

Summary of 22nd ASEAN+3 Bond Market Forum (ABMF)

7 and 8 June 2016, ADB Institute, Tokyo, Japan

I. Highlights of the Meeting

1. The 22nd ASEAN+3 Bond Market Forum (ABMF) was held on 7 and 8 June 2016 at the offices of the ADB Institute in Tokyo, Japan. The Sub-Forum 1(SF1) meeting discussed: (i) AMBIF support efforts and potential for pilot issues; (ii) the progress of the Bond Market Guides 2016; (iii) progress of the working groups for cross-border collateral and repo (WG-CBCR) and the information platform (WG-IP); and (iv) tentative conclusion of the proposed AMBIF taxation survey. The members were requested to investigate potential opportunities for AMBIF issuances in their markets and consider pilot issues.
2. Sub-Forum 2 (SF2) discussed how to promote ISO20022 and other international standards locally. Particularly, extensive use of XML technology such as XBRL should be recognized because it would be utilized for various regulatory reporting as well as corporate transactions. Members were also able to listen to information sessions on CGIF and the SRO Working Group Report as well as blockchain technology. The meeting agenda is enclosed as Annex 1. The slides for individual meeting sessions have been uploaded to the [ABMF member website](#), and questions and feedback during the meeting are summarised in Annex 2.

(Welcome Remarks by Mr. Daikichi Momma, JMOF)

3. Mr. Momma related his own experiences leading to the creation of ABMI and, ultimately, ABMF, in relation with the Chiang Mai Initiative (CMI). ASEAN+3 officials established the CMI as a temporary measure to support the member states from a future crisis while the creation of ABMI aimed to build sustainable and resilient markets in the region. In 2002, it was difficult even for large corporates to get, for example, THB funding for more than 1 year. Since then, thanks to the efforts of all ASEAN+3 members, access to long-term finance is now easily available. Other markets such as Myanmar will follow soon. These financial developments will bring Asia to become the hottest region in the world, and Japan will support these efforts. Ultimately, the concerted regional efforts to develop bond markets will lead to more dynamic and robust economic developments in the region.

(SF1: AMBIF Updates)

4. Pertaining to these financial market developments for more robust markets, it was important how to implement AMBIF to achieve the set goals. Mr. Satoru Yamadera, ADB Secretariat, commented that market volatility in second half of last year and early 2016 resulted in caution in international markets. However, recently, ADB Secretariat had seen enquiries on AMBIF relating to a number of markets. The process for a pilot issue in each market can create more conducive market practices and introduce international practices for a more accessible and familiar environment for interested issuers and investors. Already, some important bond market developments have been observed, not necessarily as a reaction to AMBIF alone, but being beneficial nevertheless. China has started on the further liberalization of its bond market and investor access, and the practical application of AMBIF elements is under discussion. Korea is working on rule changes for its professional bond market. The Philippines may see a new product being introduced in the context of AMBIF, and Thailand will introduce MTN programme issuance in due course. Viet Nam is hoping to be part of AMBIF soon, and is fast-tracking necessary changes to its regulatory framework. Mr. Yamadera asked members from the respective markets to briefly update members on some of these developments.
5. Mr. Tailei Wan from NAFMII highlighted the efforts to open up the Chinese bond market, for which the ASEAN+3 mechanism has been very helpful. In 2005, PBOC started reducing the excessive regulation previously in place. Now, the Interbank Bond Market (IBBM) was the 3rd biggest in the world, and had grown from 10% of GDP to 70% of GDP, and its share rose from 1% to 25% of total financing of the economy. More corporates and banks, as well as governments and local governments have taken up issuances in this market. Trading volume has also steadily increased. PBOC continues to support more transparent and innovative bond market, but with good risk control and better investor protection.
6. 2015 was a breakthrough for the Panda bond market. More enquiries on Panda bond issuance had been observed since. Foreign issuers can now issue CNY bond more easily. In addition, liberalization is hoped to increase foreign institutional investors (FII). At present, FII investment is below 2% of total bonds outstanding. In this regard, PBOC would like to streamline registration procedures for FII; no quota to invest in the IBBM; and no limitation on repatriation as long as the remittance currencies would match the original funding currency. Liberalization of domestic bond market will go in tandem with liberalization of overseas issuance

by Chinese corporates overseas investments by domestic investors, though they may require time to adjust to foreign markets and their practices.

7. Mr. Vicente Graciano Felizmenio from the SEC Philippines highlighted a priority of the incoming administration, the enabling of private/public partnerships (PPP) for the financing of many needed infrastructure projects. In this regard, government agencies would need to gear up to support such policy objective. For example, the single borrower limit remained as a challenge, but some leeway may be given to PPPs. Besides, introduction of Basel III and Net Stable Funding Ratio (NSFR) may withhold banks from long-term funding. The SEC continues to promote the capital market for financing, and would like to see a strengthening of the QB (Qualified Buyer) market, in synch with AMBIF developments. At the same time, discussions with the market have identified the need to improve the repo market and the primary dealer system, and proposed the introduction of an overnight interest rate swap market. In 2015, the SEC also issued new regulations on bond issuance, which led to the shelf-registration concept now being used for bond issuance.
8. Ms. Chortip Svetarundra of the SEC Thailand informed the audience that the Capital Market Supervisory Board has decided to approve MTN programme. The SEC followed the recommendation of the private sector experts and Sub-Committee on Consideration of Regulations on Issuance and Offering of Debt Securities, Derivatives and Structured Products and was drafting the necessary notification prior to a mandated public consultation, which was expected soon. Ms. Svetarundra also explained that the SEC reviewed issuance documentation, including the SSF for the Mizuho pilot in full, and not just pro-forma, as part of its prescribed regulatory process. In addition, the coordination between the regulators involved in the approval of issuance under the Baht Bond programme – BOT, PDMO (MOF) and SEC – was working well, as tested during the Mizuho pilot issuance.
9. Mr. Tuan Ahn Tran of Hanoi Stock Exchange explained the challenges in the Viet Nam corporate bond market that are presently being reviewed by the regulator. In Viet Nam a corporate bond can be issued via public offering or private placement (PP). However, PP presently does not have any disclosure requirement, thus, is regarded as bank loan substitute. Besides, there is uncertainty in financial statements of corporates. As such, the introduction of international practices via AMBIF would be good and desirable. The regulator is expected to improve transparency of corporate bond market by mandating disclosure of key financial statements. In addition, issuance approval time should be reduced as well. Also,

HNX would become the information platform for all information relating to bonds in the Viet Nam market. These require amendments to the existing regulations, and the changes need to be circulated to the market stakeholders. Once finalized, Viet Nam can join AMBIF.

(SF1: Working Group on Information Platform (WG-IP) Progress)

10. Mr. Yamadera shared the outcome of the bond pricing workshop held on the previous day. The participants of the workshop had acknowledged the uniqueness of each pricing agency's background and market position but also the similarities in the regulatory frameworks. The role of the bond pricing agencies (BPAs) was confirmed as important to provide market transparency. As the step to increase the region's market transparency, ADB requested the BPAs to support overhaul of AsianBondsOnline (ABO) website, as a gateway to provide greater information to market participants. By posting local bond pricing information provided by BPAs on the ABO, investors and market players can find initial information of local currency bonds, then, they can be guided to BPAs' website if they wish to have more information. It is hope that the overhaul of ABO to be the initial step for a regional information platform (IP) , which is included in the new ABMI Road Map, to support more active intraregional bond transactions. The members interested in discussing the overhaul of ABO are welcome to join WG-IP. Mr. Yamadera requested the members to provide their further input or ideas to improve ABO.

(SF1: Working Group on Cross-Border Collateral and Repo (WG-CBCR) Progress)

11. Mr. Yamadera updated the members of the progress of the WG-CBCR. A number of conference calls with market experts had been necessary since only limited responses to the original WG survey had been received. Findings indicated that there was a limited volume of cross-border repo in the region, with a clear focus on USD transactions, plus some transactions involving JPY or JGB as well as AUD. At this point, it was not clear whether this lack of transactions may be caused by regulatory issues or other impediments. It did, however, become clear that many (most) transactions were effectively booked outside the region and, hence, it was not easy to find evidence of regional transaction types. To trace possible cross-border transactions, WG-CBCR will investigate existing cross-border transactions starting from USD/US Treasury transaction in the market; then, USD/local government bond transactions; and finally possibility of local currency/local currency bond transactions. Since transactions are very limited and linked with individual financial institutions, the study will be conducted through various interviews with ABMF and WG-CBCR members. Summary reporting is expected at the next ABMF Meeting in October.

(SF1: Update on ABMF Bond Market Guides 2016)

12. Prof Shigehito Inukai and Mr. Matthias Schmidt, ADB Secretariat, updated members on the status and progress of the ABMF Bond Market Guides 2016 (BMG). The first 4 of 14 markets (compared to 11 markets in 2012) were nearing completion and the final products were very impressive. The remaining markets were shown at different stages of completion and the final timeline towards publication would be determined in direct discussions with the members representing each market. It is aimed to publish all BMGs by the end of this year on the ABO website as a part of enhancement of ABO. BMGs will try to include regulatory changes particularly in relation with AMBIF as much as possible. The creation of BMGs for the BCLM is expected to achieve highest visibility for the markets. Additional meetings around the ABMF Meeting would be used to discuss BMG progress with some markets.

13. In the course of the BMG work, the SF1 team has observed instances of inconsistent data across different websites relating to the same market, with some websites also showing information that was no longer current. General information on ABO was often outdated. Other key issues were the designation for legislation, including the various dates referring to its passing, promulgation, and posting on websites, as well as the different treatment of technical terms in a given market, with different spelling and, e.g., use of capitalization potentially confusing for readers. One positive observation had been the voluntary action taken by some regulators to adjust the regulatory framework pursuant to ABMF discussions. The SF1 team will make sure that these items will be included in the BMGs as the authoritative source of bond market information for the region.

(SF1: Synthetic Peso Note (Potential instrument to be issued under AMBIF))

14. Mr. Renan Paglin, of Smetrix Fixed Income Partners, introduced to the members a proposed new cross-border issuance structure called Synthetic Peso Note (SPN) that will utilise the AMBIF concept, in particular the SSF. SPN would enable foreign banks to extend credit in PHP without establishing a branch. SPN includes a structure of issuing a bond locally in ASEAN+3 and packaging it into depository receipts listed on PDEX. It is hoped that SPN would support infrastructure finance in the Philippines by inviting more foreign creditors and provide investment opportunities for Philippine insurance companies and pension funds of which investment opportunities are limited only to senior rating. The Philippine SEC is strongly supporting the proposal and it is hoped to be the first AMBIF pilot issue in the Philippines. Further details on SPN would be available from Smetrix upon request.

(SF1: Update on Credit Guarantee and Investment Facility (CGIF))

15. Mr. Nishimura, CEO of CGIF, updated members on the last 3 years of activity since he last presented to ABMF. Up to now, CGIF has guaranteed 13 bonds, and its recognition in the market has been increasing. CGIF recently guaranteed a green bond issued in the Philippines. In addition, It is planning to support project bonds for infrastructure financing that will replace the typical short-term funding employed for the initial phase of such long-term projects. These project bonds would also nicely match the demand from investors for longer-term instruments. CGIF will add a Construction Period Guarantee Facility later in 2016 or early 2017. CGIF has been innovative to support the region's bond markets. For specific questions, and in case of interest in working with CGIF on transactions, members are encouraged to contact Mr. Nishimura or the staff members shown in the presentation contact list.

16. In response to questions, Mr. Nishimura explained that CGIF was active in the same credit market as banks, only with much more underlying capital; under Basel, banks could lend 8 times capital, while CGIF was limited to 2.5 times. Since CGIF was unable to diversify its risk, it was heavily penalised on risk capital. CGIF fees followed the internal grading according to its guarantee risk model, and was charged as basis points of the principal amount, payable either upfront or periodically. The fee was competitive to other financing options, while CGIF guaranteed bonds still commanded a premium over sovereign issuances in the same market, although this premium will reduce over time. CGIF was using English law as the primary governing law of its agreements, and is not subject to insurance licensing, since an international organisation. Typically, the rating uplift was on request from the issuer, not the investors, and the driver was that the issuer was targeting something new, e.g. a market or different investors. While CGIF had not experienced default yet, it was planning for the same. Principally, CGIF liked BB or BB+ rated issuers, and a 20% default ratio was to be expected in this category. If CGIF was required to pay out under the guarantee, an indemnity agreement with the issuer would be triggered that CGIF would enforce as necessary.

(SF1: Introduction of the SRO Working Group Report)

17. Mr. Cesar Crisol, as Chair of the SRO Working Group, introduced the group's activity report. The SRO Working Group and ABMF have been coordinating closely because SROs in the region may play a significant role in AMBIF market development. Also, he highlighted the cooperation between SROs and bond pricing agencies. Mr. Ryuichi Shiina, of JSDA made a presentation on the report,

explaining that mandate and functions of the SROs in the region as they may be very much different. He provided an analytical comparison of the detailed roles, services, powers and governance of the SROs. The report also provides the study results on the government bond markets (compiled by KOFIA) and the repo business in the region. The report has contributed to revisions of the ABMF Bond Market Guides 2016 significantly.

18. Regarding AMBIF market development, SROs in the region may be able to play a significant role as shown by ThaiBMA at the time of the first AMBIF pilot issue. Ms. Ariya Tiranaprakij briefly explained the role of ThaiBMA as a registry of bond information and coordinator to harmonize documentation and market practices. The Mizuho's AMBIF pilot issue was recognized as the Deal of The Year award in Thailand.

(SF2: AMBIF Tax Procedures Survey)

19. Mr. Yamadera explained, based on the experience of the pilot issue, ABMF must discuss taxation and identify tax procedures for AMBIF bond issuances. The pilot issue involved some complex tax procedures because the Japanese tax authority requested information on investors of the AMBIF pilot bond. This was necessary because foreign investors are exempted from withholding tax from Japan, and the tax authority wants to avoid abuse of the system by the Japanese investors. The proposed survey would help identify tax procedures on interest income applied to AMBIF bond. Study outcome will be report to the ABMF TF meeting. The survey should be able to achieve transparency in the existing tax procedures. More desirably, the survey can find a way to promote AMBIF; for example, financial institutions as professional investors might be exempted from withholding tax as it is well recognized tax practices in various jurisdictions.
20. The survey will be intensively conducted by the secretariat via communication with SF2 members and experts, given complexity of the issue involved. The focus will be given to six AMBIF markets first, then, expanded to newly participating markets. The secretariat will contact each respondent for their comments and clarification. Once the information was collected, it should be included in the AMBIF Impl GLs. In addition, the Impl GLs for newly participating market shall also include information on tax procedure.

(SF2: ISO 20022 and XBRL)

21. Mr. Yoshiaki Wada, of NTT Data and formerly the Bank of Japan, shared his view how XBRL can be expanded, which will support national implementation of ISO

20022. He explained that both ISO20022 and XBRL were part of the XML (eXtended Markup Language) family and developments of the both should be seen as parallel, though suitable application would differ depending on objective. ISO20002 was developed as a financial industry messaging standard while XBRL was created as a universal reporting scheme for financial and other business reporting. ISO20022 used a central data management concept, with a common data repository; on the other hand, XBRL made use of decentralized data management by agreeing on taxonomy between market participants and the monitoring or disclosure organisations to which reporting was sent. A number of countries in Asia and the Middle East have already been using XBRL. In ASEAN+3, five jurisdictions have already implemented and the Philippines and Thailand were planning to use.

22. He emphasized that use of XBRL should not be seen as limited to corporate disclosure reporting. Use of XBRL together with ISO20022 messages for regulatory reporting has been already on the table of European regulators. In addition, XBRL together with ISO20022 would create an opportunity for data gathering through financial transactions, which enables financial institutions to utilize the data for various purposes. XML-based technology such as ISO20022 and SBRL should bring more opportunities, thus, financial institutions must consider migrating their system to newly developed system. In this regard, implementation of ISO200222 can be the initial step.

(SF2: ISO 20022 Implementation)

23. Dr. Taiji Inui, ADB Secretariat, updated members on the implementation of international standards for market infrastructures, and explained how best to adopt and migrate such standards. The overviews of the regional CSD systems showed that all CSDs will possibly have acquired international standards by 2020; the remaining markets without specific bond market infrastructure have yet to be included, but are likely to catch up since they can benefit from the comprehensive discussions and experiences shared in ABMF and elsewhere. As for RTGS systems, all would be compliant by around 2020 as well. In this context, the CSIF roadmap would draw on these developments, such as observing a standardization phase, which is currently ongoing through ABMF work, and use this for its implementation and operational phases eventually. Dr. Inui also showed where payments and securities and FX initiatives of ISO20022 were presently happening globally. It was the vision of ABMF SF2 that Asia (ASEAN+3) should engage in standard setting more closely; presently, only China, Japan and Korea, and most recently Thailand were participating in the decision making process. The goal for

SF2 was to establish such institutional framework for ISO20022 in each market and, ultimately, a regional institutional framework in ASEAN+3.

24. Mr. Yamadera reiterated, in the era of rich data and increasing data requirements, there will be much need for ISO20022 and XML-compatible data exchange infrastructures. ABMF will support members' implementations by helping to convince market participants. In addition, ADB can support upgrading major market infrastructures.

(SF2: Next Steps for SF2)

25. With reference to the GOE barrier mapping chart, Mr. Yamadera added that SF2 had tackled the specific issues shown while SF1 had focused on the flow of information – both objectives had been achieved. While issues that are regulatory in nature had not been tackled so far, the opportunity arose to use AMBIF as a conduit to address these to the extent possible. At the same time, topics such as omnibus account had in fact been overtaken by recent regulatory initiatives. Instead, ABMF had not focused on settlement cycle and, it may be a time to revisit this topic – even the US is now planning to move to T+2. Mr. Yamadera asked members to comment and proposal. The next focus topics for ABMF should be discussed and decided on at the next ABMF Meeting in October

26. In response, members pointed out that harmonization of settlement cycle would be an issue for each customer. Harmonization of settlement cycle could be discussed by the regulators and central banks, but custodians need to follow as decided. As for discussion on account structure, omnibus account is more efficient, but regulators may have different idea. Underlying issue is how to increase market transparency, and it may be achieved without changing to segregated account. How to increase 'account visibility' may need to be discussed. But it is better to have some coordination with regulators and tax authorities to have effective regional discussion.

(SF2: Information Session: Blockchain Technology and its Implications)

27. Mr. Taketoshi Mori, of Deloitte Touche Tohmatsu, presented to members the background of the blockchain concept and its inherent challenges. As ESMA (European Securities Market Authority) issued a discussion paper recently, blockchain is attracting a lot of attention not only from the industry but also from the regulators. Interestingly enough though, technology had seen a major revolution about every 20 years – 1979 saw the arrival of the personal computer, and the internet became available in the 1990s, and with it email as the killer product; now in the 2010s, blockchain is the new technology paradigm. Having

said, blockchain technology had not yet been matured, and by many accounts, practical aspects of the concept had to be improved before a large-scale deployment could be considered.

28. Mr. Mori relayed the voices of experts who had urged the market at large to take the new technology seriously but also pointed out the ability to disintermediate existing processes in financial services; the savings potential for (financial) infrastructure costs was estimated to be huge. In contrast to distinct (individual) systems or centralized networks (e.g. where a bank is the central hub), blockchain advocated the use of decentralized networks where every node (connection to the network) only kept records that affected them, and nodes were connected in a peer-to-peer fashion. Copies of the ledger were kept at multiple nodes, automatically updated and all needed to agree before a transaction was finalized. A key feature was the use of 'smart contracts' that would be able to follow the needs of participants as their requirements – and transactions – changed. Other features of blockchain, leading to the description as “the Internet of Value”, included speed of use and low costs due to lack of central infrastructures, as well as the use of cryptographic protocols, i.e. significant encryption of records. Examples of implementation of blockchain technology included the land registry in Honduras, aided by the fact that no legacy system had to be replaced, and use cases in healthcare, since patient records were extra sensitive and needed more encryption.

29. Against this background, Mr. Mori compared the existing settlement infrastructure of Japan, noting the legal and regulatory prescriptions for the complex ledger structure and the need for intermediaries. The involvement of foreign investors and their mandated intermediaries did further complicate the landscape. These existing infrastructures and regulations resulted in issues with blockchain adoption in the financial industry. Business processes in the industry would have to be completely re-engineered to 'fit' blockchain, practices and market rules, even laws, be changed. Estimates speak of 20% technology change and 80% business process change. One example of a key challenge was the CCP, now a prominent market and regulatory trend, which under blockchain would not be required, yet much regulations and treatment of balance sheet items depended on the use and function of CCPs. At the same time, regulatory coverage for the ways business is conducted in different markets would need to be addressed (examples: short trades, block trades, irregular transactions); T+0 was already a challenge for the industry even though technically long possible; and cross-border transactions would have to account for differences in business days and national holidays to be

able to be executed simultaneously at connected nodes in different locations - this would necessitate a 24/7 mode of operation.

30. Mr. Mori concluded that blockchain was presently probably overestimated, but would be underestimated over the next 10 years. And while it was revolutionary in its approach and impact, it would require time to mature as well as to penetrate conventional processing environments. Given the usual adoption curve of new technologies, the state of blockchain was between industry prototype and early adoption, with pervasive business use a way off still. Continuous research would be necessary to filter the current hype from the practical and serious application of this technology, while many tasks were to tackle to make blockchain palatable for all industries. The Euroclear white paper 'Blockchain in Capital Markets' suggested that the next 12-24 months would see disruptive innovation in niche applications, while thin applications would gain industry traction within 5 years, accompanied with an overall agreement on standards; long term mass adoption of blockchain technology was likely only in 10 years or later.

II. Actions required by Members and Experts

31. ABMF Members and Experts have been requested to expect or act on the following items:
- a. **AMBIF**: members asked to help identify or use opportunities to create more pilot issuances in their respective markets. ADB Secretariat to provide support as needed.
 - b. **BMG 2016**: The drafts for Brunei, Cambodia, Korea, Lao, and the Philippines are targeted to be made by August. The rest of the markets are expected to follow. The members are requested to provide information.
 - c. **WG-IP**: ADB Secretariat will contact members to continue discussion on MMOU among members, to lay the foundation for the IP, and to include the revamp of ABO as a topic for discussion.
 - d. **WG-CBCR**: further discussions or conference calls will be initiated by ADB Secretariat, to identify repo and collateral needs and potential impediments.
 - e. **Tax survey**: ADB Secretariat will contact members and experts to identify tax procedures. The survey will focus on the six AMBIF markets, then, will be expanded to newly participating markets.

III. Next Steps of ABMF

32. ABMF would like to see more AMBIF pilot issuances and will continue its support for creating opportunities and the general promotion of AMBIF. SF1 market visits

to additional markets may be possible later this year, in line with the planned market developments. Efforts in the Working Groups will continue to focus on identifying transaction flows and impediments (WG-CBCR) and seeking an understanding and agreement(s) on information dissemination among interested participants (WG-IP). The Bond Market Guides production will accelerate as markets agree to the cut-off of content inclusions, and the resulting Word documents will be managed through the ADB editorial and layout process towards publication. SF1 will report on all of the above initiatives at the next ABMF Meeting.

33. SF2 will distribute the tax procedure survey, collect the responses, and compile the findings, in support of understanding possible AMBIF-related challenges in the markets. Findings are expected to be presented in October. SF2 will also continue liaising with members on the selection of potential additional topics to be included in a Phase 4 of ABMF; the final reporting on such topics is envisaged by the ABMF Meeting in January. SF2 will continue to support the tax survey and the compilation of its findings. For this, support from the CSDs (as typical paying agent) is needed – this is why the topic sits within SF2.
34. Future topics could include a study of account structure or better account visibility, the settlement cycles in the region – the US developments may influence this – further taxation subjects and the regulatory reporting in the region. The future implementation and use of ISO20022 could also lead to new business processes, such as those related to rich data; such developments could also lead to regional projects which ABMF could support. In addition, subjects like blockchain could add another dimension to ABMF discussions; in any case, ABMF cannot ignore such topics. Any future topics should include the ability to generate recommendations for ABMI TF3 and need to consider a possible outcome. ADB Secretariat will consider all topics that members may propose, and review the proposals for discussions at the next ABMF Meeting.

IV. Next ABMF Meetings

35. The next (23rd) ABMF Meeting will again be held at ADB Headquarters in Manila, on 4 and 5 October 2016. ABMF Secretariat will circulate the invitation letter and draft program agenda closer to the meeting dates. On 3 Oct, workshop on ISO20022 for the Philippine financial institutions will be organized. Though targeted audience will be the Philippine participants, participation of ABMF members are welcome. Further detail will be circulated to the members.

36. A subsequent ABMF Meeting is envisaged for January 2017. This meeting is likely to conclude on the publication of the Bond Market Guides 2016 and to decide on the work plan for a proposed Phase 4 of ABMF.

22nd ASEAN+3 BOND MARKET FORUM (ABMF) MEETING

Asian Development Bank Institute (ADBI), Tokyo, Japan

TIME	PROGRAM
	Sub-Forum 1 (SF1 Session) – 7 June 2016
08:30 - 09:00	<i>Registration</i>
09:00 – 09:15	Welcome Remarks by Mr. Daikichi Momma, Director-General, International Department, Ministry of Finance of Japan
09:15 – 09:20	Opening by Mr. Koji Ito, SF1 Chair
09:20 – 10:00	Session 1: AMBIF Updates <ul style="list-style-type: none"> - Potential issues - Brief updates by NAFMII, Philippine SEC, Thai SEC, and HNX
10:00 – 10:20	Session 2: WG-IP Progress by ADB Secretariat <ul style="list-style-type: none"> - Workshop on Bond Pricing and evaluation - Multilateral MOU - ABO website overhaul
10:20 – 10:35	Session 3: WG-CBCR Progress by ADB Secretariat <ul style="list-style-type: none"> - Tentative survey results - Next steps
10:35 – 11:00	Session 4: Updates on ABMF Bond Market Guides 2016 by ADB Secretariat
11:00 – 11:15	<i>Coffee Break (Conference Room A)</i>
11:15 – 12:15	Session 5: Synthetic Peso Note by RCBC/SMETRIX Fixed Income Partners <ul style="list-style-type: none"> - Possible cross-border issuance with AMBIF SSF - Basic structures of the note - Tax and regulatory implication - Q&A
12:15 – 13:30	<i>Lunch (Conference Room A)</i>
13:30 – 14:30	Session 6: Update on CGIF by Mr. Nishimura, CEO <ul style="list-style-type: none"> - Construction Period Guarantee Facility - Securitization - Q&A
14:30 – 15:30	Session 7: SRO by ASEAN+3 SRO Working Group <ul style="list-style-type: none"> - Significance of SRO roles in the AMBIF bond market - Outline of “SRO WG Activity Report” - Experience of 1st Pilot Issue of AMBIF Bond in Thailand and SRO’s involvement - Q&A
15:30 – 15:45	Wrap up by Mr. Satoru Yamadera, ADB Secretariat <ul style="list-style-type: none"> - Next step of ABMF - Includes opportunity for final Q&A session

TIME	PROGRAM
15:45 – 15:50	Closing remarks by Mr. Koji Ito, SF1 Chair
15:50 – 17:00	(Individual meetings with members)
	Sub-Forum 2 (SF2 Session) – 8 June 2016
08:30 – 09:00	Registration
09:00 – 09:10	Opening Remarks by Mr. Jong Hyung Lee, SF2 Chair
09:10 – 10:30	Session 8: AMBIF Tax Procedure Survey by ADB Secretariat <ul style="list-style-type: none"> - Survey structure - Survey result - Next steps
10:30 – 10:50	Coffee Break (Conference Room A)
10:50 – 11:50	Session 9: ISO 200222 and XBRL by Mr. Yoshiaki Wada, NTT Data <ul style="list-style-type: none"> - Possible use of ISO 20022 for corporate ERP and various reporting requirements with XBRL - Recent XBRL application in Asia as well as the rest of the world - Q&A
11:50 – 12:30	Session 10: ISO 200222 Implementation by Dr. Taiji Inui, ADB consultant <ul style="list-style-type: none"> - Implementation in ASEAN+3 - How to promote local implementation - Q&A
12:30 – 13:00	Session 11: Next step of SF2 <ul style="list-style-type: none"> - The members are requested to provide opinions what SF2 should discuss regionally as the next step. - ADB Secretariat would like to propose to discuss settlement cycle as a remaining regional barrier. Any comments from the members are appreciated.
13:00-14:00	Lunch (Conference Room A)
14:00 – 15:00	Session 12: Information session: Blockchain technology and its implication by Mr. Taketoshi Mori, Senior Manager, Financial Services Industry Group, Deloitte Touche Tohmatsu <ul style="list-style-type: none"> - What is Blockchain? - Possible application
15:00 – 15:25	Wrap up by Mr. Satoru Yamadera, ADB Secretariat <ul style="list-style-type: none"> - Next step of ABMF
15:25 – 15:30	Closing remarks by Mr. Jong Hyung Lee and Mr. Yuji Sato, SF2 Chairs
15:30 – 17:00	(Individual meetings with members)

Questions & Answers, or Feedback from SF1 and SF2 Sessions

Question or Feedback related to	Response from ADB Secretariat or other ABMF Members
SF1 / AMBIF / Pilot Issue	
For the Mizuho pilot, was the Single Submission form used in English?	<p>ThaiBMA: Yes; it was the first time also that the SSF was used.</p> <p>Thai SEC: the SEC will now accept the SSF in English for all issuers, including for applications by Thai issuers that already have English documentation in place.</p>
What is the difference in being registrar vs. the ThaiBMA function of registration?	ThaiBMA: the function of registrar is often limited to paying agent duties; for the Thai market, the ThaiBMA fulfills the role to ensure disclosure and the marking to market for all registered bonds.
The SSF covers initial disclosure; what about continuous disclosure prescriptions?	ADB Sec: continuous disclosure requirements are set in each market according to existing rules and regulations; these remain in force, and are binding for AMBIF issuances the same as for other issuances.
SF1 / WG-CBCR	
Central banks (CBs) may not be in favour of cross-border repo in LCY, since they may feel they would be unable to manage or control the flow of currency and securities.	ADB Sec: CBs are part of the CSIF discussion for exactly that purpose, so that they can build and use infrastructure to observe cross-border flows. We recognize that CBs do not want to see their ccy moving offshore; at the same time, QAB (the Qualified ASEAN Bank initiative) may be a driver for cross-border collateral needs. The ABMF study could contribute towards the implementation of QAB, since the CBs would like to also see an increase in competition between banks.
Straight repos are likely to be few transactions only; mostly, volume is for cross-border collateral flows, such as those underlying derivatives or swap transactions.	ADB Sec: cross-border collateral movements may be easier to digest than cross-border repo, because they represent support for other transactions, not financing options. Also, the use of collateral as such may have same or similar status across the markets. In turn, repo may have legal limitations or impediments.
A recent EMEAP study had identified that cross-border repo transactions were few and the volume was quite small; it did not warrant CB to CB agreements between markets as a result. In addition, both sides to such an agreement may have different view; e.g. in 2010, BSP was willing to accept JGB as collateral while BOJ could	ADB Sec: CBs have positive and negative comments on potential cross-border transactions. Some see such arrangement as a lending of last resort and that comes with a stigma of being a solution for a crisis situation only. The question is whether we should indeed see or treat it as such, or whether we should actively promote cross

<p>not accept Philippine securities. Not sure whether such basic differences have changed since.</p>	<p>–border transactions to remove the stigma. In turn, authorities also look at the bigger picture: while devised as crisis time facilities, such measures could also serve as a liquidity boost in normal market conditions. Hence, these two types of initiative could complement each other. ADB Sec: in this context, ABMF would like to focus on the utilization of ASEAN+3 bonds, such as the use as collateral, not just the issuance via AMBIF.</p>
<p>For example, for Thailand, taxation treatment may very well limit the repo transaction volume.</p>	<p>ADB Sec: the impact of taxation treatment on the repo market is understood; ABMF wants to focus on regulatory issues at this stage.</p>
<p>At the same time, quite a few banks (in Thailand and elsewhere) would like to do cross-border business – and it would be good to be able to offer infrastructure or a mechanism to facilitate such business.</p>	<p>ADB Sec: the impact of taxation treatment on the repo market is understood; ABMF wants to focus on regulatory issues at this stage.</p>
<p>It appears that the repo market is not scalable at the moment. The private sector is looking at manageable risk and is, hence, focusing on USD/UST transactions. One way to look at the situation is by asking: ‘is there an underlying need not being met at this point (at possible met through other means)?’ An example in real life is one transaction broken down into 3 legs, instead of booking a cross-border cross-ccy repo in one transaction. Looking into this would bring to light the issues associated with this type of business. Also, how does the study on repo business related to AMBIF?</p>	<p>ADB Sec: thank you for the proposed approach, can consider. As for AMBIF, it is a long-term strategy; may not now, but in a few years, AMBIF issuances can feed into collateral usage in the region. At the same time, ABMF is looking into repo as it is being mentioned repeatedly as not being active or practical, but still desired for a liquid and efficient bond market.</p>
<p>If no cross-border business is evident, and nobody observes transactions happening, then no offers will be available which means that nobody gets involved – it may point to the need to identify, address and remove a number of potential barriers to enable such flows.</p>	<p>ADB Sec: point well taken.</p>
<p>SF1 / SRO Working Group Report</p>	
<p>This report helps the regulators better understand regional SROs and the SRO concepts at large; while the challenges mentioned may remain. What would be the expectation of regulators in this regard?</p>	<p>ADB Sec: we started from international market practices to make domestic bond markets more accessible and practical; AMBIF is the conduit and should lead to the introduction or more international standards and practices. The SROs already set the rules in many markets and while AMBIF is in its early stages, it may lead to changes to these rules – regulators may need to be aware of this.</p>

	ADB Sec: governance in/of markets is key, and example used was a bond pricing agency mandated by regulators - for whose services the market should pay; this was a designed monopoly. Regulators may step in where self-regulation is not effective or leads to market distortions.
Can the SRO information be made available to the market?	ADB Sec: the SRO WG Report was in the process of being finalized, and may be available in parts from the respective SRO's website. SRO WG: while the report is almost finalized, it was initially only meant for distribution to ABMF members. A distribution beyond ABMF had not yet been considered but could be discussed further. ADB Sec: substantial details from the repo study in the SRO Report, and some information on each SRO have been used for inclusion in the Bond Market Guides, with the kind permission from the SRO WG.
SF2 / AMBIF Tax Procedure Survey	
Tax features such as tax rates are different depending on differences of bonds such as maturities, etc.	Noted and to be considered.
Which economies will be surveyed?	Firstly, 6 economies which are to be AMBIF participants. Then, target economies will be increased, gradually.
"Tax exemption" is different from "no withholding tax". Instead of paying tax by withholding process, tax can be paid by comprehensive taxation later.	Noted and to be considered.
Withholding tax is a process how to pay tax (enforcing tax payment) and different from taxation itself such as capital gain tax and interest payment tax.	Noted and to be considered.
Capital gain tax needs to be surveyed. Also, harmonization of capital gain tax is very important in the region.	Firstly, tax payment process in particular withholding tax for interest payment will be surveyed. Then, more essential issues including capital gain tax will be surveyed.
Capital gain tax needs to be seriously discussed from the start of the survey.	Noted and to be considered.
Harmonization of taxation including tax payment processes are already discussed by ASEAN countries.	ASEAN countries are ahead of ASEAN+3 economies which need to learn from ASEAN experiences. ASEAN countries are expected to assist ASEAN+3 to harmonize tax issues in the region.
Terminologies need to be more specific as follows; bond is to be corporate bond; investor is to be qualified investor, etc.	Noted and to be considered.
Definition of terminologies such as foreign financial institution need to be harmonized.	Noted and to be considered.
Tax issues are very much related with data privacy and/or KYC (identifying investors). CRS (common reporting system) based on	Noted and to be considered.

FATCA implementation agreement may better be considered.	
SF2 / ISO 20022 and XBRL	
ISO 20022 financial data dictionary is very important. The dictionary could be utilized for defining taxonomy of XBRL.	It is a nice way to harmonize between ISO 20022 and XBRL. The data dictionary could be used for a variety of applications including reporting as well as for corporate actions. ISO 20022 can collect data from financial transactions which can be utilized for reporting stored in the financial data dictionary.
SF2 / ISO 20022 implementation	
Adopting ISO 20022 is one of the most important issues for bond market infrastructures (MIs). How to migrate to ISO 20022?	It is very important for MIs to show the roadmap to migrate to ISO 20022. ABMF already proposed a roadmap to adopt ISO 20022 as an entire region which may need to be improved to fit the roadmap and policy of individual economies. ADB will be very happy to support not only for MIs to implement ISO 20022 but also for their participants to adopt ISO 20022.
Fed adopted ISO 20022 and decided to implement it to Fedwire. But, many domestic small financial institutions which are accessing to Fedwire by terminal connections will remain as it is now. Only bigger banks who have cross-border businesses and are connected with Fedwire directly will adopt ISO 20022.	It is true for almost all economies in ASEAN+3 except in Hong Kong and Singapore where domestic markets are equal to international markets.
Regarding the contribution to ISO 20022 decision making processes ASEAN+3 has been increasing its presence now. Vice-convenor of FX SEG is from CFETS China.	Yes, it is. Vice-convenor of RMG is also from ASEAN+3 (from J.P.Morgan in Japan) Mr. Masayuki Tagai.
In order to enjoy the benefits of ISO 20022, just using converter may not be sufficient and need to completely migrate to ISO 20022.	In order to handle rich data with significant message length, converter may not be able to handle such lengthy and flexible data format though most of current messages used by conventional MIs may be able to be handled by converters.
Does ISO 20022 cover other instruments such as stocks?	ISO 20022 covers not only bond but also equity related transactions. Also, ISO 20022 covers not only post-trade transactions related to MT messages but also trade transactions such as FIX messages.
There are so many related initiatives other than adopting ISO 20022 in individual MI operators. How to make a roadmap as an economy?	Roadmap in each economy needs to cover initiatives related to bond MIs which are different economy by economy.
SF2 / Next step of SF2	
Regarding settlement cycle as a topic to be discussed during the phase 4, it may not be an appropriate topic since it would not have much benefit to be harmonized and	Noted and to be considered.

standardized for global custodians which handle cross-border transactions.	
Regarding omnibus account as a topic for the next steps, account visibility is one of the important issues currently. Transparency (KYC: know your customers) is an important issue which can be realized under omnibus account structure. Therefore, transparency issue needs to be separated with account structures.	Noted and to be considered.
SF2 / Block chain technology and its implication	
Regarding block chain technology, there are so many remaining challenges and problems to be solved as well as opportunities. As such, it will not be a technology to be actually implemented within 5 years, but it is a technology with very promising potentiality to be utilized in 10 years.	Noted and to be considered.
Standardization is one of the most important issues of block chain technology.	Noted and to be considered.
There are so many government and international organizations which are eagerly studying and surveying the technology now.	ADB is also very much interested in the technology and try to make a survey on it. But, the survey will be separated from the topics to be discussed at ABMF SF2 as the phase 4 topics which are to be more realistic issues to be implemented in line with the roadmap targeting by around 2020.