secretariat requested the members to indicate their interest in joining the small group before the upcoming ASEAN+3 Deputies Meeting on 28-29 in Shanghai, Peoples Republic of China (PRC). JMOF also delivered an update on the ABMI TF meeting on 1 Nov 2013 in Tokyo, Japan, and messages for the next ABMF activities to achieve tangible results. (Attachment 2)
4. (Progress in AMBIF documentation and options of information sharing needed for AMBIF implementation) For in-depth study of AMBIF documentation, the 'AMBIF Documentation Recommendation Board (ADRB)' was formed led by Japanese members during the 13th ABMF meeting in July 2013. ADRB presented to members the first draft of AMBIF Documentation that will be further studied and refined later. As for the study on options of information sharing on AMBIF bond issuance among regulators, establishment of the 'AMBIF Information Platform Board (AIPB)' is in progress led by Korean members.
5. (Information sharing) Besides regular SF1 and SF2 discussion, the members shared information on i) bond market systems and infrastructure of Korea, ii) the experience of ECB to integrate cash and securities settlement in Target-2 Securities (T2S), and iii) cross-border collateral and repo services in Europe as a reference for identifying the focus of the next ABMF activities of SF2.

¹ Seung Jae Lee, Advisor, OREI, ADB; Shinji Kawai, Senior Financial Sector Specialist (Banking), OREI, ADB; Shigehito Inukai, ADB consultant (financial legal expert); Taiji Inui, ADB consultant (financial information technology specialist); and Matthias Schmidt, ADB consultant (custody business specialist)

6. (SRO meeting) On the sideline of the AMBF meeting, the 7th ASEAN+3 Self Regulatory Organization (SRO) working group meeting was held on 5 Nov 2013 participated by SROs from PRC, Hong Kong, Indonesia, Japan, Korea, Malaysia, Philippines, Thailand, and Vietnam. The participants reviewed the current repo markets and services in the ASEAN+3 economies and discussed how the region could achieve market development in a more organized way, with a view to identifying the roles and contributions of SROs.

II. Next steps

7. (Finalization of Phase 2) The meeting was the last ABMF meeting of Phase 2. The secretariat will continue off-meeting communication and consultation with the members to finalize the Phase 2 activities by the end of 2013, including the following:

- ✓ Preparing Phase 2 SF1 and SF2 final report by the end of 2013 for submission to ABMI TF3
- ✓ Formulating the small group for AMBIF implementation and providing support for the small group discussion and bilateral consultation(s) on AMBIF implementation
- ✓ Collecting information and data needed for the update of the Bond Market Guide by the end of 2013 and publication of the updated Market Guide in the first quarter of 2014.

8. (Preparation of Phase 3) The secretariat and the members are preparing a plan for the next phase of ABMF activities during 2014-2015 (Phase 3) guided by the co-chair of ABMI TF3, JMOF, which should be confirmed and approved by ABMI TF3 members before the end of Phase 2. Key activities of Phase 3 will include the following:

- ✓ Providing in-depth study and support for small group discussion and bilateral consultation(s) to implement AMBIF in 2014;
- ✓ Developing a DVP model as a reference for standardizing bond transaction flows in the region and producing policy recommendations on standardization of message formats and items, market practices, and cross-border repo and collateral management;
- ✓ Knowledge support for BCLMV economies to develop local currency bond markets;
- ✓ Producing an updated ASEAN+3 Bond Market Guide to enhance investors' understanding of the market and so attract more investments within and outside of the region.

9. (Next ABMF meetings) Subject to approval by ABMI TF3, 3 ABMF meetings are planned during 2014: the 15th meeting in Mar-Apr 2014, the 16th meeting in Jul-Aug 2014, and 17th meeting in Oct-Nov 2014.

Attachments: 1. The 14th ABMF meeting agenda
2. Reporting and Key messages to ABMF by JMOF


ASIAN BOND MARKETS INITIATIVE
ASEAN+3 Bond Market Forum (ABMF)

14th ASEAN+3 Bond Market Forum (ABMF) Meeting
6-7 November 2013, Jeju, Korea

| DATE & TIME | PROGRAM |
|-------------------|--|
| 6 NOV 2013 | DAY 1: Sub-Forum 1 (SF1) |
| 08:30 – 09:00 | <i>Registration</i> |
| 09:00 – 09:10 | Welcoming Remarks Mr. Kyung-Dong Kim, Chairman & CEO, KSD |
| 09:10 – 09:30 | Key Note Speech Mr. Sung-Soo Eun, Deputy Minister for International Affairs, MOSF |
| 09:30 – 09:40 | - Opening Remarks by Mr. Shunzo Kayanuma, SF1 Chair - Reporting and Key messages to ABMF by JMOF |
| 09:40 – 10:40 | Session 1: Review of Phase 1 SF1 Report (I) – Progress reporting (ADB secretariat, Prof. Inukai) – Progress in ADRB (Barclays and TSE) |
| 10:40 – 11:00 | <i>Coffee break</i> |
| 11:00 – 12:00 | Session 2: Review of Phase 1 SF1 Report (II) – Q and A |
| 12: 00 – 13:30 | Lunch (Venue: Omi Market Grill, R Floor, Hyatt Regency Jeju) |
| 13:30 – 14:30 | Session 2-2 (Optional Session): Progress and Issues in AMBIF (III) – Q and A <i>* This session is optional depending on the remaining issues to discuss on AMBIF. If no issues left, then the Session will not be held</i> |
| 14:30 – 15:50 | Session 3: Discussion on AMBIF Information Platform (IP) – Update on the proposal on AMBIF IP (KCMI) – Regulatory process and information flows of Malaysia (CIMB and BPAM) – Regulatory process and information flows of Thailand (Thai BMA) – Q and A |
| (13:30 – 14:50) | <i>(In case of the Session 2-2 is not being held)</i> |
| 15:50 – 16:10 | <i>Coffee break</i> |
| (14:50 – 15:10) | <i>(In case of the Session 2-2 is not being held)</i> |
| 16:10 – 17:40 | Session 4 (Special Session): Bond markets of Korea – Bond transactions through exchange (KRX) – Development and prospects of OTC market (KOFIA) – Book entry system and depository system (KSD) – Bond market system and IT of Korea (KOSCOM) – Auction system for government bonds (BOK) – Local currency trade settlement (KCMI and Wooribank) – Q and A |
| (15:10 – 16:40) | <i>(In case of the Session 2-2 is not being held)</i> |
| 17:40 – 18:00 | Session 5: Work Plan and other issues of SF1 – Work plan and other issues (ADB secretariat) – Q and A |
| (16:40 – 17:00) | <i>(In case of the Session 2-2 is not being held)</i> |
| 18:00 – 18:10 | Wrap up by ADB Secretariat |
| (17:00 – 17:10) | <i>(In case of the Session 2-2 is not being held)</i> |
| 18:10 – 18:20 | Closing Remarks by Mr. Shunzo Kayanuma, SF1 Chair |
| (17:10 – 17:20) | <i>(In case of the Session 2-2 is not being held)</i> |

| DATE & TIME | PROGRAM |
|------------------|---|
| 19:50~ 18:50~ | Dinner (Venue: Regency Ballroom, R Floor, Hyatt Regency Jeju) (In case of the Session 2-2 is not being held) |
| 7 NOV 2013 | DAY 2: Sub-Forum 2 (SF2) |
| 08:30 – 09:00 | <i>Registration</i> |
| 09:00 – 09:10 | Opening Remarks by Mr. Jong Hyung Lee, SF2 Chair |
| 09:10 – 10:20 | Session 6: Progress and Issues of SF2 (I) – Progress and reports of SF2 (ADB secretariat, Dr. Inui) – CSIF and SF2 (ADB secretariat, Mr. Kawai) |
| 10:20 – 10:40 | <i>Coffee break</i> |
| 10:40 – 12:00 | Session 7: Progress and Issues of SF2 (II) – Q and A |
| 12:00 – 13:30 | Lunch (Venue: Omi Market Grill, R Floor, Hyatt Regency Jeju) |
| 13:30 – 14:40 | Session 8 (Information session): Cross-border collateral services – Issues and experiences of Europe (OREI, ADB) – Challenges in developing Cross border collateral in the region (SMBC and others) – Q and A |
| 14:40 – 15:10 | Session 9 (Information session): Securities numbering and assignment of ISIN – Role and function of ANNA and ISIN (Clearstream) – The experience of Japan on securities numbering (JASDEC) – Q and A |
| 15:10 – 15:30 | <i>Coffee break</i> |
| 15:30 – 16:20 | Session 10 (Information session): Discussion on T2S – Discussion on T2S and implications for Asia (ECB) – Q and A |
| 16:20 – 16:40 | Session 11: Work Plan and other issues of SF2 – Work plan and other issues (ADB secretariat) – Q and A |
| 16:40 – 16:50 | Wrap up by ADB Secretariat |
| 16:50 – 17:00 | Closing Remarks by Mr. Jong Hyung Lee, SF2 Chair |

For ABMI members and ABMF members

**Concept Note on ASEAN+3 Multi-currency Bond Issuance Framework
(AMBIF)**

1. Background

ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) was originally advocated by the Asian Bond Market Forum (ABMF) Sub-Forum 1. In September 2010, ABMF was established as a common platform to foster standardization of market practices and harmonization of regulations in relation to cross-border bond transaction in the region. Among the two Sub-Forums of ABMF, Sub Forum 1 (SF1) researched, collated, and compared regulations and market practices of each member country (Phase 1: 2010-12). The comprehensive survey by ABMF SF 1 has revealed that, due to significant differences in regulations, listing/registration rules, and clearing/settlement concepts and schemes, cross-border transactions remains subdued in the region. Against this backdrop, the ABMF has started discussing possible modalities and relevant policy recommendations for achieving AMBIF, which is a policy initiative to help cross-border transactions through standardized issuance and investment processes. The proposal on AMBIF (“the proposal”) was submitted to the ASEAN+3 Finance Ministers and Central Bank Governors Meeting in May 2013 and its work plan was duly endorsed. The revised executive summary of the proposal is attached to this note.

AMBIF aims at achieving a common *standardized* market, not a *unified* market, as a measure to support local currency bond issuance in the domestic markets of ASEAN+3. The goal of AMBIF is not to establish one single unified bond market. Such an approach would be not only over-ambitious but also impractical, given the heterogeneity of legal and regulatory frameworks and market practices, and different degrees of market development in the region. Rather, AMBIF adopts a more pragmatic approach: in other words, we envisage a group of markets where the participating economies will be able to mutually accept and agree on the key principles. AMBIF aims at enabling issuers to issue, and investors to transact, bonds in any currency in any domestic bond market, by standardizing documentation and information disclosure requirements without impacting on current regulations in each participating economy. To this end, ABMF encourages regulators, self-regulatory organizations (SROs), and bond market operators to cooperate with a view to addressing segmented investor bases and different issuance and investment schemes.

AMBIF targets professional bond investors and specific instruments, in order to strike the best balance between the level of ambition and coverage. While a standardized market that targets all the investors and investing instruments would be desirable, it would slow the implementation of AMBIF due partly to tight investor protection rules that are applied to retail investors. Thus, ABMF SF1 is now targeting markets for professional bond investors, including banks, non-bank institutional investors (pension funds, insurance companies, and investment management funds) and

non-financial corporations as well as supra-national agencies (e.g., ADB). Moreover, AMBIF would start based on plain-vanilla debt instruments (i.e., straight bonds), medium-term notes, and Sukuk. Further, the ABMF meeting in July 2013 agreed to establish a voluntary Asian Common Professional Bond Market Practices and Documentation Recommendation Board (ADRB), in order to consider what documentation should be best used under this framework. Finally, certain technical issues, such as financial reporting, tax treatment, language, legal issues, and credit ratings are also enumerated as current or future challenges.

2. Proposed direction

Task Force 3 Co-chairs will propose the following two approaches:

- ***A combination of bilateral and multilateral approaches.*** The proposal made clear that, while AMBIF's ultimate goal is to achieve a multilateral framework, "the multiple of bilateral agreements with a regional perspective could also be considered." TF 3 Co-chairs propose a staged approach, where we can start from a visible achievement, share such a leading case in the region, and extend it multilaterally. More specifically, (i) countries that are interested in achieving AMBIF will formulate a smaller group on a voluntary basis; (ii) this group starts bilateral discussions to explore the possibility of standardization of issuance and investment procedures; (iii) the group will agree on such standardization as a pilot case, in line with the parameters set by AMBIF; and then (iv) such a pilot case, with necessary modifications, will be extended to other countries. For full transparency purposes, activities of this group and bilateral discussions will be shared by the members of the all ABMF and AMBI (TF3). TF 3 Co-chairs request ADB secretariat to help facilitate these activities by providing technical advice.
- ***Enhanced communication.*** TF3 Co-chairs feel the need to build more understanding on technical progress among relevant parties, in order to mobilize support from policymakers. In this regard, TF3 Co-chairs propose that, following each regular meeting, ABMF publish a briefing note on (i) what has been agreed; and (ii) what will be the next step in each meeting and report to the TF3 Co-chairs, who will then share the report to the members.

3. Next Steps

- Following the TF meeting, members that are interested in participating in the above-mentioned small group will express their interest to TF3 Co-chairs, copying ADB secretariat, before the upcoming next ABMF meeting (November 6-7).
- At the margin of ABMF meeting, members of the small group will exchange views on the modalities and scope of bilateral approach. A summary of such discussion should be reported to TF3 Co-chairs as well as AMBI Co-Chairs.
- The progress on discussion as well as other developments will be reported to the next ASEAN+3 Deputies meeting in Shanghai on November 28 and 29.