

## **Summary of the 23<sup>rd</sup> ASEAN+3 Bond Market Forum Meeting**

**4-5 October 2016, ADB HQ, Philippines**

### **Sub-Forum 1: Update on ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF)**

1. Mr. Satoru Yamadera, ADB Secretariat provided a structure overview of the proposed Synthetic Peso Notes (SPN) that will utilize the AMBIF concept, in particular the Single Submission Form (SSF). A more detailed structure of SPN was presented at the 22<sup>nd</sup> AMBF meeting in Tokyo. It is hoped that the SPN could be the first AMBIF pilot issue in the Philippines.
2. Mr. Yamadera emphasized that ADB, as Secretariat of the ABMF is in a suitable position to serve as middleman between the industry and policy makers to support pilot launch of ABMIF bond in member countries. The ultimate objective of ABMF is to create real case in to facilitate cross-border investment and support recycling of funds within the region in local currencies.
3. In response to questions, the Secretariat took note that the name of the product may need to be reconsidered as it could create misunderstanding among regulators and investors. The term “synthetic” may create perception that the payoff is linked to other financial products or the synthetic position can be created using financial derivatives, which is not the case for SPN.

### **Sub-Forum 1: Update on WG-Information Platform**

4. Mr. Yamadera informed that the AsianBondsOnline (ABO) website (<https://asianbondsonline.adb.org>) serves as a gateway to disseminate bond market information to market participants. At the 22<sup>nd</sup> ABMF meeting, the Secretariat updated that the ABO will be enhanced on a phased approach. It was noted that contribution from bond pricing agencies (BPAs) was indispensable to support the enhancement of bond market transparency in the region. Based on the current infrastructure and resources, only minor enhancements were made. The ABO webmaster has included hyperlinks to bond price information published on participating BPAs' websites. The progress will be reported to Asian Bond Markets Initiative (ABMI) Task Force 3 (TF3) meeting in November.
5. Major enhancements will be implemented in 2017 under the new technical assistance to be financially supported by ASEAN+3. The enhancements may include a mobile-friendly website, dynamic interface and additional bond market indicators.
6. The Secretariat expressed sincere appreciation to ABMF members and participating BPAs for their contribution and continued support. It was hoped that the enhancement of ABO will be the initial step for a regional information platform, which is included under the new

ABMI Road Map to support more active intraregional transactions. Any inputs and suggestions from members to improve ABO were welcomed.

7. In response to comments, the Secretariat would explore possible options to gather and publish information on cross-border fund flows within ASEAN+3 in a timely manner as suggested by members. The Secretariat recognized that the information is being compiled and published by International Monetary Fund (IMF), so there could be some limitation for ADB to publish similar information. The Secretariat noted that in order to gather such information, inputs from members will be very important.

### **Sub-Forum 1: Update on WG-Cross-border Collateral and Repo (WG-CBCR)**

8. Mr. Yamadera updated that since the last meeting, the Secretariat has conducted various interviews with ABMF and WG-CBCR members. It was found that repo transactions in Asia were mainly used by central banks for the purpose of liquidity management (open market operations). Furthermore, there were several bilateral arrangements between central banks in the region to provide liquidity in local currency in times of crisis; however these bilateral arrangements have never been executed.
9. Based on the interviews, it was found that having liquid domestic repo markets do not necessarily lead to cross-border repo transaction, while the lack of confidence in legal framework and market practices of developing markets could be one of reasons why financial institutions do not accept local currency bonds in credit support annex (CSA), particularly for cross-border transactions. Given the limited supply of US Treasury and European bonds, some financial institutions decided to revise CSA to allow the use of JGB as collateral. The difference in Global Master Repurchase Agreement (GMRA) country annexes may prevent cross-border collateral, even transactions between common law countries.
10. The Secretariat proposed four transaction models that can be adopted within the region. It was noted that these proposal are at preliminary stage and additional comments and suggestions from members are welcomed. The first scenario involves cross-border repo or collateral by local branches, structured as two separate transactions. The second scenario is the tri-party cross-border transaction using a common service provider who provides safekeeping service and serves as counterparty in each market. The credit risk of this transaction is purely credit risk of the service provider. The third scenario is cross-border collateral agreement between central banks. Financial institutions would have access to local liquidity in another country by pledging home country's securities to the central bank. This arrangement may exists between central banks in emergency situation, but it was not clear to what extend central bank can accept other country's securities in peace time. This proposal could be considered by ASEAN central banks once the Qualified ASEAN Banks framework is implemented and QAB identified. The fourth scenario is to support cross-border collateral and repo transactions through CSD-RTGS linkage. The linkage of CSD-RTGS will facilitate deliver-versus-payment (DVP) and accommodate increasing

demand for cross-border collateral by central banks. However, key assumption that central banks can accept other country's securities as eligible collateral is still questionable.

11. As for next steps, the WG will conduct further fact-finding study to identify potential demand and potential service providers in ASEAN+3. The WG will also look into more details on legal issues which create barriers for CSA.

### **Sub-Forum 1: Update on Bond Market Guide Revision**

12. On behalf of SF1 team, Mr. Hirohiko Suzuki provided summary of key developments in member countries following the development of ASEAN+3 bond market guides in 2016 as compared to the previous version published in 2012. Examples of significant improvement in includes introduction of qualified investor concept in Cambodia, relaxation of requirements and introduction of streamlined approval process for Qualified Foreign Institutional Investors (QFIIs) by China, as well as the issuance of corporate bond regulations by the Lao PDR.
13. SF1 team also provided a comparative analysis on 3 key areas of bond market development, which include legal structure, existence of clear definition of professional investor and whether exemption regime exists in member countries. The BMGs of Japan, Malaysia and Thailand was completed and published on the ABO. The BMGs for Hong Kong and Singapore will be published by October. SF1 team aims to publish BMGs of other member countries by the end of this year. ABMF members were encouraged to create a hyperlink on their respective websites to the ABO as the BMGs will be a living document. The benefit of publishing BMG in PDF format is that it is editable and can be easily updated. Lastly, the team expressed their appreciation to members and their colleagues for their contribution to the BMGs.

### **Sub-Forum 1: Recent market development in Myanmar**

14. Ms. Ei Sein Sein Kywe, Deputy Director, Development and Policy Department, Securities and Exchange Commission of Myanmar (SECM) provided overview and key milestones of capital market development in Myanmar. SECM is a regulatory body under the Ministry of Planning and Finance in charge of capital market development and supervision of securities exchange operator.
15. In relation to bond market, SECM has transformed existing government bond certificates into electronic form and standardized coupon and maturity dates to 15 May and 15 November of each year. The first Treasury bond auction took place in September 2016. The bond was issued with a face value of 200,000 million Kyat (≈156 million USD). Ms. Ei Sein Sein Kywe further elaborated that SECM issued 5 securities licenses earlier this year. So far, 3 companies were listed on the Yangon Stock Exchange (YSX).

16. SECM recognized several challenges that must be overcome in order to develop capital market that effectively serves as fund-raising venue for local companies. It is necessary that a more diverse group of companies are listed on YSX and greater participation of institutional investors is needed to stabilize the market. Another important aspect is to develop financial literacy so as to create awareness among investors about the risks and returns associated in capital market investment. SECM expects that 40 companies will be listed on YSX by the end of 2017, some of which could be foreign companies following the enactment of the new Myanmar Companies Law.

#### **Sub-Forum 1: Reporting to ABMI TF3 and next step**

17. Mr. Yamadera updated members on the key issues that will be reported to ABMI TF3. These issues include the structure and status of revised BMGs, and key impediments to successful implementation of AMBIF particularly tax procedures to support straight-through processing. Furthermore, key fact-finding and possible modalities to facilitate cross-border collateral and repurchase agreement will also be reported as well as the importance of ISO20022 implementation as stated in the AEC Blueprint 2025.

#### **Sub-Forum 2: AMBIF Tax Procedures Survey**

18. Mr. Kosintr Puongsophol, ADB Secretariat updated the results of AMBIF tax procedures survey. The objective of the survey was to identify countries with withholding tax, which were recognized by investors as key impediment to cross-border bond issuance. The survey focused on institutional investors, particularly financial institutions who were potential investors in AMBIF bond.
19. The survey found that most countries did not impose withholding tax (WHT) on interest payment and capital gains for foreign investors. This was particularly true for Hong Kong and Singapore under the Qualifying Debt Instruments (QDI) Qualified Debt Securities (QDS) schemes respectively. Some countries imposed WHT at corporate level as part of corporate income. Lastly, WHT were generally imposed on ultimate beneficiaries, rather than on financial institutions who act as payment handling agent.
20. Out of six AMBIF-participating markets, the Philippines and Thailand were the two countries that imposed WHT on non-resident institutional investors for investment in corporate bonds. However, it is important to note that the current Philippine administration is in the process of overhauling the Philippines tax laws, which also include laws affecting capital market and financial institution.
21. Mr. Noritaka Akamatsu, ADB Secretariat added that a comprehensive study for each country should be undertaken due to varying nature of legal and tax implications. Without thorough study, a request for favorable treatment for AMBIF may distort fund flows across country.

22. In response to members' suggestion, it was agreed that operational complexity, ambiguous tax guidelines and inconsistent interpretation were key impediments to cross-border issuance of bonds. The Secretariat requested members to verify and provide additional information as necessary so as to complete the survey and propose appropriate recommendation to ABMI TF3.

### **Sub-Forum 2: ISO20022 related issues**

23. Dr. Taiji Inui, ADB Secretariat informed that, from the perspective of CSD and RTGS participants, international standards should be adopted as regional standards. In previous discussions, ABMF SF2 agreed to adopt international standards and reference DVP flow based on BIS model 1 for the purpose of enhancing cross-border straight-through processing (STP). To adopt international standards, it was recommended that members should establish ISO/TC 68 mirror committee as well as National Market Practice Group in their respective jurisdiction. Furthermore, the establishment of regional group to discuss and maintain ASEAN+3 standards and practices can also be considered.
24. Dr. Inui also highlighted that differing account structure and tax procedures in the region could be barriers for cross-border STP. Thus, the roles of paying agent, tax withholding agent, definition of resident and non-resident could be further discussed and clarified under SF2. Dr. Inui emphasized that the private sector will not engage in cross-border repo transaction if capital gain tax is imposed.
25. Dr. Inui shared that the adoption of ISO20022 is becoming more common and gaining market acceptance in other region. Based on discussion at the recent SIBOS meeting, the TARGET2-Securities, a pan-European platform that offer DVP securities settlement will migrate to ISO20022 in the coming years. In the US, the Federal Reserve and the Clearing House announced their intention to adopt ISO 20022 payment messages for the Fedwire® Funds Service and CHIPS ® wire transfer systems, which will be in operational be 2020.
26. Mr. Yamadera emphasized the importance of establishing linkage between central banks and central securities depository across the region. Given the increasing interconnectedness of financial markets, particularly after the implementation of ASEAN Banking Integration Framework (ABIF), the role of central bank as a lender of last resort maybe limited to financial institution within its own jurisdiction. To support the operation of commercial banks outside of its own jurisdiction, it is important for policymakers to facilitate cross-border collateral arrangement.
27. Mr. Yamadera summarized that to understand account structure and relevant tax procedures, the Secretariat proposed a new survey on account structure so that we could thoroughly understand the flows. Mr. Yamadera added that the ISO 20022 workshop was well received by financial institutions in the Philippines. As the implementation of ISO 20022 was stated in the ASEAN Economic Community Blueprint 2025, it is a matter of when to implement it, not whether we should implement it. In this regard, the ABMF as well

as ADB can support national implementation of each member country so as to realize ISO 20022 for CSD and RTGS by 2020.

### **Sub-Forum 2: Creating New Market Infrastructure in Development Countries**

28. Dr. Inui shared his view that developing markets in ASEAN+3 can jump-start development of market infrastructure based on international standards and best practices, however it is a matter of understanding system implication and developing necessary system in a strategically sequenced manner. Dr. Inui also provided illustrative example of the central bank's core system, which also relates to the system of other regulatory bodies such as financial institutions, public debt management office, stock exchange etc. Therefore, it is necessary to have a bird-eye view in terms of system development and the interconnectedness of each system.
29. Dr. Inui also provided cost-benefit analysis on different system development methods, whether by ways of purchasing ready-made software package, investing in system integrator or developing in-house system by IT department. However, it is important to note that each option has its own costs and benefits such as development cost, maintainability, customization and reliability etc.
30. Ms. Bella Santos, Director, Payments and Settlements Office, Bangko Sentral ng Pilipinas (BSP) shared that the RTGS system in the Philippines already supported DVP for corporate and government issuances. BSP was of the view that the Securities and Exchange Commission, Philippines should also be a member of the Philippine Payments and Settlements System (PhilPaSS), but it was not possible because SECP was not a financial institution.
31. Mr. Akamatsu shared that to rationalize cross-border CSD-RTGS linkages, volume is a critical driver. The scalability and interoperability must be thoroughly and comprehensively considered. As part of market infrastructure payment, money side is as important as securities side. Thus, the role of central banks is crucial in terms of creating valid business case. The issue about interoperability is equally important but it is purely a cost of acquiring the right system. The core element of system implementation is the liquidity, which is in the hand of central bank. Therefore, central bank's commitment is essential in development of payment-related infrastructure.

### **Sub-Forum 2: Reporting to ABMI TF3**

32. Mr. Yamadera updated members on the key issues that will be reported to ABMI TF3. These issues include key impediments to successful implementation of AMBIF particularly tax procedures and consistency in interpretation of tax codes. The Secretariat will coordinate with Department of Finance of the Philippines to jointly discuss the application of final withholding tax on interest income of investors before the ABMI TF3 meeting in Tokyo.

The Secretariat will seek support from ABMI TF3 members in conducting survey on tax procedures to create more transparent tax procedures.

### **Sub-Forum 2: Next step of SF2**

33. Mr. Yamadera updated that the next meeting will be held in Bangkok, Thailand during the week of 16 January 2017. From 2017 onwards, the activity of ABMF will be supported by a new technical assistance, to be funded by ASEAN+3. It is expected that significant outputs will be delivered including the expansion of ABMIF-participating economies, clarification of tax procedures to eliminate any unambiguity and creation of a common definition of ABMIF investors.
34. As for the implementation of ISO20022, it is noted that all ASEAN+3 countries have national plan to implement ISO20022. It is important that the implementation of ISO20022 is discussed at a regional level to facilitate cross-border regulatory reporting. To encourage financial institutions to migrate to ISO20022, it is important to increase volume, and expand the scope of ISO20022 so financial institutions would be willing to change their system.