# 26th ASEAN+3 Bond Market Forum (ABMF) Meeting

11 October 2017
Auditorium B-D, 1st Floor
Asian Development Bank HQ, Manila, Philippines

## DAY 1 – 11 October

<table>
<thead>
<tr>
<th>TIME</th>
<th>PROGRAM</th>
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<tbody>
<tr>
<td>08:30 – 09:00</td>
<td>Registration</td>
</tr>
<tr>
<td>09:00 – 09:05</td>
<td>Welcome remarks by ADB</td>
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<tr>
<td></td>
<td>- ABMF and Progress to date by ADB</td>
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<tr>
<td>09:05 – 09:10</td>
<td>Opening remarks by Mr. Koji Ito, Sub Forum 1 Chair</td>
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<tr>
<td>09:10 – 09:25</td>
<td>Session 1: Publication of the Bond Market Guide for the Philippines</td>
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<td>- Remark by Commissioner Amatong, SEC Philippines</td>
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<tr>
<td>09:25 – 10:25</td>
<td>Session 2: Update of ASEAN+3 Bond Market Guide</td>
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<td></td>
<td>- Presentations by Cambodia and Lao PDR</td>
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<tr>
<td>10:25 – 10:40</td>
<td>Coffee Break (Auditorium Gallery)</td>
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<tr>
<td>10:40 – 11:15</td>
<td>Session 3: Progress of Working Group on Cross-Border Collateral and Repo</td>
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<td></td>
<td>- Update by BNY Mellon</td>
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<tr>
<td>11:15 – 11:45</td>
<td>Session 4: Progress of Working Group on Information Platform</td>
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<td></td>
<td>- Upgrading AsianBondsOnline and tentative outcome of user survey</td>
</tr>
<tr>
<td></td>
<td>by ABO team</td>
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<tr>
<td>11:45– 12:30</td>
<td>Session 5: Do local currency bond markets contribute to financial</td>
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</table>
## 26th ASEAN+3 Bond Market Forum (ABMF)

<table>
<thead>
<tr>
<th>TIME</th>
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<tbody>
<tr>
<td>12:30 – 14:00</td>
<td>Lunch <em>(EDR Coffee Lounge, 2nd Floor)</em></td>
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<tr>
<td>14:00 – 14:05</td>
<td><strong>Opening Remarks by SF2 Chair</strong></td>
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<tr>
<td>14:05 – 14:35</td>
<td><strong>Session 6: Update on the account structure survey by ADB Secretariat</strong></td>
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<td></td>
<td>– New survey structure and issues to be identified.</td>
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<tr>
<td></td>
<td>– Market visits schedule</td>
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<tr>
<td>14:35 – 15:35</td>
<td><strong>Session 7: AMBIF Taxation Study by ADB Secretariat</strong></td>
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<tr>
<td></td>
<td>- Preliminary outcome of the study</td>
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<td></td>
<td>- Next steps</td>
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<tr>
<td>15:35 – 15:50</td>
<td><strong>Coffee break (Auditorium Gallery)</strong></td>
</tr>
<tr>
<td>15:50 – 16:20</td>
<td><strong>Session 8: The US’ move to T+2</strong></td>
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<td></td>
<td>- Lessons for changing market practices by DTCC</td>
</tr>
<tr>
<td>16:20 – 16:50</td>
<td><strong>Session 9: Progress of ISO 20022 Implementation</strong></td>
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<td></td>
<td>Case study: Singapore by SWIFT</td>
</tr>
<tr>
<td>16:50 – 17:00</td>
<td><strong>Closing by ADB Secretariat</strong></td>
</tr>
<tr>
<td></td>
<td>- Progress of market developments</td>
</tr>
<tr>
<td></td>
<td>- Next step, next meeting</td>
</tr>
</tbody>
</table>

**Informal meeting with selected markets**

<table>
<thead>
<tr>
<th>TIME</th>
<th>PROGRAM</th>
</tr>
</thead>
<tbody>
<tr>
<td>17:00 – 18:00</td>
<td>Informal meeting with selected ABMF members</td>
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</table>
DAY 1
(11 October 2017)

SESSION 2
Update on
ASEAN+3 Bond Market Guides 2017

v.6 12 Oct 2017

Prof. Shigehito Inukai
ADB Consultant for ABMF SF-1 / Waseda University

Matthias Schmidt, ADB Consultant

26th ABMF Meeting, Manila, SF1 Session
11 October 2017
Points to Cover

① Status of Bond Market Guides 2017
② Observations from Work on Bond Market Guides
③ Update on Market Developments in ASEAN+3
④ Information on ABMF Market Visits
⑤ Brief Explanation on Note Issuance Programmes and Shelf Registration
⑥ Q&A
Philippines Bond Market Guide 2017 published today!

Published on 11 October 2017

Available on
www.asianbondsonline.adb.org (nine markets available)


www.adb.org (ABMF website)

www.sec.gov.ph
Published on 10 August 2017

Changes to 2017 versions:
- Revised Copyright page
- Revised Foreword (e.g. ADB department)
- Revised Back Cover blurbs
- Some adjustments to style, use of language
- PDF near identical to Word doc (will make future revisions much easier)

Available on https://asianbondsonline.adb.org/

Today published Bond Market Guides 2017
Brunei Darussalam & Lao PDR

Published on 11 October 2017

Available on
https://asianbondsonline.adb.org/


Bond Market Guides 2017 to be published next:

October/November 2017
(being finalised)

November/December 2017
(after market visit on October)
Observations from Work on Bond Market Guides

- Regulatory attention to professional investors and market segments
- Emergence of interest in note issuance programs (details provided)
- Terminology still not quite in line with international standards (see net page)
Do consider the following when applying industry terminology or specific use of language

- ‘funds’ (money/monies or proceeds) versus ‘fund’ (investment vehicle)
- ‘security’ (safety) versus ‘securities’
- use of ‘registration’ may appear many times in a single market, but with different meanings (e.g. company registration; investor registration; registration statement (for issuance); register bonds (at CSD); register market participants for specific market functions)
- in context of regulations, ‘notice’ or ‘announcements’ tends to imply news or information value, but may not be associated with binding prescriptions
- national language may on occasion offer opportunities for clear distinctions, e.g. Cambodia (Kram, Anukret, Prakas)
Terminology / Use of Language – Considerations (2)

Specifically, consider the use of terminology or language in regulatory actions…

• ‘licensing’ versus ‘registration’ versus ‘accreditation’ of market participants
  • Do all require approval, and have eligibility criteria?
  • Are all subject to (the same) regulatory oversight or supervision?
  • In the context of registration, how does one distinguish from ordinary company registration?
  • As a result, is a licensed entity safer than a registered or accredited entity?

…or when referring to market infrastructure:

• ‘member’ versus ‘participant’ (e.g. of an exchange)
  • Is a member a member of the exchange only, or also of a connected CSD?
  • Participants are not participants of the exchange market (trading), or?

➢ While all such terms may have appropriate use in the bond market, it is important that any term used is well explained and put into context; otherwise (mis)perceptions are likely to rule
Update on Market Developments in Cambodia

➢ Quick update on market developments in Cambodia by the Securities and Exchange Commission of Cambodia

*Please see separate presentation:*

*The Development of Cambodia’s Securities Market – A Regulatory Perspective*

*Presented by Mr. Mok Rady*

➢ Brief questions and answers session
Update on Market Developments in Lao PDR

➢ Brief update on market developments in the Lao PDR by the Lao Securities Commission Office

Please see separate presentation: 
Bond Market Development in Lao PDR
by Mrs. Nakhonsy Manodham
Deputy Secretary-General
Lao Securities Commission Office

➢ Brief questions and answers session
Market Visits – Purpose / Objectives

• The purpose of the proposed market visits is to do fact finding on the topics currently being discussed in ABMF SF1 and SF2
• Specific objectives include:
  • Finalise Bond Market Guides where clarification or input still required
  • Research and follow up on account structure survey
  • Explore links to taxation treatment, and specific tax issues
  • Explore possibility of (further) AMBIF issuances
  • Explore market participation in AMBIF (for selected markets)
  • Learn more about market developments and future plans
  • Support markets according to needs

➢ Members should indicate their interest in participating in market visits, even before dates for the individual visits have been confirmed
Market Visits and Proposed Timeline

- **25th ABMF Meeting (Manila)**
  - 3-5 July 2017
  - Market Visit Philippines

- **26th ABMF Meeting (Manila)**
  - 9-10 Oct 2017
  - Market Visit Cambodia

- **Market Visit Indonesia**
  - 11-13 Oct 2017
  - mid Nov 2017

- **Market Visit Viet Nam**
  - 16-19 Oct 2017
  - Early Dec 2017

- **BMG 2017 Completion Deadline**
  - End Dec 2017

- **Market Visit China**
  - 9-10 Oct 2017
  - 11-13 Oct 2017
  - 9-10 Dec 2017
  - Jan 2018

- **Market Visit Indonesia**
  - 16-19 Oct 2017
  - Early Feb 2018 (tent.)

- **Market Visit Cambodia**
  - Early Feb 2018 (tent.)

- **Market Visit Philippines**
  - Early Feb 2018 (tent.)

**Account Structure**
- Account structure
- AMBIF
- BMG finalisation
- Market developments

**AMBIF**
- AMBIF
- Taxation

**BMG finalisation**
- BMG finalisation
- Market developments

**Taxation**
- Taxation

**Early Feb 2018 (tent.)**
- A/c structure
- AMBIF
- BMG final. Taxation
Note Issuance Programs (NIP) or MTN Programs together with Program based Shelf-Registration System, for effective introduction in the Regional Corporate Bond Markets

Prepared by
ABMF SF-1 Secretariat Team

11 October, 2017
## Proposed Concepts in Shelf-Registration

<table>
<thead>
<tr>
<th>Type of shelf-registration</th>
<th>Maximum limit that can be issued by the issuer</th>
<th>Set period of the shelf-registration</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Typical shelf-registration</td>
<td><strong>Issuance Limit</strong></td>
<td><strong>Shelf-Registration Period</strong> Up to 1-2 years</td>
</tr>
<tr>
<td>II. Program based shelf-registration (regime proposed by ABMF Secretariat team)</td>
<td><strong>Program Amount</strong></td>
<td><strong>Program Period (Shelf-Registration Period)</strong> Up to 1-2 years</td>
</tr>
</tbody>
</table>
Shelf-Registration

- Shelf-registration is used only for public offering (PO) where certain issuers can offer and sell bonds and notes to the public without a separate prospectus for each instance of an offering and without the need to issue a further prospectus.
- The advantage to issuers is that they are not required to produce a full suite of legal documents each time they want to issue bonds and notes. Quick and market-oriented decision making is possible.
- Shelf-registration system usually covers only a certain type of bonds and notes, such as straight bonds.
- Shelf-registration system is, typically, controlled using an issuance limit within the shelf-registration period.
- Issuance limit is the planned aggregated new issue gross amount.
Program Amount

- **Program amount** is the planned aggregated outstanding net issue amount within the program period.

- **Program amount** also can be described as the maximum limit of the outstanding balance including the amount from the issues whose scheduled issuance period has expired and shall be described in the program information or base prospectus.

- A program amount concept is used for Note Issuance Program (NIP, MTNP) and can be used in Self-Registration, too.
## Relation of Issuance Limit and Program Amount

<table>
<thead>
<tr>
<th>Maximum limit Register (500)</th>
<th>Issue (200)</th>
<th>Issue (100)</th>
<th>Issue (200)</th>
<th>Redemption (200)</th>
<th>Issue (150)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.5Y Y1-1Q</td>
<td>2Y Y1-2Q</td>
<td>3Y Y1-3Q</td>
<td></td>
<td>2Y Y2-4Q</td>
</tr>
</tbody>
</table>

### Planned Aggregated Outstanding Net Issue Amount

- Planned aggregated outstanding net issue amount = maximum limit of the outstanding balance

### Planned Aggregated New Issue Gross Amount

- Issue 150 (2 years) – Cannot issue under the current issuance limit

Source: ABMF SF1 Secretariat Team
## Relation of Issuance Limit and Program Amount

<table>
<thead>
<tr>
<th>Maximum limit</th>
<th>Amount</th>
<th>Maximum limit Register (500)</th>
<th>Issue (200) Y1-1Q</th>
<th>Issue (100) Y1-2Q</th>
<th>Issue (200) Y1-3Q</th>
<th>Redemp- tion (200) Y2-2Q</th>
<th>Issue (150) Y2-4Q</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program amount 500 (Program Period: 2 years)</td>
<td>Aggregated Outstanding Amount</td>
<td>0</td>
<td>200</td>
<td>300</td>
<td>500</td>
<td>300</td>
<td>450</td>
</tr>
<tr>
<td></td>
<td>Amount - can be issued</td>
<td>500</td>
<td>300 (500-200)</td>
<td>200 (500-200-100)</td>
<td>0 (500-200-100-200)</td>
<td>200 (500-200-100-200+200)</td>
<td>50 (500-200-100-200+200-150)</td>
</tr>
<tr>
<td>Issuance limit 500 (Shelf-Registration Period: 2 years)</td>
<td>Aggregated Issuance Amount</td>
<td>0</td>
<td>200</td>
<td>300</td>
<td>500</td>
<td>500</td>
<td>Cannot issue under the current limit</td>
</tr>
<tr>
<td></td>
<td>Amount - can be issued</td>
<td>500</td>
<td>300</td>
<td>200</td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: ABMF SF1 Secretariat Team
Introducing the “Note Issuance Program (NIP)”

- The advantage to issuers is that they are not required to produce a full suite of legal documents each time they want to issue bonds and notes. Quick and market oriented decision making is possible. In the cases where NIP for the professional market is officially anchored in regulations, issuer tend to be, hence, exempt from the full disclosure requirement otherwise imposed on public offers.

- In the professional market, the term “program information” is used instead of “registration statement/shelf-registration statement” + “base prospectus” as in the public offering market.

- When notes are issued by drawing down under the program, a number of underlying documents are amended with each issue, through a “pricing supplement” or “Information on the Notes (and Terms and Conditions of the Notes),” which sets out the terms of each specific issue of notes.

- As these statements are publicly accessible, in case of a drawdown from the above program amount, only a “pricing supplement” or “Information on the Notes (and Terms and Conditions of the Notes)” is sufficient.

- Program amount in the NIP is useful for the liability management of the company.

- International Credit Rating Agencies will be able to implement program rating based on the NIP and its program amount.
Questions & Answers

➢ Please feel free to clarify statements made by SF1, ask questions (including on the market presentations) or offer advice.
2017/10/02  NIP & Shelf-registration related general explanatory document
*Note Issuance Programs together with Program based Shelf-Registration, for effective introduction in the regional Corporate Bond Markets*

2017/10/12  ABMF & AMBIF related all the publicly available reports and other materials
https://sites.google.com/site/profinukaiswebsite/abmf-ambif

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For Reference: Bond Market Guides 2016

In 2016, Hong Kong, Japan, Malaysia, Singapore, and Thailand BMGs 2016 had been published as PDF versions.

Available on https://asianbondsonline.adb.org/

- Hong Kong *(November 2016)*
  https://asianbondsonline.adb.org/documents/abmf_hkg_bond_market_guide_5th.pdf?src=spotlight
- Japan *(May 2016)*
- Malaysia *(August 2016)*
- Singapore *(September 2016)*
- Thailand *(May 2016)*
For Reference: Bond Market Guides 2017

From August to October 2017, ABMF published BMGs for Brunei Darussalam, Indonesia, Lao PDR and the Philippines as PDF versions.

Available all the following BMGs on https://asianbondsonline.adb.org/

- Brunei (October 2017)
- Indonesia (August 2017)
- Lao PDR (October 2017)
- Philippines (October 2017)
Note Issuance Programs or MTN Programs together with Program based Shelf-Registration, for effective introduction in the regional Corporate Bond Markets

ABMF SF-1 Secretariat team understand that most of the regulatory authorities overseeing the securities markets in ASEAN will introduce or may consider introduction of an MTN Program (MTNP) or note issuance program (NIP) and Shelf-Registration System, if they do not already have such market feature, to allow enterprises to effectively and efficiently issue corporate bonds in multiple phases to raise funds in accordance with the progress of their projects or business, and to encourage medium and long-term bonds issuing scheme. To do so, it might be practical to illustrate the characteristics and functions of MTNP or NIP, together with the shelf-registration. In addition, we will review the relation and differences between shelf-registration and NIP, disclosure rules and other relevant points.

Table of Contents

I. Proposal from SF1: ...............................................................................................................2
(1) Table: Proposed Concepts in Shelf-Registration..............................................................2
(2) Introducing “Two Methods” of Shelf-Registration ..........................................................2
(3) Introducing “Issuance Limit” and “Program Amount” in Shelf-Registration...............2
(4) Introducing the “Note Issuance Program (NIP)” ..............................................................3
II. Characteristics and benefits of an NIP ..................................................................................3
III. How to introduce Program based Method...........................................................................4
(1) Introduction of the shelf-registration with issuance limit and program amount ..........4
(2) Introduction of the NIP in the PP/PI market ....................................................................4
(3) Program information and the Key Disclosure document ................................................4

Appendix I: Definitions/Terms used in Shelf-Registration and NIP...............................................6
(1) Prospectus .......................................................................................................................6
(2) MTNP or NIP ....................................................................................................................6
(3) Typical Shelf-Registration ............................................................................................6
(4) Issuance Limit ..................................................................................................................6
(5) Program Amount .............................................................................................................7
(6) Program based Shelf-Registration ................................................................................7
(7) Disclosure for Public Offer (PO) ...................................................................................8
(8) Disclosure for professional Investors (PI) ......................................................................8

Appendix II: NIP (for PP/PI) and Shelf-Registration (for PO) .........................................................8
(1) Table: Comparison of NIP Program Information and Shelf-Registration Doc. .................8
(2) Related to the level of disclosure: In the Case of a Public Offer (PO) ...............................10
(3) In the case of the professional investors market (PP/PI) ................................................10
(4) Additional comment in relation to distribution of disclosure material .........................10

Appendix III: NIP in the Context of AMBIF ..................................................................................11
(1) Single Submission Form (SSF) ........................................................................................11
(2) NIP in the Context of AMBIF ........................................................................................11
(3) Disclosure related Future Considerations for Regulatory Authorities .........................12
   a) Current trend in international public offering markets .................................................12
   b) Implication from the program based shelf-registration to the SSF .............................12
I. Proposal from SF1:

(1) Table: Proposed Concepts in Shelf-Registration

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<td>Issuance Limit</td>
<td>Shelf-Registration Period</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Up to 1-2 years</td>
</tr>
<tr>
<td>2. Program based shelf-registration</td>
<td>Program Amount</td>
<td>Program Period (Shelf-Registration Period)</td>
</tr>
<tr>
<td>(proposed regime by ABMF Secretariat team)</td>
<td></td>
<td>Up to 1-2 years</td>
</tr>
</tbody>
</table>

(2) Introducing “Two Methods” of Shelf-Registration

- We understand that regulatory authorities are interested in introducing a shelf-registration regime with a specifying maximum limit that can be issued by the issuer.
- We would propose regulatory authorities to introduce two methods of shelf-registration. The first method is the **issuance limit method**, and the second method is the **program amount method**.
- Regulatory authorities can introduce a “**program amount based framework**” in the public offering (PO) market. In effect, a **program based shelf-registration** in addition to the **typical shelf-registration** in the PO market. We propose using the term “**program based shelf-registration**” for PO, instead of the term MTN.

(3) Introducing “Issuance Limit” and “Program Amount” in Shelf-Registration

- An issuer will need to disclose an **indicative amount** that it intends to raise under the **typical shelf-registration** or under the **program based shelf-registration** in the base prospectus. This amount can be increased, as needed, in the updated prospectus or designated Form of Supplement. To make these two shelf-registration methods easy to use, we propose introducing both an **issuance limit concept** and a **program amount concept** at the same time.

a) Shelf-Registration and its Characteristics and Benefits

- Shelf-registration is used only for public offering (PO) where certain issuers can offer and sell bonds and notes to the public without a separate prospectus for each instance of offering and without the need to issue a further prospectus.
- Shelf-registration system usually covers only a certain type of bonds and notes, such as straight bonds.
- Shelf-registration system is, typically, controlled using an **issuance limit** within the shelf-registration period.
- **Issuance limit** is the **planned aggregated new issue gross amount**.

b) Program Amount

- **Program amount** is the **planned aggregated outstanding net issue amount** within the program period.
- **Program amount** also can be described as **the maximum limit of the outstanding balance including the amount from the issues** whose scheduled issuance period has expired and shall be described in the program information or base prospectus.
- A program amount concept is used for NIP (MTNP) and Self-Registration, as well.
(4) Introducing the “Note Issuance Program (NIP)”

We propose introducing the regime “note issuance program (NIP)” just for Private Placement (PP) / Professional Investors Market (PI), instead of the term of medium-term note program (MTNP) to avoid the confusion with bond tenor that can be issued under the note issuance framework.

Program amount in the NIP is useful for the liability management of the company. International Credit Rating Agencies will be able to implement program rating based on the NIP and its program amount.

II. Characteristics and benefits of an NIP

(1) The advantage to issuers is that they are not required to produce a full suite of legal documents each time they want to issue notes under an NIP. In the cases where NIP is
officially anchored in regulations, issuer tend to be, hence, exempt from the full disclosure requirement otherwise imposed on public offers.

(2) In the professional market, the term “program information” is used instead of “registration statement/shelf-registration statement” + “base prospectus” as in the public offering market.

(3) When notes are issued by drawing down under the program, several underlying documents are amended with each issue, through a “pricing supplement” or “Information on the Notes (and Terms and Conditions of the Notes),” which sets out the terms of each specific issue of notes.

(4) As these statements are publicly accessible, in case of a drawdown from the above program amount, only a “pricing supplement” or “Information on the Notes (and Terms and Conditions of the Notes)” is sufficient.

(5) Generally, programs in the professional market can include more than one issuer in the same issuer group although the issues are independent up to a maximum amount authorized.

III. How to introduce Program based Method

NIP and the drawdown issuances from such program are not yet available in many of the ASEAN developing bond markets. Also, program based shelf-registration is not available in any of the ASEAN bond markets.

(1) Introduction of the shelf-registration with issuance limit and program amount

- Introduction of the program concept within the shelf-registration in the public offering (PO) market

(2) Introduction of the NIP in the PP/PI market

- In the private placement (PP) / professional investors (PI) market, a Note Issuance Program (NIP) would be registered (and listed) with Securities Authority and/or Listing Place (Exchange).

(3) Program information and the Key Disclosure document

- The key disclosure document for a PP/PI of a note issuance program (NIP) will be the “program information,” which contains the program amount, program period, program rating(s), provisions agreed among the parties involved—issuer(s), investor, intermediaries, and listing/registration authority—on terms and conditions, governing law and jurisdiction, as well as relevant supporting documentation and disclosure items.

  Program information is basically required to be updated and re-registered on an annual basis. This includes material information, including risk factors and planned activities of the issuer, as well as the provision of an audited financial statement.

  The updated information may be incorporated into the revised/updated program information by reference (e.g., by making available a website or designated filing/registration place where investors may easily obtain the latest information).

  The issuer / program-holder is required to file an audited financial statement with the regulatory authority. At the same time, they are required to file such a statement with their lead regulator (in case of a non-resident issuer).

  In case the issuer is a company listed on an exchange or other listing place, the issuer will be subject to the rules for the disclosure of financial and other material information under applicable listing rules of the listing place (exchange). The issuer is also required to file the latest audited financial statement with the regulatory authority at least on an annual basis.
• In line with the proposed functions of the listing place (exchange) as a centralized bond information center and the SRO for the OTC market (Including PP), the original prospectus for a public offer of bonds or notes and the continuous disclosure information must also be filed with the listing place (exchange) upon submission to the regulatory authority.
• The listing place (Exchange) provides these documents in the language they are published on its website for investor information.

Prepared by ABMF SF-1 Secretariat Team
Shigehito Inukai, Waseda University and ADB Consultant / Hiro Suzuki, Waseda University / Matthias Schmidt, ADB Consultant / Kosintr Puongsophol, Asian Development Bank, ERCD
Appendix I: Definitions/Terms used in Shelf-Registration and NIP

(1) Prospectus
A prospectus must be registered together with a registration statement and published where securities are offered to the public (PO) or it appears to comply with the rules governing disclosure unless the sale of securities is exempt from full disclosure requirements. In the professional investors (PI) market or in the private placement (PP) market, market practitioners do not generally use the term “prospectus” because it sounds like requiring full disclosure of information. The terms “information memorandum,” “offering memorandum” or “program information” are usually used in the professional market. The term base prospectus is typically used in the shelf-registration for public offerings.

(2) MTNP or NIP
Medium-term note programs (MTNP) or note issuance programs (NIP) can both be used in the (1) public offering (PO) market, and in the (2) professional investors (PI) market / private placement (PP) market. But, in case of the use in the PO market, generally, a “program based shelf-registration system” is much more popular than an MTNP or NIP. Also, to avoid the typical misunderstanding that MTNP is only used for mid-term ranged issuances, and that MTNP is mainly used in the offshore (Eurobond) market, it might be better using the term ‘note issuance program’ in the ASEAN bond markets, and better using this term for PI/PP issuances, and “program based shelf-registration” for PO, instead of MTNP.

(3) Typical Shelf-Registration
A shelf-registration concept is like the concept of an MTN program or a note issuance program. But, shelf-registration is used only for public offering (PO) where certain issuers can offer and sell securities to the public without a separate prospectus for each instance of a securities offering and without the need to issue a further prospectus. A shelf-registration system usually covers only a certain type of bonds and notes, such as straight bonds or notes. On the other hand, MTNP or NIP can generally cover various types of bonds and notes for their issuances – including equity related convertible bonds or non-straight types of bonds. A shelf-registration system is, typically, controlled using an issuance limit within the shelf-registration period, while official issuance documents consist of a shelf-registration statement with a base prospectus for multiple, as-yet-undefined, future offerings. A shelf-registration statement is understood to be a filing with the regulatory authorities with no intention to immediately sell the securities after registration.

(4) Issuance Limit
An issuance limit is only used for shelf-registration. The shelf-registration has an expiration date, which is one or two years from the date the registration statement became effective. This “one or two years period” is described as the “shelf-registration period.” The amount of securities that could be registered is the “issuance limit,” which could be described as the planned aggregated new issue gross amount. The amount of securities that could be registered was limited to an amount that, at the time the registration statement became effective, was reasonably expected to be offered and sold within one or two years from the initial effective date. This means, only the amount newly issued during the shelf-registration period is aggregated and the amount that is redeemed during the shelf-registration period will not be reflected in calculating aggregated new issue gross amount. If the aggregated newly issued gross amount is about to reach the “issuance limit” and the issuer has an intention of further new issuance, the issuer may have to register a new shelf-registration (if the current registration is available for, for example, 500 million, but the issuer wants a 150 million issue size, then the issuer may have to withdraw the current registration
and register a new shelf-registration) and launch a new issue under the new shelf-registration. (For info, even though the current shelf-registration is withdrawn, the outstanding notes/bonds issued under the original shelf-registration remain legally valid until their maturity.)

**Issuance Limit and Shelf-Registration Period:** A shelf-registration statement permits multiple offerings based on the same registration. For example, a company can file/register a shelf-registration statement with a base prospectus for the total authorized cumulative issuance amount (500 million) to be issued over 2 years. This cumulative issuance amount is referred as **“issuance limit.”**

Also, the **shelf-registration period** can be determined by the issuer based on the rules set by regulatory authorities. The **issuance limit** concept is very straightforward and should not be confused with the **program amount**. The validity of the **shelf-registration period** proposed by the regulatory authorities may be one year or 2 years from the date of approval. As the shelf-registration statements are publicly accessible, a “pricing supplement” is sufficient in case of a drawdown from the above **issuance limit**. An issuer will need to disclose an indicative amount that it intends to raise under the expected total amount to be raised in the base prospectus. If within the 2-year period, the issuer would like to raise more than the indicative amount stated in the base prospectus (**issuance limit**), it can do so by re-registering a new **issuance limit** and re-start a new shelf-registration with disclosing the new amount in the new base prospectus.

**Program Amount**

The **program amount** concept is very important for the understanding of the real benefits of the program method in **program based shelf-registration** and the use of MTNP/NIP.

The **authorized maximum outstanding amount during the program period** (of one year or two) is called **“program amount.”** It is typically determined together with the **program period**. The **program period** can be determined by the issuer, based on the market rule (i.e., the rules set by the regulatory authorities overseeing the securities market). It should be better to introduce a **program based shelf-registration system. Program period** may be better to be chosen by the issuer from 1 year and 2 years, if possible. The **program amount** concept is very useful for the funding strategy from the point of treasury management and liability risk management of the issuing company.

**Program amount and Program period:** A **program amount** is used for NIP or MTNP. NIP or MTNP has an expiration date, which is one year or two years from the date the NIP or MTNP became effective. We describe this period as the **“program period.”** The amount of securities that could be authorized as the maximum outstanding amount is the **“program amount,”** which could also be described as the **planned aggregated outstanding net issue amount.** This means, the amount newly issued during the **program period** is aggregated and the amount that is redeemed during the **program period** is deducted in calculating the outstanding amount at a given time. If the outstanding amount is about to reach the **program amount** and the issuer has an intention of a further new issuance, the issuer may have to amend and re-register the **(revised) program amount** in documentation.

**Program based Shelf-Registration**

This refers to a shelf-registration system with a **program amount** and using a **shelf-registration period (program period).** By introducing the shelf-registration related regulation and/or regulatory authorities’ rules, this **program based shelf-registration system** will be possible in the public offering markets in the ASEAN region. Within a **program based shelf-registration** system using the **program amount** concept, in case of a drawdown from the authorized program amount, the notes are connected to a **program based shelf-registration**, which is a
funding program used by issuers to receive bond debt funding on a regular and continuous basis. So, in the public offering (PO) market, if a shelf-registration statement and base prospectus is registered with a program amount (authorized maximum outstanding amount during the authorized period) and the related shelf-registration period (program period), it can be called as a program based shelf-registration. As a general practice of the program based shelf-registration system in PO markets, an issuer need to register shelf-registration statement and base prospectus to potential investors, and in case actual issuance of the notes (drawdown form the program amount), only submitting the pricing supplement is sufficient.

(7) Disclosure for Public Offer (PO)

The key disclosure document for bonds and notes offered to the public is the prospectus (including base prospectus or single prospectus). Once the regulatory authorities approve a public offer, the information in the prospectus is required to be updated on an annual basis. This includes material information, including risk factors and planned activities of the issuer, as well as the provision of an audited financial statement. The updated information may be incorporated into the updated prospectus by reference (e.g., by making available a website or designated filing place where (retail) investors may easily obtain the latest information).

(8) Disclosure for professional Investors (PI)

The key disclosure document for bonds and notes offered to PI is the information memorandum, offering memorandum or program information, which contains provisions agreed among the parties involved—issuer, investor, intermediaries and listing place (exchange) or place of registration—on terms and conditions, governing law and jurisdiction, as well as relevant supporting documentation and disclosure items.

### Appendix II: NIP (for PP/PI) and Shelf-Registration (for PO)

#### (1) Table: Comparison of NIP Program Information and Shelf-Registration Doc.

<table>
<thead>
<tr>
<th>Typical NIP and Program Information (Professional Market)</th>
<th>Shelf-Registration Document (Public Offer Market)</th>
</tr>
</thead>
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<tr>
<td>Both intended to disclose basic information, financial information, and the maximum limit for the value of bonds that can be issued by the issuer within a certain set period.</td>
<td>Shelf-registration statement (SRS)(^1) and related documents (prospectus) are statutory documents by law or regulation. (SRS itself is not a disclosure document. “SRS + base prospectus” is the one equivalent to program information on NIP. Also, in SRS, basically, no listing, no rating info required.)</td>
</tr>
<tr>
<td>In relation to the bonds and notes qualifying for the exemption from certain disclosure requirements under the law or regulation, program Information may not be treated as statutory disclosure document. It may be treated as necessary disclosure information by rules in the listing/registration place.</td>
<td></td>
</tr>
<tr>
<td>Program information is equivalent to the euro MTN program, and indicates the program amount (maximum outstanding limit for the value of bonds that can be issued within a set period) together with basic financial and other information about the issuer(s) and the notes to be issued under the program.</td>
<td></td>
</tr>
<tr>
<td>It may be possible to use other form or abridged form other than specified form by</td>
<td>It is not possible to use another form or abridged form other than the form specified by</td>
</tr>
</tbody>
</table>

\(^1\) We might need to be mindful of terms like ‘Shelf-registration Statement (SRS),’ since markets with an existing (securities) registration statement (also SRS) may get confused.
Abridged form can be used in case other listed program information is attached as a reference information. For example, companies that continually file annual reports with the authority do not need to state corporate information including financial statements in the program information. And, overseas issuers may submit the reporting documents they provide to their home country financial authorities or foreign financial instruments exchanges (listing places).

Program information may include;
1. Program period (Planned issue period)
2. Types of securities
3. (Target) investors
4. Program amount: upper limit of outstanding balance
5. Program Rating(s)
6. Name of a candidate for lead managing underwriter
7. Other intermediaries
8. Listing/registration place
9. Other things/provisions agreed among the parties involved
10. Other matters specified by rules in listing/registration place as necessary and appropriate

Once this is done, one can flexibly issue and list/register the bonds at the time of issuance.

Shelf-registration statement (SRS) usually includes;
1. Shelf-registration period (Planned issue period)
2. Types of securities
3. (1) issuance limit method: Scheduled amount to be issued, or (2) program amount method: upper limit of outstanding balance
4. Name of the main financial institution(s) (securities company) to act as lead managing underwriter(s), etc.
5. Other matters specified by laws and ordinances as necessary and appropriate for public interest or investor protection

[Again, please note that an SRS itself is not a disclosure document. As such, e.g. no listing or rating information is required and, hence, it may appear short(er) than program information.]

The bond issuing entity (the party that submitted the program information) does bear a responsibility to observe the rules in listing/registration place, including requirements for timely disclosure.

The bond issuing entity (the party that submitted the shelf-registration documents) does bear a responsibility to observe the law and regulation, including requirements for timely disclosure.

Program amount: The maximum limit of the outstanding balance including the amount from the issues based on program information whose scheduled issuance period has expired and shall be described in the program information, in the same manner as the euro MTN program. Under this method (called “program amount method”), if the bonds issued based on the present or past program information are redeemed, the remaining issuance capacity under the program information will increase by the same amount as the redemption.

In the shelf registration document, issuers can describe either;
(1) issuance limit method: the expected maximum issuance amount during the set period, or
(2) program amount method: the maximum limit of the outstanding balance. - The outstanding balance described here in (2) does not include the issuance amounts of bonds that were issued based on shelf-registration documents whose scheduled issuance period has expired.

Regulations/rules on underwriting examinations do not apply.
The market is for professionals, not individual, and thus the listing/registration authority does not

Regulations/rules on underwriting examinations do apply.
The authority anticipate that securities companies will conduct underwriting and due
anticipate that securities companies will conduct underwriting and due diligence examinations with considerations of the protection of individual retail investors. Securities companies do this with an eye to standby underwriting risk (the risk of having to take on the portion of the bonds that remain after an offering) and reputational risk (for example, the risk of price fluctuation by a substantial revision in the contents of disclosures or a material announcement by the issuing company immediately after the issuance).

diligence examinations with considerations of the protection of individual retail investors. Securities companies do this with an eye to consider the protection of individual retail investors and to standby underwriting risk (the risk of having to take on the portion of the bonds that remain after an offering) and reputational risk (for example, the risk of price fluctuation by a substantial revision in the contents of disclosures or a material announcement by the issuing company immediately after the issuance).

(2) Related to the level of disclosure: In the Case of a Public Offer (PO)
In the case with using a Program based Shelf-Registration: As an international practice, an issuer must issue a base prospectus + a pricing supplement for the initial offering. As for subsequent offerings within the same program, an updated prospectus, which contains information of the issuer updated after the base prospectus was lodged with the regulator, must be issued at every instance of a drawdown, throughout the validity of the program amount within the shelf-registration period (program period). As a general practice in many markets, an issuer does not need to provide a hardcopy of the base prospectus, an updated prospectus, and a pricing supplement to every individual investor. The base prospectus, updated prospectus and pricing supplement are required to be submitted. Since the base prospectus and the updated prospectus (if necessary) must be registered with and posted on the regulatory authorities’ and the listing place (exchange) websites, the issuer can provide only a pricing supplement with hyperlinks to the base prospectus and other relevant information on the regulatory authorities’ and the listing place (exchange) websites. This is a general practice in major bond markets. However, this would depend on the decision and policy objectives of the regulatory authorities.

(3) In the case of the professional investors market (PP/PI)
As an international practice, the base prospectus is often referred to as “program information.” An issuer should be able to issue a pricing supplement, with reference to a base prospectus and an updated prospectus (also referred to as “program information in the case of a professional market”) using hyperlinks, which is also the case for PO. Usually, a program information form contains less information than a base prospectus, so as not to put too much burden on the issuer.

(4) Additional comment in relation to distribution of disclosure material
In the PO market, if a public offer refers to soliciting an unlimited number of amateur/retail/individual investors to purchase the bonds, the assumption for the distribution of disclosure material would have to be that all targeted investors have the means and the ability to access such material distributed electronically (e.g. incorporated by reference). If that cannot be ensured, it may be safer for regulatory authorities to oblige the underwriter/distributor to distribute hard copies of the base prospectus and any updated prospectus to investors opting or requiring receiving hard copies prior to solicitation and a hard copy of the pricing supplement immediately after pricing of the bonds for primary transactions or the same hard copies before a transaction in the secondary market is undertaken. (Otherwise, regulatory authorities must oblige the underwriters/distributors to produce evidence that they have taught investors how to access relevant hyperlinks to the
base prospectus and other relevant information, including the pricing supplement, on the regulatory authorities’ website.)

Appendix III: NIP in the Context of AMBIF

(1) Single Submission Form (SSF)²

The Single Submission Form serves as a practical conduit for the implementation of AMBIF in the ASEAN+3 markets, by offering to both potential issuers and the regulatory authorities in each market the ability to conduct the bond and note issuance regulatory processes in a more harmonized, practical and predictable manner. The SSF contains a set of the most common issuance information and disclosure items found across the existing regulatory processes in the participating ASEAN+3 markets, and is recognized for that purpose by all relevant regulatory authorities. The SSF may be used in the context of issuance, listing and registration processes in the AMBIF markets, and be sufficient for a submission in some markets while requiring additional document attachments or market-specific information in other markets. Where a submission of physical forms is no longer necessary, the SSF may be used as a checklist for the information to be submitted online. This is practical particularly in cases where an issuer intends to access many markets using the same issuance and disclosure information.

In recent years, ASEAN+3 bond markets have added features and become more conducive for issuers and investors—not least because of the work of ABMI and ABMF. As such developments are expected to continue, whether driven by stakeholder input or because of the regular reviews by policy bodies and regulatory authorities, so is the SSF expected to evolve in line with resulting changes in the regulatory processes. That makes the SSF a living document and will lead to corresponding updates of the form on a regular basis. Every new version of the SSF posted in the public domain will have already been reviewed and accepted for use in the context of AMBIF by each participating market’s regulatory authorities.

(2) NIP in the Context of AMBIF

Note Issuance Program in the context of an AMBIF Market (including the Thai PP-II regime professional market)

Feedback from potential issuers in the Asian region led to the inclusion of note issuance programs (NIPs) in the description of AMBIF. Issuers appeared very keen on the use of note issuance programs, an effective instrument in most bond markets, due to their flexibility and suitability to fund working capital needs. As a practical method of corporate funding in both domestic and international markets, note issuance programs (NIPs) are often preferred by issuers for the ability to tap markets on short notice. For issuers with a regional presence, a note issuance program under AMBIF would allow access to several target markets with a single set of defined issuance documentation and disclosure, using the SSF³. AMBIF promotes the use of note issuance programs, because they not only give funding flexibility to issuers but also represent the most common format of bond and note issuance in the international bond market. This means that potential issuers, as well as investors and intermediaries, are likely to be familiar with note issuance programs and related practices. Hence, this makes AMBIF comparable to the relevant practices in the international bond market.

² Please see the SSF (Single Submission Form) URL attached on “IV. Information on the Notes”. Interested parties are encouraged to obtain the respective latest version (current is v49) of the SSF from the ADB website, via AsianBondsOnline, or using this site. Single Submission Form (v49_20150923) (PDF)
Single Submission Form (v49_20150923) (Word)

³ On page 9 of the SSF, “4. Type of Submission” specifies a note issuance program as Type-P. And on the same page of the SSF, “4. Type of Submission” specifies a shelf-registration as Type-S.
At the same time, it is expected that potential issuers may benefit from reusing or adopting existing documentation or information on disclosure items. The ability of potential issuers to use note issuance programs under AMBIF differs across participating markets. While some of the more mature markets regularly see note issuance under MTN programs, often due to the more international participation in these markets, other jurisdictions (many of the ASEAN countries) are now studying the conditions and concessions for introducing note issuance programs. In the context of many of the ASEAN countries bond markets, the program amount concept might be particularly useful to non-resident issuers and for Ministry of Finance or central bank approvals, if necessary. Where approval of an issuance amount for non-resident issuers within a certain period (typically one year) is required, the use of note issuance programs may be limited so far, since such approvals may not be able to be accommodated under overall market issuance limits for non-residents. This matter in the future can be overcome in many markets. In case of non-resident issuers using the proceeds for business operations in ASEAN countries, this “program amount: authorized maximum outstanding amount during the program period” can basically be utilized for Ministry of Finance or central bank approvals. English disclosure for AMBIF bond issuances and AMBIF NIP registration using the SSF should be possible in all the countries in the region.

(3) Disclosure related Future Considerations for Regulatory Authorities
a) Current trend in international public offering markets
Since quarterly disclosure and timely disclosure is prevalent worldwide, under current business practice, a combination of “program information (base prospectus) + Information on the Notes (pricing supplement)” or just an Information on the Notes (pricing supplement) are NOT sufficient. Usually, the use of the combination of a program information (base prospectus: i.e. annual disclosure or original disclosure at the time of the set-up of the shelf-registration or program) + an updated program information or updated prospectus (quarterly disclosure/extraordinary disclosure/timely disclosure in addition to a program information or base prospectus) + an Information on the Notes (a pricing supplement) is becoming the normal pattern. The underwriter should make sure that prospective investors have been given all the available information. For regulatory authorities, it would be important how they can deal with such global trend.

b) Implication from the program based shelf-registration to the SSF
The disclosure level of a typical shelf-registration system is usually sufficient for public offering (PO). Professional investors (PI) can buy publicly offered bonds. At the same time, one consideration should be that the SSF cannot be used in case that the investor target is not limited to professionals only. To facilitate the process of using the SSF, it is necessary to limit the target investors to professionals.
DAY 1
(11 October 2017)

SESSION 2
CAMBODIA
The Development of Cambodia’s Securities Market –
A Regulatory Perspective

Manila, 11 October 2017

Presented by Mr. Mok Rady | m_rady@secc.gov.kh | rady.mok.1@city.ac.uk
Steps of Development
Market Performance
Bond Market
Blueprint for Securities Sector Development
In Cambodia, the Securities industry is regulated by the Securities and Exchange Commission of Cambodia (SECC) which is established in 2008 under the Law on the Issuance and Trading of Non-Government Securities.
SECC chaired by Minister of Economy and Finance and 8 Members with the mandate of 5 years, consists of the following:

- One Representative from the Ministry of Economy and Finance
- One Representative from the National Bank of Cambodia
- One Representative from the Ministry of Commerce
- One Representative from the Ministry of Justice
- One Representative from the Cabinet of Council of Ministers
- The Director General of SECC
- Two Experts in Securities sector
Steps of Development

Policy, Law and Regulations

Regulator SECC

Market Operator

Securities Firms, others
- MEF holds a 55 percent, Korea Exchange has a 45 percent share.
- CSX had been granted approval to function as market operator, clearing and settlement facility operator and depository operator.
- April 18, 2012: Launching Ceremony of the Securities First Trading Day
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### Securities Firms:

**Dealer:**
- Golden Fortune (Cambodia) Securities Pte. Ltd.

**Brokers:**
- ACLEDA Securities Pte. Ltd.
  - [www.acledasecurities.com.kh](http://www.acledasecurities.com.kh)
- CAB Securities Limited.
- Cambodia-Vietnam Securities Pte. Ltd.

**Investment advisors:**
- Angkor Capital Advisors Co., Ltd.
  - [www.angkorcapitaladvisors.com](http://www.angkorcapitaladvisors.com)
- F.U.G.I. GOLD Co., Ltd.
  - [www.fugi-gold.com](http://www.fugi-gold.com)
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**Acleda Bank Plc.**

**Tricor Securities Services PLC.**
**Law Firms Provide Legal Service In Securities Sector**

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<tr>
<td>PPAP</td>
<td>Phnom Penh Autonomous Port</td>
<td>09-Dec-2015</td>
</tr>
<tr>
<td>GTI</td>
<td>Grand Twins International (Cambodia) Plc</td>
<td>16-Jun-2014</td>
</tr>
<tr>
<td>PWSA</td>
<td>Phnom Penh Water Supply Authority</td>
<td>18-Apr-2012</td>
</tr>
</tbody>
</table>

➢ Other SOEs and other private companies are in the process of IPOs.
Listed Companies

CSX Weekly Market Summary

<table>
<thead>
<tr>
<th>Stocks and Index</th>
<th>Oct-02</th>
<th>Oct-03</th>
<th>Oct-04</th>
<th>Oct-05</th>
<th>Oct-06</th>
<th>Change (%)</th>
<th>Average</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>PPWSA (Last P/E 7.51)</td>
<td>3,900</td>
<td>3,900</td>
<td>3,900</td>
<td>3,900</td>
<td>3,900</td>
<td>0.00</td>
<td>3,900</td>
<td>-</td>
</tr>
<tr>
<td>Value (USD)</td>
<td>8,093</td>
<td>0</td>
<td>5,070</td>
<td>0</td>
<td>0</td>
<td>-100.00</td>
<td>2,633</td>
<td>13,163</td>
</tr>
<tr>
<td>Grand Twins (Last P/E 13.51)</td>
<td>3,970</td>
<td>4,000</td>
<td>4,000</td>
<td>4,000</td>
<td>4,000</td>
<td>0.76</td>
<td>3,994</td>
<td>-</td>
</tr>
<tr>
<td>Value (USD)</td>
<td>0</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-</td>
<td>20</td>
<td>100</td>
</tr>
<tr>
<td>PPAP (Last P/E 6.40)</td>
<td>5,020</td>
<td>5,040</td>
<td>5,160</td>
<td>5,140</td>
<td>5,180</td>
<td>3.19</td>
<td>5,108</td>
<td>-</td>
</tr>
<tr>
<td>Value (USD)</td>
<td>188</td>
<td>1,131</td>
<td>1,620</td>
<td>2,536</td>
<td>436</td>
<td>131.91</td>
<td>1,182</td>
<td>5,911</td>
</tr>
<tr>
<td>PPSP (Last P/E 63.64)</td>
<td>2,800</td>
<td>2,790</td>
<td>2,800</td>
<td>2,800</td>
<td>2,800</td>
<td>0.00</td>
<td>2,798</td>
<td>-</td>
</tr>
<tr>
<td>Value (USD)</td>
<td>1</td>
<td>91</td>
<td>7</td>
<td>0</td>
<td>60</td>
<td>757</td>
<td>33</td>
<td>165</td>
</tr>
<tr>
<td>PAS (Last P/E 12.14)</td>
<td>5,040</td>
<td>5,040</td>
<td>5,040</td>
<td>5,040</td>
<td>5,040</td>
<td>0.00</td>
<td>5,040</td>
<td>-</td>
</tr>
<tr>
<td>Value (USD)</td>
<td>504</td>
<td>126</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-100</td>
<td>126</td>
<td>630</td>
</tr>
<tr>
<td>CSX Index</td>
<td>334.90</td>
<td>335.19</td>
<td>336.04</td>
<td>335.93</td>
<td>336.16</td>
<td>0.38</td>
<td>335.64</td>
<td>-</td>
</tr>
<tr>
<td>(% change)</td>
<td>0.56</td>
<td>0.09</td>
<td>0.25</td>
<td>-0.03</td>
<td>0.07</td>
<td>-87.81</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Trading Value (USD)</td>
<td>8,792</td>
<td>1,448</td>
<td>6,697</td>
<td>2,536</td>
<td>496</td>
<td>-94.36</td>
<td>3,994</td>
<td>19,969</td>
</tr>
<tr>
<td>Market Cap. ('000USD)</td>
<td>299,044</td>
<td>299,302</td>
<td>300,068</td>
<td>299,964</td>
<td>300,171</td>
<td>0.38</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

- Data: CSX, October 2017
## Central Counterparties (CCP)

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Website URL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Golden FX Link (Cambodia)</td>
<td><a href="http://www.goldenfxlink.com">www.goldenfxlink.com</a></td>
</tr>
<tr>
<td>Phnom Penh Derivative Exchange Plc.</td>
<td><a href="http://www.ppdexchange.com">www.ppdexchange.com</a></td>
</tr>
<tr>
<td>Royal Financial Corporation</td>
<td><a href="http://www.rfccambodia.com">www.rfccambodia.com</a></td>
</tr>
<tr>
<td>Gold Financial Global Investment</td>
<td><a href="http://www.gfg88.com">www.gfg88.com</a></td>
</tr>
</tbody>
</table>
## Derivative Brokers

<table>
<thead>
<tr>
<th>Derivative Brokers</th>
<th>Website</th>
</tr>
</thead>
<tbody>
<tr>
<td>Golden FX Link (Cambodia)</td>
<td><a href="http://www.goldenfxlink.com">www.goldenfxlink.com</a></td>
</tr>
<tr>
<td>Royal Financial Corporation</td>
<td><a href="http://www.rfccambodia.com">www.rfccambodia.com</a></td>
</tr>
<tr>
<td>Gold Financial Global Investment</td>
<td><a href="http://www.gfg88.com">www.gfg88.com</a></td>
</tr>
<tr>
<td>GoldFx Investment</td>
<td><a href="http://www.goldfx.co">www.goldfx.co</a></td>
</tr>
<tr>
<td>Phnom Penh Derivative Exchange Plc.</td>
<td><a href="http://www.ppdexchange.com">www.ppdexchange.com</a></td>
</tr>
<tr>
<td>Askap Asset Management Co., Ltd</td>
<td><a href="http://www.aamfinance.com">www.aamfinance.com</a></td>
</tr>
<tr>
<td>Blackwell Global Investment (Cambodia) Co., Ltd</td>
<td><a href="http://www.blackwellglobal-kh.com">www.blackwellglobal-kh.com</a></td>
</tr>
<tr>
<td>Richwill Japan Co., Ltd.</td>
<td><a href="http://www.richwilljapan.com">www.richwilljapan.com</a></td>
</tr>
</tbody>
</table>
Market Segment Development

2017
- Equities
  - Main board
  - Growth board

2019
- Corporate Bond
- Collective Investment Scheme

2022
- Commodities
- Derivatives

Launching
Type of Bond to Be Offered

- Plain bond
- Secured bond
- Guaranteed bond

Any other types of corporate bonds to be offered such as: convertible bond and other types of bond shall comply with separate requirements and shall obtain prior approval from the Director General of the SECC.

Other types of debt securities shall comply with the separated regulation.
Bond Market Supporting Regulation

- Prakas on Public Offering of Debt Securities
- Prakas on Accreditation of Credit Rating Agency
- Prakas on Accreditation of Bondholders Representative

English Version Available on the SECC Website: www.secc.gov.kh
Financial Sector Development Strategy 2016-2025

Sub-decree on Tax Incentives in Securities Sector

- Listed companies will be granted tax incentive by reducing 50% of total amount of tax on profit for three (3) years.
- 50% reduction on Withholding Tax for Securities Investors for three (3) years.
- Listed companies which have granted tax incentives in securities sectors are allowed to temporary suspend the payment of *monthly prepayment tax*. 

Adopted by the Council of Ministers in the Plenary Session on 21 October 2016

ROYAL GOVERNMENT OF CAMBODIA
Conclusion

- Securities sector is still new to Cambodians
- Market development has been slow
- Remaining obstacles
  - Tax issue
  - Legal issue
  - Accounting issue
- In need of securities sector as a funding source for future economic development
  - Private business sector; investment expansion
  - Banking sector; new capital accord
  - Public sector; infrastructure projects
- Efforts to develop market by the RGC and private sector
THANKS FOR YOUR ATTENTION
DAY 1
(11 October 2017)

SESSION 2
LAO PDR
Bond Market Development in Lao PDR

by Mrs. Nakhonsy Manodham
Deputy Secretary-General
Lao Securities Commission Office
Financial Supervisory Structure in Lao PDR

Government

- Ministry of Finance
- Bank of the Lao PDR
- Lao Securities Commission
  - Lao Securities Commission Office

- Insurance Co., Auditing Co., and Accounting Co.
  - Law on insurance co., accounting co., and auditing co.
- Commercial Banks & Non-bank Financial Institutions
  - Law on commercial bank and other relevant regulations
- Securities Intermediaries, Securities Business Professionals
  - Law on Securities and other related laws
- Lao Securities Exchange
Established: 10th October 2010
Operated: 11th January 2011
Shareholders: BOL (51%) & KRX (49%)

Products availability (equity):
1. EDL-Generation Public Company
2. Banque pour Commerce Exterieur Lao Public
3. Lao World Public Company
4. Petroleum Trading Lao Public Company
5. Souvanny Home Center Public Company
6. Phousy Construction and Development Public Company
Capital Market Performance

Trading Value and Volume

Trading value (Million USD)
Trading Volume (Million Share)

2011: 37.69
2012: 15.47
2013: 23.03
2014: 26.24
2015: 26.85
2016: 31.26

2011: 40.02
2012: 23.03
2013: 26.24
2014: 26.85
2015: 31.26
2016: 22.49
Bond Market in Lao PDR

- Government Bond
  - Decree on Government Bond (No.101/GOV dated 20 March 2017)

- Corporate Bond
  - Regulation on Issuance of Corporate Bond (No.019/LSC dated 22 December 2014)
  - Decision on Cross Border Bond Issuance (No.0022/LSC dated 26 October 2016)
  - Corporate Bond is supervised by LSC
  - Bond trading platform is developed within Lao Securities Exchange to facilitate secondary trading.
Government Bond can be issued in five types:
1. Treasury Bill
2. Treasury Bond
3. Mobilization Bond
4. Recapitalization Bond
5. Other Bond.

- For domestic issuance, government bond can be offered directly to Investors, or via auction at the BOL, or through LSX to primary dealers.
- For cross border issuance, government bond can be offered to foreign investors through primary dealer.
Corporate Bond Issuance: Public Offering and Private Placement.

Corporate Bond characteristic:
1. Tradable and transferable
2. Having returns
3. Bond maturity: 1, 3, 5, 7, 10 or 15 years
4. Issue in Lao Kip currency or other foreign currency as authorized by the LSCO
5. Having a face value as specified in a Corporate Bond certificate of at least one million Kip.
For the Public Offering, the LSCO shall consider bond filing within forty-five days starting from the date of receiving the complete and accurate application and supporting documents.

For Cross Border Issuance, A company wishing to issue Cross Border Bond shall submitting an application to LSCO and LSCO will consider to issue the certificate of cross border bond issuance within forty-five days starting from the date of receiving the complete and accurate application and support documents.

In 2014 and 2016, EDL-Generation Public Company had issued corporate bond in Thai Baht currency in Thailand and raised at least 540 million US dollar.
Recently, there is no bond listed in the LSX yet. As planned, government bond is expected to be listed in the LSX soon (2018).

Study new supporting policies in order to encourage more companies to issue bond and to list in the securities exchange.
Thank you
DAY 1
(11 October 2017)

SESSION 3
Pan Asian Collateral Hub (PAC-HUB)
Creation of an ASEAN+3 collateral hub to foster a vibrant cross-border repo and collateral financing eco-system

Gary Lew I Eric Chng I Kenneth Cheong
BNY Mellon
11 October 2017

Agenda

1. Overview of PAC-HUB
2. Appendix
   I. PAC-HUB Framework
   II. Market Statistics
### PAC-HUB

**A new way to bring cross-border financing to Asian local currency bonds**

#### Why PAC-HUB?
- The value of Asian local currency bonds reached $10.953T as of June 2017. The rate of growth has been about 14.3% CAGR over the past 10 years.
- Sovereign bonds have fueled much of this growth (totaling $16.5 trillion) and will likely continue to lead the growth story well into the future. However, the lack of a strong on-shore repo market makes financing these assets difficult.
- PAC-HUB was presented to ABMF in January 2017. It offers a simple way to transform sovereign domestic assets into global securities, enabling cross-border financing via a tri-party structure (PAC-HUB) to meet the needs of both asset owners and liquidity providers (see slide 4 for details of the structure).

#### PAC-HUB is operationally ready
- Will initially launch in Singapore and Philippines, subsequently in certain additional ASEAN countries to be determined following market feedback and legal and operational due diligence
- Full set of finalized legal documents i.e. Master Depositary Trust Receipt (DTR) Certificate, Custody Terms, Definitive DTR Certificate and Term Sheet
- End-to-end operating model with finalized Operating and Procedures Memorandum (OPAM)
- DTRs are ICSD eligible with confirmation from Euroclear & Clearstream
- Finalized tax opinion
- Notification of PAC-HUB commencement submitted to Singapore Financial Regulatory Authority
- Pilot Trade plan in place (target Q4 2017)

#### Benefits
**Simplicity, Efficiency, Access**
- A simple and efficient financing connection
- For asset owners, PAC-HUB is a solution to financing local currency assets more efficiently
- For liquidity providers, it can reduce collateral concentration risk and provide higher yields

---

1. Source: asianbondsonline.adb.org

### Appendix I: PAC-HUB Framework
Appendix II: Market Statistics

Size of domestic liquidity pools for domestic sovereign bonds

<table>
<thead>
<tr>
<th>Market</th>
<th>Government Bonds (in US$ Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>5,480</td>
</tr>
<tr>
<td>Indonesia</td>
<td>150</td>
</tr>
<tr>
<td>Japan</td>
<td>9,445</td>
</tr>
<tr>
<td>Korea</td>
<td>780</td>
</tr>
<tr>
<td>Malaysia</td>
<td>156</td>
</tr>
<tr>
<td>Philippines</td>
<td>83</td>
</tr>
<tr>
<td>Singapore</td>
<td>150</td>
</tr>
<tr>
<td>Thailand</td>
<td>235</td>
</tr>
<tr>
<td>Vietnam</td>
<td>43</td>
</tr>
<tr>
<td>Total</td>
<td>16,522</td>
</tr>
</tbody>
</table>

Local currency market (as of June 2017)

- Domestically cleared government debt across ASEAN+3 countries amounted to USD 16.5 trillion with Japan and China contributing approximately 90% of the market.

- Although small in absolute percentage terms, the rest of ASEAN+3 represents USD 1.6 trillion. The domestic bond markets have expanded steadily and the growth trend is expected to continue.

- For example, projecting even a modest 10% liquidity pool for collateral transformation, the value of this pool would equal USD160 billion.

Source: Asia Bonds Online portal

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11. Total revenue for the six months ended June 30, 2015 includes $83 million of income from consolidated investment management funds.
13. At June 30, 2015, the Tier 1 and Total risk-based consolidated regulatory capital ratios determined under the Transitional Basel II Standardized Approach were 12.9% and 13.4%.
14. Represents a non-GAAP measure. The estimated common equity Tier 1 (CET1) ratio, fully phased-in, using the Standardized Approach is 10.3%. Additional disclosure regarding these measures and other non-GAAP measures is available in the Company's reports filed with the SEC, including our earnings release filed with the SEC on the current report on Form 10-Q on August 7, 2015.
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Importance of Asian Bonds Online

- ABO as the key market information source to support bond market development of ASEAN+3 under the ABMI.
- ABO is one of important ABMI outputs widely recognized not only by ASEAN+3 but also by other regions.
- ABO enhancement is a step to consider a regional information platform suggested in the Mid-term ABMI Road Map.
- ASEAN+3 governments will support ABO continuously (through the Investment Climate Facilitation Fund of Japan)
Progress of AsianBondsOnline

- Knowledge dissemination: Quarterly publication of the Asia Bond Monitor (ABM) which discusses the development in bond markets of ASEAN+3.
  - March and September issues are launched online and June and November issues are launched outside ADB Headquarters to boost regional recognition and further disseminate bond market information to potential users.
- Capacity building: three capacity building activities on “Bond Market Development in Emerging East Asia” to-date.
  - We have conducted workshops in partnership with the Ministry of Finance, Viet Nam, the Ministry of Economy and Finance of Cambodia, and the Securities and Exchange Commission of Myanmar.
  - Participants are from public and private sectors
  - Topics relating to bond market development in emerging East Asia including market experiences from other ASEAN+3 markets.

Recent events of ABM since last ABMF

- June Asia Bond Monitor was launched in Tokyo in cooperation of ADBI.
- A theme chapter investigating the benefit of ABMI on financial resilience was conducted.
- The key finding is that local currency bond market play a positive role in enhancing financial resilience and mitigating external shocks.
Recent events of ABM since last ABMF (Cont’d)

• September Issue of ABM was launched on 15th September
• Bond market liquidity survey was just completed and the full report will be published in November issue of ABM
• We are currently working on the November issue of the ABM.

Recent events of ABM since last ABMF (Cont’d)

• A bond market capacity building workshop was conducted in Yangon in August
• Market regulators and participants from Thailand, Malaysia and Indonesia shared bond market development experience to regulators in Myanmar
• There is possible collaborative chance to collect and share bond market data of Myanmar via ABO.
Enhancements for the ABO website

– In May 2017, we conducted an online survey to generate feedback from our website users.

– We have concluded the survey and we will use the results as the basis for website enhancements which is part of the next ABO TA.

Enhancements for the ABO website

• Survey Results:
  – Survey respondents came from both government and private institutions
    • In line with our target audience who includes bond market participants
    • The participants also came from different markets
  – Survey participants were regular users of the AsianBondsOnline website
  – The majority of which are able to obtain the information they needed from the website
  – All participants noted that they will recommend the website
Enhancements for the ABO website

• Survey Results:
  – Survey participants use the AsianBondsOnline website

![Pie chart showing usage frequency]

Daily 9%
Weekly 39%
Monthly 30%
Others 22%
No 4%
Yes 96%

Enhancements for the ABO website

• Survey Results:
  – Most of which were frequent users of the website

![Pie chart showing usage frequency]
Enhancements for the ABO website

• Survey Results:
  – Majority of the survey participants found the information they needed from the website

Enhancements for the ABO website

• Survey Results:
  – Information from the ABO website is used mostly for monitoring of financial markets and research analysis
Enhancements for the ABO website

• Survey Results:
  – Most useful information from the website is the Asia Bond Monitor publication

![Bar chart showing survey results]

Enhancements for the ABO website

• Survey Results
  – Users were also asked to rate other factors such as visual appearance, easy navigation, accessibility, relevance of content, timeliness of data and market coverage

![Bar chart showing survey results]
THANK YOU
Motivation

- Currency and maturity mismatches are widely viewed as a main source of financial vulnerability in developing economies.
  - If a country’s financial liabilities are denominated in a foreign currency such as the US dollars but its financial assets are denominated in domestic currency, then a sudden depreciation of the domestic currency damages its balance sheet, destabilizing the financial system and economy.
  - If the maturity of financial liabilities is shorter than that of assets, the likelihood of a crisis further increases.
  - The double mismatch of currency and maturity mismatch was a contributing factor behind the devastating Asian financial crisis of 1997-1998.
Motivation (cont.)

- In the aftermath of the Asian financial crisis, Asian countries have prioritized the development of local currency bond markets (LCBMs) as a major policy objective.
  - In light of the region’s heavy reliance on bank finance, developing LCBMs can contribute to a larger role for capital markets and a more balanced financial system.
  - The painful experience of the Asian crisis highlighted the need for the region’s bank-centered financial systems to develop LCBMs as a spare tire which would enhance resilience in the event of shocks.

Objective of the Paper

- The central objective of our paper is to empirically investigate the role of LCBMs in enhancing financial stability in developing economies by mitigating currency and maturity mismatches.
  - We analyze and compare the financial vulnerability of developing countries during two episodes of financial stress – global financial crisis and taper tantrum.
  - We examine if countries which experienced greater expansion of their LCBMs between the two episodes experienced a greater reduction of financial vulnerability.
Findings

- We find that countries which experienced greater expansion of their LCBMs experienced a greater reduction of exchange rate depreciation, indicating a stabilizing role of LCBMs.
- Our evidence indicates that a gradual expansion of bank loans may also contribute to financial stability.
- On the other hand, we do not find any evidence of a stabilizing effect of stock market development.

Literature

- The literature points to other benefits of LCBM development in developing economies.
  - Caballero et al. (2008) argued that the chronic excess demand for U.S. assets which contributed to global imbalances is due to financial underdevelopment in emerging markets.
  - Prasad (2011) argues that a more developed financial system which effectively channels funds into productive uses and enables better risk-sharing would promote growth in Asia by encouraging more entrepreneurial activity.
  - IMF (2016) emphasizes the increasingly important role of LCBMs as a source of long-term funding for long-term investments such as infrastructure and housing.
Data for LCBMs

- Data on the amount outstanding of LCBMs are not widely available.
- While Asian Bonds Online reports time series data for the size of LCBMs, it covers only 10 Asian countries.
- We use the BIS (Bank for International Settlements) debt securities statistics in our main empirical analysis.

Data for LCBMs

- The BIS debt securities statistics reports total debt securities (TDS) issued by residents.
  - TDS are divided into domestic debt securities (DDS) and international debt securities (IDS).
  - Since DDS are not separately reported for different currency denominations, we assume that all DDS issued by residents are denominated in local currencies.
- We calculate the size of local currency bond markets by adding the amount outstanding of DDS and IDS that are denominated in local currency.
  - If the amount outstanding of IDS denominated in local currency is missing, we use the amount outstanding of DDS only.
  - If the amount of DDS is missing, we use the amount of TDS by residential issuers after subtracting IDS that are not denominated in local currency.
Figure 1

- The size of LCBMs calculated from the two sources, the Asian Bond Market and the BIS, is quite similar.
- Since the Asian financial crisis of 1997-1998, the size of LCBMs increased substantially in Korea, Thailand and China.
- The growth of LCBMs in other Asian countries is not as dramatic.
Figure 2

- Relative size of bank loans in percentage of GDP in Asian countries has not increased much since 1998.
- Korea and China are two exceptions, but even in those countries bank loans grew more slowly than LCBMs.
Figure 3

- The size of stock market capitalization, as percentage of GDP has been increasing in most Asian countries.
- However, the region’s stock markets grew more slowly than the region’s LCBMs.
Figure 4. Growth of Local Currency Bond Markets in Various Regions

- Figure 4 shows the size of LCBMs, as percent of GDP in 2005 and 2015, for countries in various regions.
- While the relative size of LCBMS is larger in Asian countries, growth is comparable across regions.
- Hence we can conclude that the development of LCBMs is not an Asia-specific trend.
Empirical Framework

- LCBM development reduces the vulnerability of financial markets in developing countries to external shocks.
- We can test this hypothesis following the empirical approach used by Eichengreen and Gupta (EG, 2013) and Park, Ramayandi and Shin et al. (PRS, 2016).
  - Both studies used exchange rate depreciation as the measure of financial vulnerability, and empirically analyzed which factors influence the effect of QE tapering on exchange rate depreciation.

Empirical Framework

- The basic regression equation estimated by EG and PRS takes the following linear form:
  \[ ERD_i = X_i \beta + \epsilon_i \]
- \( ERD_i \) is the nominal exchange rate depreciation against the U.S. dollars experienced by an emerging country \( i \)
- \( X_i \) is a vector of country-specific factors for country \( i \) that are associated with exchange rate depreciation.
Empirical Framework

• Since the estimation in EG and PRS is a cross-section regression, unobservable country fixed effects, $f_i$ may not have been completely eliminated, generating biased estimates

$$ERD_{ip} = X_{ip}\beta + f_i + \epsilon_{ip}, \quad p=1 \text{ or } 2$$

where $p=1$ (period 1) is for the global financial crisis and $p=2$ (period 2), for the taper tantrum.

Empirical Framework

• If country fixed effects, $f_i$, are not time varying, we can eliminate country fixed effects by taking the difference of equation across periods and estimating the following equation:

$$\Delta ERD_i = \Delta X_i \beta + \delta_i$$

where $\Delta ERD_i = ERD_{i2} - ERD_{i1}$, $\Delta X_i = X_{i2} - X_{i1}$ and $\delta_i = \epsilon_{i2} - \epsilon_{i1}$. 
Data Sources

• The current-account deficit as percentage of GDP, the foreign reserves-M2 ratio, real GDP growth rate, and inflation are collected from WDI.

• The real exchange rate is calculated by using the nominal exchange rate against the U.S. dollars and both domestic and the U.S. Consumer Price Indices (CPI), collected from IFS.

• Private capital flows data are measured by net incurrence of liabilities of equity, debt securities, and other debt instruments in financial account reported in IMF’s Balance of Payments Statistics (BOPS).

• Exchange rate regime classification follows the categorizations of annual fine classification in Ilzetzki et al. (2017).

• The stock of portfolio liabilities is obtained from the Lane and Milesi-Ferretti dataset that extends Lane and Milesi-Ferretti (2007).

Table 1. Summary Statistics

The Global Financial Crisis

<table>
<thead>
<tr>
<th></th>
<th>Observations</th>
<th>Mean</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent Change in Nominal Exchange Rate</td>
<td>59</td>
<td>0.259</td>
<td>0.000</td>
<td>0.960</td>
</tr>
<tr>
<td>Increase in Current Account Deficit (% of GDP), 2010-2012</td>
<td>59</td>
<td>1.959</td>
<td>-19.056</td>
<td>15.936</td>
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<tr>
<td>Average Annual Percent Change in Real Exchange Rate, 2009-2012</td>
<td>59</td>
<td>-5.400</td>
<td>-14.295</td>
<td>10.598</td>
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<tr>
<td>Increase in Credit to GDP Ratio, 2009-2012</td>
<td>59</td>
<td>9.398</td>
<td>-12.903</td>
<td>33.922</td>
</tr>
<tr>
<td>Log of Portfolio Liability 2011</td>
<td>59</td>
<td>5.093</td>
<td>5.903</td>
<td>13.456</td>
</tr>
<tr>
<td>Reserves/M2, 2012</td>
<td>59</td>
<td>0.431</td>
<td>0.059</td>
<td>1.731</td>
</tr>
<tr>
<td>Inflation(CPI), 2012</td>
<td>59</td>
<td>6.673</td>
<td>0.510</td>
<td>15.842</td>
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<td>Exchange Rate Regime (Annual fine classification of Reinhart and Rogoff), 2010</td>
<td>57</td>
<td>7.860</td>
<td>2.000</td>
<td>13.000</td>
</tr>
<tr>
<td>Total Capital Inflows during QE</td>
<td>59</td>
<td>4.863</td>
<td>-0.093</td>
<td>65.581</td>
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<td>Size of local currency,2012</td>
<td>22</td>
<td>0.361</td>
<td>0.000</td>
<td>0.939</td>
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<tr>
<td>Asia</td>
<td>59</td>
<td>0.119</td>
<td>0.000</td>
<td>1.000</td>
</tr>
</tbody>
</table>
Table 1. Summary Statistics

The Taper Tantrum

<table>
<thead>
<tr>
<th></th>
<th>Observations</th>
<th>Mean</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent Change in Nominal Exchange Rate</td>
<td>59</td>
<td>0.047</td>
<td>0.000</td>
<td>0.205</td>
</tr>
<tr>
<td>Average Annual Percent Change in Real Exchange Rate, 2004-2007</td>
<td>59</td>
<td>-4.046</td>
<td>-11.481</td>
<td>4.779</td>
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<tr>
<td>Increase in Credit to GDP Ratio, 2004-2007</td>
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<td>2.339</td>
<td>-26.503</td>
<td>27.266</td>
</tr>
<tr>
<td>Reserves/M2, 2007</td>
<td>59</td>
<td>0.000</td>
<td>0.000</td>
<td>1.000</td>
</tr>
<tr>
<td>Inflation (CPI), 2007</td>
<td>59</td>
<td>5.540</td>
<td>-0.944</td>
<td>21.069</td>
</tr>
<tr>
<td>Exchange Rate Regime (Annual fine classification of Reinhart and Rogoff), 2007</td>
<td>57</td>
<td>7.947</td>
<td>2.000</td>
<td>13.000</td>
</tr>
<tr>
<td>Total Capital Inflows before global crisis</td>
<td>59</td>
<td>7.082</td>
<td>-1.057</td>
<td>129.918</td>
</tr>
<tr>
<td>Size of local currency, 2007</td>
<td>21</td>
<td>0.000</td>
<td>0.111</td>
<td>1.065</td>
</tr>
<tr>
<td>Asia</td>
<td>59</td>
<td>0.119</td>
<td>0.000</td>
<td>1.000</td>
</tr>
</tbody>
</table>

• On average, the nominal exchange rate depreciation, the dependent variable, is much lower in period 2 than in period 1.
• Deterioration of the current-account deficit and capital inflows were larger during period 2 than during period 1.
• There is not much difference in other explanatory variables.
Table 2. Local Currency Bond Markets and Exchange Rate Depreciation in Emerging Economies During the Taper Tantrum

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
<th>(8)</th>
<th>(9)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in Current Account Deficit (% of GDP, 2010-2012)</td>
<td>0.001</td>
<td>0.005</td>
<td>0.009***</td>
<td>0.001</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
</tr>
<tr>
<td>Average Annual Percent Change in Real Exchange Rate, 2009-2012</td>
<td>-0.002***</td>
<td>-0.002***</td>
<td>-0.002**</td>
<td>-0.002</td>
<td>-0.002</td>
<td>-0.002</td>
<td>-0.002</td>
<td>-0.002</td>
<td>-0.002</td>
</tr>
<tr>
<td>Increase in Credit to GDP Ratio, 2009-2012</td>
<td>0.002***</td>
<td>0.002*</td>
<td>0.002**</td>
<td>0.002**</td>
<td>0.002**</td>
<td>0.002**</td>
<td>0.002**</td>
<td>0.002**</td>
<td>0.002**</td>
</tr>
<tr>
<td>Log of Portfolio Liability 2011</td>
<td>0.001</td>
<td>0.002</td>
<td>-0.009</td>
<td>0.006</td>
<td>0.006</td>
<td>0.006</td>
<td>0.006</td>
<td>0.006</td>
<td>0.006</td>
</tr>
<tr>
<td>Reserves/MD, 2012</td>
<td>0.000</td>
<td>0.000</td>
<td>-0.009</td>
<td>0.006</td>
<td>0.006</td>
<td>0.006</td>
<td>0.006</td>
<td>0.006</td>
<td>0.006</td>
</tr>
<tr>
<td>Inflation(CPI), 2012</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Exchange Rate Regime (Annual fine classification of Reinhart and Rogoff), 2010</td>
<td>0.001</td>
<td>0.002</td>
<td>0.002</td>
<td>0.002</td>
<td>0.002</td>
<td>0.002</td>
<td>0.002</td>
<td>0.002</td>
<td>0.002</td>
</tr>
<tr>
<td>Total Capital Inflows during QE</td>
<td>0.003**</td>
<td>0.004**</td>
<td>0.005**</td>
<td>0.005**</td>
<td>0.005**</td>
<td>0.005**</td>
<td>0.005**</td>
<td>0.005**</td>
<td>0.005**</td>
</tr>
<tr>
<td>Size of local currency, 2012</td>
<td>-0.004</td>
<td>-0.004</td>
<td>-0.014</td>
<td>-0.034</td>
<td>0.026</td>
<td>-0.040</td>
<td>0.03</td>
<td>-0.002</td>
<td>-0.002</td>
</tr>
<tr>
<td>Asia</td>
<td>-0.000</td>
<td>-0.005</td>
<td>-0.017</td>
<td>0.014</td>
<td>0.026</td>
<td>0.009</td>
<td>0.026</td>
<td>-0.000</td>
<td>-0.000</td>
</tr>
</tbody>
</table>

Observations: 57 25 25 24 23 22 24 21 20
R-squared: 0.598 0.001 0.001 0.266 0.235 0.316 0.502 0.651 0.821

Table 2

- Table 2 reports the regression results in period 2 (Taper Tantrum).
- The main results in PRS are preserved.
  - The appreciation of real exchange rates and increase in credit to GDP ratio are highly significant at the 1% level.
  - The increase in current account deficit is highly significant at the 1% level in the last column.
- Irrespective of whether the Asia dummy is included or not, the size of LCBMs is not statistically significant.
Table 3

• In Table 3, we report the same cross-section regression results for period 1 (GFC).

• The increase in current account deficit and the average annual percentage change in real exchange rate are not statistically significant.

• Instead, the increase in credit to GDP ratio, the log of portfolio liability, the exchange rate regime and total capital inflows are statistically significant.

• Like the results in Table 2, however, the size of LCBMs is not statistically significant.
In Table 4.1, we report the regression results by differencing all the variables from period 2 to period 1.

The increase in credit to GDP ratio, the reserves-M2 ratio, and inflation are all statistically significant with the right sign.

The coefficient of the size of LCBMs is mostly negative but not statistically significant except for columns 8-9.

- Countries with larger LCBMs in period 2 than in period 1 experienced less exchange rate depreciation, indicating more resilience to external shocks.
Figure 5. The Relation between Increase in the Size of LCBMs and Increase in Nominal Exchange Rate Depreciation

- The figure presents the relation between the increase in the size of LCBMs on the horizontal axis and the increase in nominal exchange rate depreciation on the vertical axis.
- There is a clear negative relationship between the two if we exclude one outlier country, India.
- Figure 6 illustrates that there must be some problems with India.
  - There is a jump around 2011.
Figure 6. The Size of Local Currency Bond Markets as Percentage of GDP Collected from the BIS Debt Securities Statistics

Table 4.1 Growth of Local Currency Bond Markets and Exchange Rate Depreciation During Crisis Periods: India Excluded

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
<th>(8)</th>
<th>(9)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difference of Increase in Current Account Deficit(%) of GDP</td>
<td>0.005**</td>
<td>0.025***</td>
<td>0.035**</td>
<td>0.042**</td>
<td>[0.002]</td>
<td>[0.005]</td>
<td>[0.013]</td>
<td>[0.013]</td>
<td></td>
</tr>
<tr>
<td>Difference of Average Annual Percent Change in Real Exchange Rate</td>
<td>0.007</td>
<td>0.009**</td>
<td>0.007</td>
<td>0.007</td>
<td>[0.005]</td>
<td>[0.003]</td>
<td>[0.007]</td>
<td>[0.008]</td>
<td></td>
</tr>
<tr>
<td>Difference of Increase in Credit to GDP Ratio</td>
<td>0.001</td>
<td>0.007***</td>
<td>-0.002</td>
<td>-0.005</td>
<td>[0.002]</td>
<td>[0.002]</td>
<td>[0.004]</td>
<td>[0.004]</td>
<td></td>
</tr>
<tr>
<td>Difference of Log of Portfolio Liability</td>
<td>-0.011</td>
<td>0.005 -0.075</td>
<td></td>
<td></td>
<td>[0.030]</td>
<td>[0.141]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Difference of Reserves/M2</td>
<td>-0.221</td>
<td>-0.218**</td>
<td>-0.682**</td>
<td>-0.347</td>
<td>[0.147]</td>
<td>[0.094]</td>
<td>[0.163]</td>
<td>[0.163]</td>
<td></td>
</tr>
<tr>
<td>Difference of Inflation(CPI)</td>
<td>-0.000</td>
<td>0.034***</td>
<td>0.033**</td>
<td>0.053**</td>
<td>[0.005]</td>
<td>[0.010]</td>
<td>[0.012]</td>
<td>[0.017]</td>
<td></td>
</tr>
<tr>
<td>Difference of Exchange Rate Regime (Annual fine classification of Reinhart and Rogoff)</td>
<td>-0.011</td>
<td>-0.001</td>
<td>0.030**</td>
<td></td>
<td></td>
<td>[0.013]</td>
<td>[0.009]</td>
<td>[0.009]</td>
<td></td>
</tr>
<tr>
<td>Difference of Total Capital Inflows</td>
<td>0.002</td>
<td>0.003</td>
<td>0.001</td>
<td>0.001</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Difference of Size of local currency</td>
<td>-0.680*</td>
<td>-0.728*</td>
<td>-0.728*</td>
<td>-0.728*</td>
<td>-0.728*</td>
<td>-0.728*</td>
<td>-0.728*</td>
<td>-0.728*</td>
<td>-0.728*</td>
</tr>
<tr>
<td>Asia</td>
<td>0.104</td>
<td>-0.061</td>
<td>0.086</td>
<td>0.155**</td>
<td>[0.086]</td>
<td>[0.070]</td>
<td>[0.106]</td>
<td>[0.120]</td>
<td>[0.140]</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
<td>[0.070]</td>
<td>[0.050]</td>
<td>[0.070]</td>
<td>[0.070]</td>
<td>[0.090]</td>
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</tbody>
</table>

Observations: 54 23 23 21 21 20 22 19 18
R-squared: 0.260 0.133 0.242 0.625 0.621 0.412 0.251 0.832 0.890
Table 4.2

- Table 4.2 reports the ex-India regression results.

- If the outlier of India is excluded, we obtain more compelling evidence that development of LCBMs enhances financial stability
  - The coefficient of the size of LCBMs becomes much more statistically significant.

- However, if we look only at Asian countries, in red circles, the expansion of LCBMs did not visibly reduce exchange rate depreciation during the taper tantrum.
  - The only exception is Korea

---

Table 5. Growth of Bank Loans and Exchange Rate Depreciation During Crisis Periods

| Unit of Analysis | Difference of Percent Change in Nominal Exchange Rate
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
</tr>
<tr>
<td></td>
<td>Difference of Increase in Current Account Deficit (% of GDP)</td>
</tr>
<tr>
<td></td>
<td>(0.002)</td>
</tr>
<tr>
<td></td>
<td>Difference of Average Annual Percent Change in Real Exchange Rate</td>
</tr>
<tr>
<td></td>
<td>(0.001)</td>
</tr>
<tr>
<td></td>
<td>Difference of Increase in Credit to GDP Ratio</td>
</tr>
<tr>
<td></td>
<td>(0.001)</td>
</tr>
<tr>
<td></td>
<td>Difference of Log of portfolio liability</td>
</tr>
<tr>
<td></td>
<td>(0.034)</td>
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<td></td>
<td>Difference of Reserves/M2</td>
</tr>
<tr>
<td></td>
<td>(0.126)</td>
</tr>
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<td></td>
<td>Difference of Inflation(CPI)</td>
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<td></td>
<td>(0.004)</td>
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<td></td>
<td>Difference of Exchange Rate Regime (Annual fine classification of Reinhart and Rogoff)</td>
</tr>
<tr>
<td></td>
<td>(0.004)</td>
</tr>
<tr>
<td></td>
<td>Difference of Total Capital Inflows</td>
</tr>
<tr>
<td></td>
<td>(0.004)</td>
</tr>
<tr>
<td></td>
<td>Difference of Bank Loans (% of GDP)</td>
</tr>
<tr>
<td></td>
<td>(0.004)</td>
</tr>
</tbody>
</table>

Asia

|                  | 0.002 | 0.002 | 0.000 | 0.002 | 0.000 | 0.002 |
|                  | (0.002) | (0.002) | (0.002) | (0.002) | (0.002) |

<table>
<thead>
<tr>
<th>Observations</th>
<th>64</th>
<th>63</th>
<th>63</th>
<th>60</th>
<th>61</th>
<th>61</th>
<th>61</th>
<th>64</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted R²</td>
<td>0.120</td>
<td>0.138</td>
<td>0.146</td>
<td>0.183</td>
<td>0.180</td>
<td>0.205</td>
<td>0.265</td>
<td>0.274</td>
</tr>
</tbody>
</table>
Table 5

• In Table 5, we report regression results when we replace the difference in the size of LCBMs with the difference in the size of bank loans.

• While the coefficient of it is always negative, it is statistically significant only in columns (5), (8) and (9).
  – One common element of these columns is that the difference in increase in credit to GDP ratio is included.
  – If the increase in the credit-to-GDP ratio before the stress period is appropriately managed, the increase in the size of bank loans itself can be stabilizing.

Figure 7. The Relation between Increase in Bank Loans and Increase in Nominal Exchange Rate Depreciation
Table 6. Growth of Stock Market Capitalization and Exchange Rate Depreciation During Crisis Periods

<table>
<thead>
<tr>
<th>Variables</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
<th>(8)</th>
<th>(9)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difference of Increase in Current Account Deficit (% of GDP)</td>
<td>0.005*</td>
<td>0.006*</td>
<td>0.005*</td>
<td>0.0114**</td>
<td>0.002</td>
<td>0.003</td>
<td>0.002</td>
<td>0.00421</td>
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<tr>
<td>Difference of Average Annual Percent Change in Real Exchange Rate</td>
<td>0.007</td>
<td>0.008**</td>
<td>0.004</td>
<td>0.00200</td>
<td>0.005</td>
<td>0.004</td>
<td>0.005</td>
<td>0.00555</td>
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</tr>
<tr>
<td>Difference of Increase in Credit to GDP Ratio</td>
<td>0.002</td>
<td>0.004**</td>
<td>0.003</td>
<td>0.00340</td>
<td>0.002</td>
<td>0.002</td>
<td>0.002</td>
<td>0.00257</td>
<td></td>
</tr>
<tr>
<td>Difference of Log of portfolio liability</td>
<td>0.011</td>
<td>0.016</td>
<td>0.020</td>
<td>0.017*</td>
<td>0.016</td>
<td>0.017</td>
<td>0.017</td>
<td>0.017</td>
<td></td>
</tr>
<tr>
<td>Difference of Reserves/M2</td>
<td>0.070</td>
<td>0.069</td>
<td>0.070</td>
<td>0.069</td>
<td>0.070</td>
<td>0.069</td>
<td>0.070</td>
<td>0.069</td>
<td></td>
</tr>
<tr>
<td>Difference of Inflation(CPI)</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Difference of Exchange Rate Regime (Annual fine classification of Reinhart and Rogoff)</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td></td>
</tr>
<tr>
<td>Difference of Total Capital Inflows</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td></td>
</tr>
<tr>
<td>Difference of Market Capitalization of Domestic Companies (% of GDP)</td>
<td>0.004</td>
<td>0.004</td>
<td>0.004</td>
<td>0.004</td>
<td>0.004</td>
<td>0.004</td>
<td>0.004</td>
<td>0.004</td>
<td></td>
</tr>
<tr>
<td>Difference of Reserves/M2</td>
<td>0.070</td>
<td>0.069</td>
<td>0.070</td>
<td>0.069</td>
<td>0.070</td>
<td>0.069</td>
<td>0.070</td>
<td>0.069</td>
<td></td>
</tr>
<tr>
<td>Difference of Inflation(CPI)</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Difference of Exchange Rate Regime (Annual fine classification of Reinhart and Rogoff)</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td></td>
</tr>
<tr>
<td>Difference of Total Capital Inflows</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td></td>
</tr>
<tr>
<td>Difference of Market Capitalization of Domestic Companies (% of GDP)</td>
<td>0.004</td>
<td>0.004</td>
<td>0.004</td>
<td>0.004</td>
<td>0.004</td>
<td>0.004</td>
<td>0.004</td>
<td>0.004</td>
<td></td>
</tr>
<tr>
<td>Difference of Reserves/M2</td>
<td>0.070</td>
<td>0.069</td>
<td>0.070</td>
<td>0.069</td>
<td>0.070</td>
<td>0.069</td>
<td>0.070</td>
<td>0.069</td>
<td></td>
</tr>
<tr>
<td>Difference of Inflation(CPI)</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Difference of Exchange Rate Regime (Annual fine classification of Reinhart and Rogoff)</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td>0.011</td>
<td></td>
</tr>
<tr>
<td>Difference of Total Capital Inflows</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td></td>
</tr>
</tbody>
</table>

Observations | 54 | 27 | 27 | 27 | 25 | 27 | 27 | 23 | 23 |
R-squared | 0.262 | 0.027 | 0.085 | 0.295 | 0.303 | 0.155 | 0.127 | 0.362 | 0.601 |

Table 6 reports regression results when we replace the difference in the size of LCBMs with the difference of stock market capitalization.

While the coefficient of the difference of stock market capitalization in percentage of GDP is always negative, it is statistically significant only in column (4).

- The evidence of a contribution to financial stability is much weaker for stock markets than for LCBMs or bank loans.
Conclusion

- Developing LCBMs of varying maturities can mitigate the double mismatch of currency mismatch and maturity mismatch.
- In this paper, we empirically test this conventional wisdom by analyzing and comparing financial vulnerability during two episodes of financial stress.
- We find that developing economies which experienced greater expansion of their LCBMs between the two episodes experienced a greater reduction of exchange rate depreciation, a measure of financial vulnerability.
- This provides some empirical support for the notion that LCBMs protect the financial systems of developing countries from destabilizing external shocks.
DAY 1
(11 October 2017)

SESSION 6
Japan: Results of Account Structure Survey

11 October 2017
Masao Oumi, NTT DATA Corporation (ABMF International Expert)

Agenda

1. Account Structure
2. Business Flow of Interest/Redemption Payment
3. Collection of Withholding Tax
4. Tax Exemption Scheme for Nonresidents
5. KYC / Anti Money Laundering
Agenda

1. Account Structure
2. Business Flow of Interest/Redemption Payment
3. Collection of Withholding Tax
4. Tax Exemption Scheme for Nonresidents
5. KYC / Anti Money Laundering

Account Structure: Legal Grounds

Table 1: Legal Grounds -- Summary

- Multi-layer holding structure and omnibus account system.
- Solid legal grounds: Based on a single law ("Act on Book Entry of Corporate Bonds and Shares" [the Act])
- Account structure: Prescribed in the Act and CSDs' operational rules.

Government Bonds (BOJ):
Bank of Japan Regulations Concerning the JGB Book-Entry System*

Corporate Bonds (JASDEC):
Operational Rules regarding Corporate Bonds, etc.**

* English translation is available at https://www.boj.or.jp/en/paym/jgb_bes/fyoryo01.htm/2.
Account Structure: Legal Grounds

Figure 1: Legal Grounds for Book-Entry Transfer

Act on Book Entry of Corporate Bonds and Shares
(ACT No. 75 of June 27, 2001)

Ch. I: General Provisions
Ch. II: Book-Entry Transfer Institution
Ch. III: Participant Protection Trusts

Ch. IV: Corporate Bonds
Ch. V: Japanese Government Bonds
Ch. VI: Local Government Bonds
Ch. VI-2: Beneficial Interest in Trusts
Issuing Beneficiary Certificates
Ch. VII: Shares
Ch. VIII: Share Options
Ch. IX: Corporate Bonds with Share Options
Ch. X: Investment Equity
Ch. XI-XIV: (Supplementary Provisions)

* English translation is available at http://www.japaneselawtranslation.go.jp/law/detail/?id=2692&vm=04&re=02.
** Chapter VI deals with (1) local government bonds, (2) investment corporation bonds, (3) bonds issued by mutual companies, (4) specified corporate bonds, (5) special corporation bonds, (6) beneficial interest in domestic and foreign investment trusts, (7) beneficial interest of loan trusts, (8) beneficial interest in specific purpose trusts, (9) foreign bonds.

Article 8
A Book-Entry Transfer Institution is to conduct operations connected with the book-entry transfer of Bonds and other Securities in accordance with this Act and its operational rules.

Article 12
A Book-Entry Transfer Institution must open an account for another person in which book entries can be made for Bonds and Other Interests at the request of that person, pursuant to the provisions of its operational rules.

Book-Entry Transfer Institution (= CSD)

Participan/AMI

(Investor)

AMI

AMI

AMI

(Note) AMI stands for Account Management Institution.
**Account Structure: Legal Grounds**

**Figure 3: Multi-Layer Holding Structure (Account Management Institution)**

- **Book-Entry Transfer Institution (CSD)**
- **Participant/AMI**
- **AMI** (Investor)

(AMI stands for Account Management Institution.)

**Article 44 (1)**
A person as set forth below may open an account for another person in which book entries can be made for Bonds and Other Securities at the request of that person, in accordance with the Provisions of this Act and the operational rules of the Book-Entry Transfer Institution. (…)

**Article 45 (1)**
An Account Management Institution is to engage in Book-Entry Transfer Services as an Account Management Institution pursuant to the provisions of this Act and the operational rules of the Book-Entry Transfer Institutions that constitute its Superior Institutions. (…)

(Note) AMI stands for Account Management Institution.

**Account Structure: Legal Grounds**

**Table 2: Ownership of Rights**

(Government Bonds)

**Article 88**
The ownership of rights (…) under a Japanese Government Bond which is designated by the Minister of Finance as being subject to the provisions of this Act and which is handled by a Book-Entry Transfer Institution (…) is established by the entries or records in a book-entry transfer account register as under the provisions of this Chapter.

**Article 89 (1)**
Japanese government bond certificates may not be issued for Book-Entry Transfer JGBs.

(Corporate Bonds)

**Article 66**
The ownership of rights (…) under a corporate bond as set forth below which is handled by a Book-Entry Transfer Institution (…) is established by the entries or records in a book-entry transfer account register as under the provisions of this Chapter: (…).

**Article 67 (1)**
Corporate bond certificates may not be issued for book-entry transfer corporate bonds.
## Account Structure: Government Bonds

### Table 3: Classifications and Subdivisions of Government Bond Accounts

#### (A) Classifications

<table>
<thead>
<tr>
<th>Classification</th>
<th>Code</th>
<th>Applicable Subdivision</th>
<th>Participant Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>General (No Classification Name)</td>
<td>00</td>
<td>Proprietary I</td>
<td>Customer</td>
</tr>
<tr>
<td>Trust I-IV</td>
<td>01-04</td>
<td>Proprietary II</td>
<td>Direct Participant</td>
</tr>
<tr>
<td>Trust V, Special Taxable JGB (Trust)</td>
<td>05-08</td>
<td>Proprietary III</td>
<td>Indirect Participant</td>
</tr>
<tr>
<td>Internal transfer JGB</td>
<td>09</td>
<td>Proprietary IV</td>
<td>Investor</td>
</tr>
<tr>
<td>Segregated JGB</td>
<td>10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Segregated Special Taxable JGB</td>
<td>11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>JGB Deposited in Legal Affairs Bureau</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special Reinvestment Account</td>
<td>21</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trust V</td>
<td>22-25</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special Accounts</td>
<td>24-29, 50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>JGB Segregated by Participants</td>
<td>71-79</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax to Be Withheld by BOJ</td>
<td>90</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax to Be Withheld by BOJ (Segregated)</td>
<td>91</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### (B) Subdivisions

<table>
<thead>
<tr>
<th>Subdivision</th>
<th>Code</th>
<th>Note</th>
<th>Withholding Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proprietary I</td>
<td>01</td>
<td>JGBs owned by Participant concerned.</td>
<td>Non-taxable</td>
</tr>
<tr>
<td>Proprietary II</td>
<td>02</td>
<td>JGBs pledged to Participant concerned.</td>
<td>Non-taxable</td>
</tr>
<tr>
<td>Proprietary III</td>
<td>03</td>
<td>JGBs tax on which Participant withholds (excluding those pledged to Participant concerned).</td>
<td>Taxable</td>
</tr>
<tr>
<td>Proprietary IV</td>
<td>04</td>
<td>JGBs tax on which BOJ/Participant withholds and that are pledged to BOJ/Participant concerned.</td>
<td>Taxable</td>
</tr>
<tr>
<td>Customer</td>
<td>11</td>
<td>JGBs owned by Participant concerned and customers in lower layers.</td>
<td>Non-taxable</td>
</tr>
</tbody>
</table>

* Not held by BOJ.

### Figure 4: Account Structure of Government Bonds

- (A) Classification
- (B) Subdivision

(Note) The accounts in red (i.e., Proprietary III and Proprietary IV) are taxable ones.
Account Structure: Government Bonds

Figure 5: Code Structure of Government Bonds

```
1234 + 00 + 11
(4-digit numeric) (2-digit numeric) (2-digit numeric)

+ JGB issue code (ISIN)
```

Table 4: Classifications of Corporate Bond Accounts

<table>
<thead>
<tr>
<th>Holder</th>
<th>Type</th>
<th>Withholding Tax</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self</td>
<td>Holding</td>
<td>Non-taxable</td>
<td>00-04</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Taxable</td>
<td>05-09</td>
</tr>
<tr>
<td>Pledge</td>
<td>Non-taxable</td>
<td></td>
<td>98</td>
</tr>
<tr>
<td></td>
<td>Taxable</td>
<td></td>
<td>96</td>
</tr>
<tr>
<td>Customer</td>
<td>Customer</td>
<td>Taxable/Non-taxable</td>
<td>60-91</td>
</tr>
</tbody>
</table>

(Notes) Code allocation is flexible. AMIs choose codes to be allocated to the accounts they provide as long as the basic rule in this table is observed (codes 60-91 can be allocated either to taxable accounts or non-taxable ones). Trust accounts are not shown here.
Account Structure: Corporate Bonds

Figure 6: Account Structure of Corporate Bonds

<table>
<thead>
<tr>
<th>Participant</th>
<th>JASDEC</th>
<th>Direct AMI X</th>
<th>Direct AMI Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
<td>Holding</td>
<td>Pledge</td>
<td>Self Account</td>
</tr>
<tr>
<td>Account Code</td>
<td>XX - XX</td>
<td>XX - XX</td>
<td>XX - XX</td>
</tr>
</tbody>
</table>

(Notes) AMI stands for Account Management Institution. The account composition differs AMI by AMI.

Account Structure: Corporate Bonds

Figure 7: Code Structure of Corporate Bonds

Participant code + Account code
12345 + 00
(5-digit numeric) (2-digit numeric) + Issue code (ISIN)

(Notes) AMI stands for Account Management Institution. The account composition differs AMI by AMI.
Agenda

1. Account Structure
2. Business Flow of Interest/Redemption Payment
3. Collection of Withholding Tax
4. Tax Exemption Scheme for Nonresidents
5. KYC / Anti Money Laundering

Business Flow of Interest/Redemption Payment

Figure 8: Overview of Interest/Redemption Payment (Government Bonds)

- **Bond Issuer Side**
  - MOF
  - BOJ as Paying Agent
  - Same Entity (No Confirmation Necessary)

- **CSD**
  - BOJ as CSD
  - (4-2. Redemption) (DVP)
  - Same Entity

- **Bond Holder Side**
  - Bond Holder
  - AMI
  - Same Entity

1. Notice of Payment Details (Estimated)
2. Notice of Payment Details (Final)
5. Credit Advice
6. Payment
8. Tax Payment (by 10th of following month)

**Information Flow**
- Cash Flow
- Information Flow

**Cash Flow**
- Payment Request
- Approval
- Transfer Cash
- Payment
- Tax Payment

**BOJ as CSD**
- BOJ (BOJ-NET)
- AMI (Account Management Institution)

**Tax Office**
- Tax Payment (by 10th of following month)
Business Flow of Interest/Redemption Payment

Figure 9: Overview of Interest/Redemption Payment (Corporate Bonds)

Agenda

1. Account Structure
2. Business Flow of Interest/Redemption Payment
3. Collection of Withholding Tax
4. Tax Exemption Scheme for Nonresidents
5. KYC / Anti Money Laundering
Collection of Withholding Tax

Figure 10: Withholding Agents (Government Bonds)

BOJ
(CSD/Paying Agent)

Direct Participant A

Direct Participant B

Customer C

Customer D

Customer E

Customer F

Indirect Participant G

Customer H

Tax Withheld by:
- Direct Participant A
- Direct Participant B
- Indirect Participant G

(Note) Direct/Indirect Participants are generally financial institutions that have a special status and are withholding-tax-exempt.

Collection of Withholding Tax

Figure 11: Withholding Agents (Corporate Bonds)

Paying Agent

JASDEC

Direct AMI A

Direct AMI B

Customer C

Customer D

Customer E

Customer F

Indirect AMI G

Customer H

Tax Withheld by:
- Direct AMI A
- Direct AMI B
- Indirect AMI G

(Note) Direct/Indirect Account Management Institutions (AMIs) are generally financial institutions that have a special status and are withholding-tax-exempt.
Collection of Withholding Tax

Figure 12: Tax Information That JASDEC Collects (Corporate Bonds)

Direct AMIs are required to notify JASDEC of the following types of information regarding taxable accounts by 11:00 on P-1:

- AMIs need to know the tax status of their immediate subordinate clients well before the payment date.

* See the table on the next slide.

** Table 5: Tax Classification (Corporate Bonds) **

<table>
<thead>
<tr>
<th>Code</th>
<th>Tax Classification</th>
<th>Tax Rate</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>00</td>
<td>Principal Only</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10</td>
<td>Separate Taxation</td>
<td>15.315%</td>
<td>Bonds recorded in taxable accounts or customer accounts.</td>
</tr>
<tr>
<td>20</td>
<td>Consolidated Taxation</td>
<td>15.315%</td>
<td>Bonds recorded in accounts exempt from withholding tax or customer accounts (Trust III and IV).</td>
</tr>
<tr>
<td>30</td>
<td>Tax-Exempt Corporations/Withholding Tax-Exempt</td>
<td>0%</td>
<td>Bonds recorded in taxable accounts or customer accounts. (Trust I).</td>
</tr>
<tr>
<td>40</td>
<td>Tax-Exempt Trust (Investment Trust)</td>
<td>0%</td>
<td>Bonds recorded in Trust III.</td>
</tr>
<tr>
<td>50</td>
<td>Tax-Exempt Trust (Pension Fund)</td>
<td>0%</td>
<td>Bonds recorded in Trust IV.</td>
</tr>
<tr>
<td>60</td>
<td>Tax-Exempt (Worker’s Property Accumulation Promotion System)</td>
<td>0%</td>
<td>Bonds recorded in taxable accounts or customer accounts.</td>
</tr>
<tr>
<td>70</td>
<td>Nonresidents</td>
<td>0%</td>
<td>None</td>
</tr>
<tr>
<td>71</td>
<td>Nonresidents</td>
<td>10%</td>
<td>None</td>
</tr>
<tr>
<td>72</td>
<td>Nonresidents</td>
<td>12%</td>
<td>None</td>
</tr>
<tr>
<td>73</td>
<td>Nonresidents</td>
<td>12.5%</td>
<td>None</td>
</tr>
<tr>
<td>74</td>
<td>Nonresidents</td>
<td>15%</td>
<td>None</td>
</tr>
<tr>
<td>75</td>
<td>Nonresidents</td>
<td>20%</td>
<td>None</td>
</tr>
<tr>
<td>80</td>
<td>Tax-Exempt Nonresidents (Bond Issuer is Obliged to Collect Withholding Tax)</td>
<td>0%</td>
<td>Bonds recorded in Trust I or customer accounts.</td>
</tr>
<tr>
<td>81</td>
<td>Tax-Exempt Nonresidents (AMI is Obligated to Collect Withholding Tax)</td>
<td>0%</td>
<td>Bonds recorded in customer accounts.</td>
</tr>
<tr>
<td>85</td>
<td>AMI is Obligated to Collect Withholding Tax</td>
<td>-</td>
<td>Bonds recorded in taxable accounts or customer accounts.</td>
</tr>
<tr>
<td>90</td>
<td>Nonresident: Taxable</td>
<td>-</td>
<td>None</td>
</tr>
<tr>
<td>91</td>
<td>Tax-Exempt</td>
<td>-</td>
<td>None</td>
</tr>
<tr>
<td>92</td>
<td>Non-Tax Plan for Small Savings: Separate Taxation</td>
<td>15.315%</td>
<td>None</td>
</tr>
<tr>
<td>93</td>
<td>Tax-Exempt</td>
<td>0%</td>
<td>None</td>
</tr>
</tbody>
</table>

* To be used when the tax rate is not covered by codes 70-75.
Agenda

1. Account Structure
2. Business Flow of Interest/Redemption Payment
3. Collection of Withholding Tax
4. Tax Exemption Scheme for Nonresidents
5. KYC / Anti Money Laundering

Tax Exemption Scheme for Nonresidents

Figure 13: Information Flow in Nonresident Tax Exemption Scheme

- Nonresidents
- Qualified Foreign Intermediary (QFI)
- Foreign Indirect Participant (Other Than QFI)
- Book-Entry System Participant/AMI in Japan (Sub-custodian)
- Tax Office

Application Form for Withholding Tax Exemption/ Application Form for Amendment → Payment Record
Figure 14: Application Procedures for QFI Status

Foreign Financial Institution

Designated as an Account Management Institution prescribed in the Act

Approval by Ministry of Finance

Designated as Foreign Indirect Participant (FIP)

Designated as Foreign Indirect Account Management Institution

Qualified Foreign Intermediary (QFI)

Approval by National Tax Agency

Approval by BOJ

(Government Bonds)

(Corporate Bonds)

Tax Exemption Scheme for Nonresidents

Table 6: List of QFIs

<table>
<thead>
<tr>
<th>Qualified Foreign Intermediary</th>
<th>Foreign Financial Institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merrill Lynch, Pierce, Fenner &amp; Smith Incorporated</td>
<td>Citigroup Global Markets Inc.</td>
</tr>
<tr>
<td>Deutsche Apotheker - und Ärztebank eG</td>
<td>KAS Bank N.V.</td>
</tr>
<tr>
<td>Fifth Third Bank</td>
<td>The Bank of New York Mellon (International) Ltd</td>
</tr>
<tr>
<td>Banca Popolare di Sondrio Societá Cooperativa Per Azioni</td>
<td>Erste Group Bank AG</td>
</tr>
<tr>
<td>The Bank of New York Mellon SA/NV</td>
<td>RASBANK SPA</td>
</tr>
<tr>
<td>CACEIS Bank Deutschland GmbH</td>
<td>EDMOND DE ROTHSCHILD(EUROPE)</td>
</tr>
<tr>
<td>Crédit Agricole Titres</td>
<td>League Commercial Bank (UK) Limited</td>
</tr>
<tr>
<td>DNB BANK ASA</td>
<td>Standard Chartered Bank</td>
</tr>
<tr>
<td>Banco Popolare Societá Cooperativa</td>
<td>Citi Depositary Services Ireland Designated Activity Company</td>
</tr>
<tr>
<td>Banque de Luxembourg S.A.</td>
<td>UBSEUTERIAITAG.CISSA</td>
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<tr>
<td>Citibank, N.A.</td>
<td>J.P.MORGAN SECURITIES LLC</td>
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<tr>
<td>UBS DEUTSCHLAND AG</td>
<td>Citigroup Global Markets Limited</td>
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<td>gobeSettle S.A.</td>
<td>DekaBank Deutche Girozentrale</td>
</tr>
<tr>
<td>CITIBANK EUROPE PUBLIC LIMITED COMPANY</td>
<td>ISTITUTO CENTRALE DELLE BANCHE POPOLARI ITALIANE S.P.A.</td>
</tr>
<tr>
<td>DekaBank Deutche Girozentrale</td>
<td>BNP Paribas SA</td>
</tr>
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<td>DBS BANK, LTD.</td>
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<tr>
<td>BNP Paribas SA</td>
<td>Sumitomo Mitsui Trust Bank (U.S.A.) Limited</td>
</tr>
<tr>
<td>HSBC BANK PLC</td>
<td>The Standard Bank of South Africa Limited</td>
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<td>BNP Paribas SA</td>
<td>Banque Cantonale Vaudoise</td>
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<tr>
<td>Standard Chartered Bank (Hong Kong) Limited</td>
<td>Standard Chartered Bank (Singapore) Limited</td>
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<tr>
<td>Norddeutsche Landesbank Girozentrale</td>
<td>Standard Chartered Bank</td>
</tr>
<tr>
<td>Mitsubishi UFJ Trust International Limited</td>
<td>National Australia Bank Limited</td>
</tr>
<tr>
<td>HSBC Institutional Trust Services (Bermuda) Limited</td>
<td>Barclays Bank Plc</td>
</tr>
<tr>
<td>State Street Bank International GmbH</td>
<td>JPMORGAN TRUSTEE AND DEPOSITARY COMPANY LIMITED</td>
</tr>
<tr>
<td>BNY Mellon Trust Company (Ireland) Limited</td>
<td>Wells Fargo Bank, National Association</td>
</tr>
<tr>
<td>Northern Trust Global Services Limited</td>
<td>BHF-BANK Aktiengesellschaft</td>
</tr>
<tr>
<td>Mizuho Trust &amp; Banking (Luxembourg) S.A.</td>
<td>Erste Group Bank AG</td>
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<tr>
<td>State Street Australia Limited</td>
<td>BBVA Terry &amp; Co.</td>
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<td>Erste Group Bank AG</td>
<td>BBVA Securities Trust Company</td>
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<tr>
<td>Banco Bilbao VizcayaArgentaria Equities (Luxembourg) S.A. Corporation</td>
<td>Credit Suisse Securities (Europe) Limited</td>
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<td>Credit Suisse (Luxembourg) S.A.</td>
<td>Crédit Suisse (Luxembourg) S.A.</td>
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<td>State Street Fiduciary Services (Ireland) Limited</td>
<td>State Street Bank and Trust Company</td>
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<td>BNP Paribas Fund Services Australasia Pty Ltd</td>
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<td>Natural European Private Bankers S.A.</td>
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| The Bank of New York Mellon | The Bank of New York Mell...
Tax Exemption Scheme for Nonresidents

Figure 15: Application for Tax Exemption

Table 7: Items of Application Form for Withholding Tax Exemption

<table>
<thead>
<tr>
<th>Item</th>
<th>Need to be checked against Identification Documents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Date</td>
<td>Example of an Identification Document: A document (1) that is issued by a government agency within six months before submission and (2) that indicates the name and address (location of the head office) of the applicant.</td>
</tr>
<tr>
<td>2 Type of the applicant (e.g., non-resident individual)</td>
<td></td>
</tr>
<tr>
<td>3 Name of the applicant</td>
<td></td>
</tr>
<tr>
<td>4 Individual Number or Corporate Number</td>
<td></td>
</tr>
<tr>
<td>5 Address of the applicant</td>
<td></td>
</tr>
<tr>
<td>6 Other items required to be filled in depending on the type of the applicant</td>
<td></td>
</tr>
<tr>
<td>7 Type of securities (e.g., Japanese Government Bonds)</td>
<td></td>
</tr>
<tr>
<td>8 Name and address of the QFI, etc. (with Signature of the qualified person at the QFI's specified foreign branch and date of its receipt)</td>
<td></td>
</tr>
<tr>
<td>9 Name of the ID Document by which the QFI's specified foreign branch identified the applicant</td>
<td></td>
</tr>
<tr>
<td>10 Remarks</td>
<td></td>
</tr>
<tr>
<td>11 Name and address of the Specified Book Entry Transfer Institution, etc.</td>
<td></td>
</tr>
</tbody>
</table>
Tax Exemption Scheme for Nonresidents

Figure 16: Verification of Nonresident Status

Table 8: Three Types of Tax-Exempt Foreign Trusts and Similarities

(1) Trustees of Qualified Foreign Securities Investment Trusts

(2) Trustees of Foreign Pension Trusts

(3) Partners in Partnership Agreement/Beneficiaries of Trust Taxable on Beneficiaries*

* Excluding Foreign Pension Trusts.
### Table 9: Trustees of Qualified Foreign Securities Investment Trusts

<table>
<thead>
<tr>
<th>Applicant: Trustee.</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Documents:</strong> Application Form for Withholding Tax Exemption (AFWTE [with Identification Documents]) and Prospectus for foreign investment trust concerned (Names of Trustee and Investment Trust necessary).</td>
<td></td>
</tr>
<tr>
<td><strong>Requirements:</strong> Either of the following conditions is met.</td>
<td></td>
</tr>
<tr>
<td><strong>A:</strong> (a) The offer for subscription is made to a large number of people (&gt;=50) outside Japan; and (b) this fact is described in the Prospectus.</td>
<td></td>
</tr>
<tr>
<td><strong>B:</strong> (a) All beneficiary rights are acquired as trust assets for other Qualified Foreign Securities Investment Trusts; and (b) this fact is described in the Prospectus.</td>
<td></td>
</tr>
<tr>
<td><strong>Significant Points:</strong> (1) The offer for subscription is made to the general public (i.e., non-specific investors) and (2) this fact is described in the Prospectus.</td>
<td></td>
</tr>
</tbody>
</table>

### Table 10: Trustee of Foreign Pension Trusts

<table>
<thead>
<tr>
<th>Applicant: Trustee.</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Documents:</strong> AFWTE and documents to prove that necessary conditions are met.</td>
<td></td>
</tr>
<tr>
<td><strong>Requirements:</strong> Both of following conditions are met.</td>
<td></td>
</tr>
<tr>
<td><strong>A:</strong> The pension trust is equivalent to the ones in Japan.</td>
<td></td>
</tr>
<tr>
<td><strong>B:</strong> The pension trust is for the purposes of managing and paying retirement pensions and retirement allowances, etc.</td>
<td></td>
</tr>
<tr>
<td><strong>Significant Point:</strong> The possibility of resident investors becoming the beneficiaries very low.</td>
<td></td>
</tr>
</tbody>
</table>
### Tax Exemption Scheme for Nonresidents

#### Table 11: Partners in Partnership Agreement/Beneficiaries of Trust Taxable on Beneficiaries

<table>
<thead>
<tr>
<th>(3) Partners in Partnership Agreement*/Beneficiaries of Trust Taxable on Beneficiaries**</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Applicants:</strong> Operating Partner/Trustee and each beneficiary.</td>
</tr>
<tr>
<td><strong>Documents:</strong> Notification Form for Withholding Tax Exemption on Partnership or Trust (for operating partner/trustee); and AFWTE (for each beneficiary).</td>
</tr>
<tr>
<td><strong>Requirements:</strong> The following kinds of information are submitted and are renewed every 5 years.</td>
</tr>
<tr>
<td>- Name of partnership/trust;</td>
</tr>
<tr>
<td>- Address of business office, etc.;</td>
</tr>
<tr>
<td>- Name and address of operating partner/trustee;</td>
</tr>
<tr>
<td>- Name and address of each member of partnership/beneficiaries of trust;</td>
</tr>
<tr>
<td>- Whether AFWTE of each member/beneficiary has been filed; and</td>
</tr>
<tr>
<td>- Proportion of distribution of profits/losses to each member/beneficiary.</td>
</tr>
</tbody>
</table>

**Significant Point:** The status information of each partner/beneficiary is necessary.

* Examples include the following: partnership agreements based on Japanese Civil Law; investment limited partnership agreements; limited liability partnership agreements; and agreements in foreign countries similar to the above.

** Excluding Foreign Pension Trusts.

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### Agenda

1. Account Structure
2. Business Flow of Interest/Redemption Payment
3. Collection of Withholding Tax
4. Tax Exemption Scheme for Nonresidents
5. KYC / Anti Money Laundering
## KYC / Anti Money Laundering

### Figure 17: Customer Due Diligence

Act on Prevention of Transfer of Criminal Proceeds (Amended October 2016)

- **Specified Business Operator (SBO):**
  - Bank
  - Securities Company
  - Insurance Company
  - Financial Instrument Operator
  - Credit Card Operator
  - Real Estate Agent
  - Dealers of Precious Metals and Stones, etc.

- **Specified Transactions:**
  - Opening of Deposit Account
  - Remittances Exceeding JPY 0.1 Mil.
  - Derivatives and Securities Transactions
  - Insurance Agreement
  - Credit Card Agreement
  - Real Estate Transactions
  - Transactions of Precious Metals and Stones Exceeding JPY 2 Mil.

- **Customer Due Diligence**

#### Customer Identification Records and Transaction Records

- **Individual:**
  - Name
  - Address
  - Birth Date

- **Corporation:**
  - Name
  - Address
  - Identification/Agent Power of Person in Charge of Transaction

### Figure 18: Customer Identification (Resident Individuals)

Verification of (1) name, (2) address, and (3) birth date.

#### Face-to-face Transactions

- Checking presented official document with photo (e.g., driver's license, individual number card, passport)
- Checking presented health insurance certificate, pension book, seal registration certificate, etc.
- Checking presented other official document without photo or copy of certificate of residence

#### Non-face-to-face Transactions (via Website, mailing services, etc.)

- Checking mailed personal identification document or its copy
- Checking presented/mailed another identification document or receipt for public utility
- Checking presented/mailed another identification document or receipt for public utility
- Checking presented/mailed another identification document or receipt for public utility
- Mailing transaction documents by non-forwarding postal mail to check genuineness of address
- Mailing transaction documents by non-forwarding postal mail to check genuineness of address
- Mailing transaction documents by non-forwarding postal mail to check genuineness of address
KYC / Anti Money Laundering

Figure 19: Customer Identification (Nonresident Individuals)

Nonresident Foreign Individuals
Checking presented government-issued document with photo and necessary information (i.e., name, address, and birth date).

Verification of (1) name, (2) address, and (3) birth date.

Foreign Short-term Visitors (within 90 days since entrance into Japan)
Checking presented passport with name and birth date
Address cannot be verified.

Only limited types of transactions such as (1) currency exchange and (2) transaction of precious metals and stones are allowed.

KYC / Anti Money Laundering

Figure 20: Customer Identification (Corporations)

Verification of (1) name, (2) address, and (3) identification/agent power of the person in charge of transaction.

Face-to-face Transactions
Checking presented certified copy of register of corporation, seal registration certificate, etc. + Verifying agent power of natural person in charge by proxy, phone number, etc. + Verifying natural person in charge in accordance with identification method used for individuals

Non-face-to-face Transactions (via Website, mailing services, etc.)
Checking mailed copies of identification documents of natural person in charge + Mailing transaction documents to both addresses of (1) corporation and (2) natural person in charge by non-forwarding postal mail to check genuineness of addresses

Nonresidents: Government-issued document with (photo and) necessary information
KYC / Anti Money Laundering

**Figure 21: Customers to Be Identified**

![Diagram showing customers to be identified]

- **Customer/Beneficiary**
  - Direct Transaction
  - Verification
  - Competent Administrative Authority
  - Suspicious Transaction Report (STO)
  - Specified Business Operator (SBO)

- **Proxy**
  - Direct Transaction

Necessity of identification to be judged case by case depending on (1) who decides transaction and (2) whom profits belong to.

**Figure 22: Cross-border Transactions (1) (Opening of Account)**

![Diagram showing cross-border transactions]

- **Sub-custodian = Specified Business Operator (SBO)**
- **Omnibus account opened in QFI's name**
- **Suspicious Transaction Report (STO)**
- **Competent Administrative Authority**
- **Fund Manager (Trustee)**
- **QFI (Overseas)**
- **Beneficiary (Investor/Settlor)**
- **Nonresident Investor**
- **Verification**
- **Corporate/Person in Charge**

**Direct Transaction**
KYC / Anti Money Laundering

Figure 23: Cross-border Transactions (2) (Securities Transactions)

- Nonresident Investor
- Beneficiary (Investor/Settlor)
- Fund Manager (Trustee)
- Sub-custodian = Specified Business Operator (SBO)
- QFI (Overseas)
- (Japan)
- Verification
- Competent Administrative Authority
- Suspicious Transaction Report (STO)
- Necessity of identification unclear

KYC / Anti Money Laundering

Figure 24: Types of Custody Contracts and Bondholder Names

- [Case 1] X (Investor/Settlor)
- Custody Contract
- Name: X or C1 (X’s Nominee)
- Name: C1 (Global Custodian/Master Custodian)
- Name: T2
- Name: C2 (Standing Proxy/Custodian/Sub-custodian)
- CSD

- [Case 2] X or C1 (X’s Nominee)

- [Case 3] T1 (Fund Manager & Custodian Trustee)
- Re-sale Contract
- Name: T1
- Name: T2 (Custodian Trustee/Master Trustee)
- Name: C2

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DAY 1
(11 October 2017)

SESSION 7
WHY DO WE NEED LOCAL CURRENCY CAPITAL MARKETS?

Empirical evidence suggests that LCY capital markets can strengthen economic stability and financial resilience through:

1. reduced reliance on foreign currency funding (currency mismatch)
2. long-term financing of long-term investments (maturity mismatch)
3. greater ability to withstand capital flows, more stabilized exchange rates
4. greater predictability of monetary policies (support sterilization policy)
5. more efficient capital allocation and risk-sharing
6. enhanced market transparency
WHY DO WE NEED LOCAL CURRENCY CAPITAL MARKETS?

LCY bond market has helped the government (1) to reduce reliance on offshore funding and (2) to reduce foreign exchange risk.
WHY DO WE NEED LOCAL CURRENCY CAPITAL MARKETS?

- After the 1997 crisis, Thai Bond Market has significantly grown from 12% of GDP to 76%.
- This created more balance among 3 main financial pillars (bank loan, equity and bond market).
- Corporate bond has been continuously increasing, and unaffected by 2008 subprime crisis impacts.

CURRENT STATUS OF REGIONAL LCY CAPITAL MARKETS

- Market Capitalization to GDP
- Share Turnover Velocity
- Number of Listed Companies
- Outstanding Value of Corporate Bond to GDP

Source: ThaiBMA, World Federation of Exchanges, AsianBondsOnline
LOCAL CURRENCY BOND MARKET DEVELOPMENT – THAILAND’S EXPERIENCE

EVOLUTION OF BOND MARKET DEVELOPMENT

Prior to 1999
• Domestic Bond Market Development Committee was established

1999
• Public Debt Management Office (PDMO) was established

2001
• 1st Domestic Bond Market Development Plan (2001 – 2004)

2005
• 2nd Domestic Bond Market Development Plan (2005 – 2014)

2016
• Developing Strategy and Regulating Bond Market
EVOLUTION OF BOND MARKET DEVELOPMENT

Objective:
1. Strengthen the role of bond market in promoting financial market and economic stability
2. Develop Thailand’s bond market as a regional fund raising hub and investment destination of choice

2ND DOMESTIC BOND MARKET DEVELOPMENT PLAN (2005-2014)
### 2ND DOMESTIC BOND MARKET DEVELOPMENT PLAN (2005-2014)

<table>
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<tr>
<th>Subcommittees</th>
<th>Goals</th>
<th>Achievements</th>
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<td>Primary Market Development</td>
<td>1. Issued benchmark bonds regularly to create a reliable yield curves</td>
<td>✓</td>
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<td>2. Improvement of government bond auction system</td>
<td>✓</td>
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<td>• increased auction size</td>
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<td>• reduced auction frequency</td>
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<td>3. Amended Public Debt Management Act</td>
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<td>• allowed MOF to borrow before the maturity to refinance the existing debt.</td>
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<td>• authorized MOF to borrow in Baht for on lending to SOEs and other government units</td>
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<td></td>
<td>• authorized MOF to issue the bond for bond market development purpose even though the government runs budget balance.</td>
<td>✓</td>
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Source: ThaiBMA

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<table>
<thead>
<tr>
<th>Subcommittees</th>
<th>Goals</th>
<th>Achievements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Market Development</td>
<td>4. Expanded issuer base by allowing Foreign Entities to issue Baht-denominated bonds in Thailand</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• eligible applicants: International Financial Institutional, Foreign Governments (FGs), Financial Institutional of FGs and Juridical persona established under foreign laws</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• set up Baht Bonds Committee to consider applications</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• set up quota, guideline and criteria</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5. Issued saving bonds regularly</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• fixed rate</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• step-up</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6. Improved PDs system</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• exclusive rights and privileges</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• meeting on regular basis: one-on-one and one-on-group</td>
<td></td>
</tr>
</tbody>
</table>

Source: ThaiBMA
2ND DOMESTIC BOND MARKET DEVELOPMENT PLAN (2005-2014)

<table>
<thead>
<tr>
<th>Subcommittees</th>
<th>Goals</th>
<th>Achievements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secondary Market Development</td>
<td>1. Promoted private repo market</td>
<td>=</td>
</tr>
<tr>
<td></td>
<td>• encourage market participants agreeing on GMRA</td>
<td>=</td>
</tr>
<tr>
<td></td>
<td>• educate market participants on private repo</td>
<td>=</td>
</tr>
<tr>
<td></td>
<td>2. Integrated Central Clearing &amp; Settlement and Central Securities</td>
<td>=</td>
</tr>
<tr>
<td></td>
<td>Depository</td>
<td>=</td>
</tr>
<tr>
<td></td>
<td>• transferred the clearing and settlement system for government</td>
<td>=</td>
</tr>
<tr>
<td></td>
<td>sector’s debt instruments form BOT to the TSD</td>
<td>=</td>
</tr>
<tr>
<td></td>
<td>3. Set up Collateral Management Unit</td>
<td>=</td>
</tr>
<tr>
<td></td>
<td>• mark-to-market collateral</td>
<td>=</td>
</tr>
<tr>
<td></td>
<td>• design selection criteria and allocation of collateral debt</td>
<td>=</td>
</tr>
<tr>
<td></td>
<td>instruments.</td>
<td>=</td>
</tr>
<tr>
<td></td>
<td>4. Set up Bond Lending Unit</td>
<td>=</td>
</tr>
<tr>
<td></td>
<td>• act as an intermediary for borrower and lender matching.</td>
<td>=</td>
</tr>
<tr>
<td></td>
<td>• manage the settlement risk, and report the status of investors.</td>
<td>=</td>
</tr>
<tr>
<td></td>
<td>5. Developed OTC Interest Rate Derivative market</td>
<td>=</td>
</tr>
<tr>
<td></td>
<td>• modernize rules and regulations</td>
<td>=</td>
</tr>
<tr>
<td></td>
<td>• improve the derivatives manual</td>
<td>=</td>
</tr>
</tbody>
</table>

Source: ThaiBMA

2ND DOMESTIC BOND MARKET DEVELOPMENT PLAN (2005-2014)

<table>
<thead>
<tr>
<th>Subcommittees</th>
<th>Goals</th>
<th>Achievements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Infrastructure Development</td>
<td>1. Developed bond futures market</td>
<td>=</td>
</tr>
<tr>
<td></td>
<td>2. Revision of related regulations and laws</td>
<td>=</td>
</tr>
<tr>
<td></td>
<td>• 3 years shelf filing</td>
<td>=</td>
</tr>
<tr>
<td></td>
<td>• foreign issuers can submit filing in English</td>
<td>=</td>
</tr>
<tr>
<td></td>
<td>• allow high net worth to invest in high risk high return products</td>
<td>=</td>
</tr>
<tr>
<td></td>
<td>3. Centralized the electronic trading platform at SET</td>
<td>=</td>
</tr>
<tr>
<td></td>
<td>4. Securitization promotion</td>
<td>=</td>
</tr>
</tbody>
</table>

| Taxation                       | 1. Removed tax obstacle                                             |   =          |
|                                | • waived withholding tax for non-resident investors                 |   =          |
|                                | • reduced SBT for financial transaction from 3.3% to 0.01%          |   \=          |
|                                | • waived income tax for capital gain and SBT tax for bond futures   |   \=          |
|                                | • waived SPV income tax for securitization transactions             |   \=          |

| IT and HR Development          | 1. Established ThaiBMA as :                                         |   \=          |
|                                | • Self Regulatory Organization and data information center           |   \=          |
|                                | • Bond Pricing agency provided market information and understanding to foreign participants. |   \=          |
|                                | 2. Provided knowledge about bond market to interested public         |   \=          |
|                                | 3. Develop traders, market analysts & product designers              |   \=          |

Source: ThaiBMA
2ND DOMESTIC BOND MARKET DEVELOPMENT PLAN (2005-2014)

Strategic Goals:
1) To promote bond market to gain the market capitalization close to GDP
2) To increase the share of foreign issuers and investors to be not less than 5% of total outstanding value

Size of LCY Bond Market in % GDP

% of Foreign Holdings

FOREIGN HOLDINGS IN LCY GOVERNMENT BONDS AND MOVEMENT OF EXCHANGE RATE (USD/THB)

Source: AsianBondsOnline

DEVELOPMENT OF TAXATION – KEY MILESTONES

Rationale:
To develop and recover financial market in the aftermath of AFC
To support fund-raising activities of the Government, and special purpose Fs under Asian Bond Fund Framework
To promote treasury portfolio and participation of Fs in financial market
Repealed RD No.429 and MN No. 249 as tax incentives may cause economic instability and to slowdown influx of foreign capital, thus subject to 15% WHT

Source: Bank of Thailand, AsianBondsOnline
# CURRENT CAPITAL MARKETS TAXATION FRAMEWORK

<table>
<thead>
<tr>
<th>Types of Income</th>
<th>Resident Retail Investors</th>
<th>Resident Juristic Persons</th>
<th>Non-Residents Juristic Persons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Securities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital gains</td>
<td>Exempted</td>
<td>No WHT, but subject to CIT</td>
<td>15% FWT^</td>
</tr>
<tr>
<td>Dividends</td>
<td>10% WHT</td>
<td>10% WHT</td>
<td>15% FWT</td>
</tr>
<tr>
<td>Debt Securities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital gains</td>
<td>15% WHT</td>
<td>No WHT, but subject to CIT</td>
<td>15% FWT**</td>
</tr>
<tr>
<td>Interest</td>
<td>15% WHT</td>
<td>No WHT (FI-FI*), but subject to CIT, or else 1% WHT</td>
<td>15% FWT**</td>
</tr>
<tr>
<td>Discount</td>
<td>15% WHT taxed at first hand</td>
<td>No WHT (FI-FI*), but subject to CIT, or else 1% WHT</td>
<td>15% FWT** only at first hand</td>
</tr>
</tbody>
</table>

** | Foreign investors from these countries are exempted from capital gain tax under tax treaties
* | Under the law of finance business, securities business and credit fonciere business
** | Except gains/interest/discount from bond issued by government, state agencies, or financial institution under specific law for the agricultural, commerce and industrial lending
*** | Only apply to physical certificates of non-listed securities. Transfer of government securities is exempted

---

**CAPITAL INCOME TAXATION IN THE PHILIPPINES**
CURRENT SITUATION IN THE PHILIPPINES’ CAPITAL MARKET

Outstanding Value of the Philippines’ Financial Markets to GDP

- Gov Bond: 82%
- Corp Bond: 43%
- Bank Loans: 27.5%
- Equity: 6%

Source: AsianBondsOnline, BSP, WFE, and author’s calculation

CURRENT SITUATION IN THE PHILIPPINES’ CAPITAL MARKET

Size of LCY Bond Market in % GDP

Source: WFE, ABO

Issuance Volume of LCY Bond

Source: WFE, ABO

Market Capitalization (LCY)

Number of Listed Companies

Source: WFE, ABO
BOND MARKET TAXATION IN THE PHILIPPINES

Revenue Regulation 14-2012:

1. **Government securities** are considered as “deposit substitutes”, irrespective of number of investors, thus subject to 20% FWT

2. **Long-term deposits and investment certificates**:
   1. WHT-exempted
   2. Must be issued by banks only, with no less than 5 years to maturity
   3. Minimum investment of 10,000 PHP

3. **Deposit substitute (20% FWT)**:
   1. Borrowing from 20 or more individuals or corporate lenders at any one time

4. **Other securities** not within scope of deposit substitute (20% CWT)

CURRENT CAPITAL MARKETS TAXATION FRAMEWORK

<table>
<thead>
<tr>
<th>Types of Income</th>
<th>Resident Retail Investors</th>
<th>Resident Juristic Persons</th>
<th>Non-Residents Juristic Persons not carry on business</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equity Securities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital gains</td>
<td>½ of 1% (Stock Transaction Tax)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>10% WHT</td>
<td>Exempted</td>
<td>30% FWT</td>
</tr>
<tr>
<td><strong>Debt Securities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government securities</td>
<td>20% FWT</td>
<td>20% FWT</td>
<td>30% FWT</td>
</tr>
<tr>
<td>Corporate bonds:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital gains</td>
<td>Exempted</td>
<td>Exempted</td>
<td>Exempted</td>
</tr>
<tr>
<td>Interest (general rule)</td>
<td>20% FWT</td>
<td>20/25% FWT</td>
<td>30% FWT</td>
</tr>
<tr>
<td>Interest (LT securities issued by banks only)</td>
<td>&gt;5 years: Exempted, 4-5 years (5%), 3-4 years (12%), &lt;3 years (20%)</td>
<td>20/25% FWT</td>
<td>30% FWT</td>
</tr>
<tr>
<td>Private placement (≤19)</td>
<td></td>
<td>20% WHT</td>
<td></td>
</tr>
<tr>
<td>Interest paid by top 20,000 companies</td>
<td></td>
<td>2% WHT</td>
<td></td>
</tr>
<tr>
<td>Discount</td>
<td>20% FWT</td>
<td>20/25% FWT</td>
<td>30% FWT</td>
</tr>
<tr>
<td><strong>Others</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Documentary Stamp Duty</td>
<td>1 PHP for every 200 PHP (0.5%) for stock and bond</td>
<td>Gross Receipt Tax</td>
<td>Lending activities: 5% if maturity ≤ 5 years, or else 1% Non-Lending income: 7% (banks)</td>
</tr>
</tbody>
</table>
### INVESTMENT VEHICLES IN THE PHILIPPINES

<table>
<thead>
<tr>
<th>Offered by</th>
<th>Mutual Fund</th>
<th>Unit Investment Trust Fund (UITF)</th>
<th>Variable Unit-Linked</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Investment companies</td>
<td>Banks / Trust companies</td>
<td>Insurance companies</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Structure</th>
<th>Company</th>
<th>Contractual</th>
<th>Contractual</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Fund Manager</th>
<th>Appointed by investment company</th>
<th>Trust group of the bank</th>
<th>Insurance companies</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Applicable Law</th>
<th>Investment Company Act of the Philippines</th>
<th>No specific law although banks are governed by the “General Banking Law”</th>
<th>Insurance code</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Regulator</th>
<th>SEC</th>
<th>BSP</th>
<th>IC</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Tax Implications</th>
<th>Mutual Fund</th>
<th>Unit Investment Trust Fund (UITF)</th>
<th>Variable Unit-Linked</th>
</tr>
</thead>
<tbody>
<tr>
<td>- MF is subject to CIT @ 30%</td>
<td>- No CIT : contractual base</td>
<td>- No CIT : contractual base</td>
<td></td>
</tr>
<tr>
<td>- Dividend from domestic corporate is tax-exempted</td>
<td>- Dividend from domestic corporate is tax-exempted</td>
<td>- Dividend from domestic corporate is tax-exempted</td>
<td></td>
</tr>
<tr>
<td>- FWT is withhold at source (by issuer) @ 20%, other income not subject to FWT will be taxed at company level as other income.</td>
<td>- FWT is withheld at source (by issuer) @ 20%, other income not subject to FWT will be taxable to bank as other income.</td>
<td>- FWT is withheld at source (by issuer) @ 20%, other income not subject to FWT will be taxable to bank as other income.</td>
<td></td>
</tr>
</tbody>
</table>

Source: [https://www.pinoymoneytalk.com/mutual-fund-uitf-comparison/](https://www.pinoymoneytalk.com/mutual-fund-uitf-comparison/) and ADB

### KEY OBSERVATIONS

1. **LCY BOND MARKET NEEDS TO BE DEVELOPED AS THE SIZE RELATIVE TO GDP IS VERY SMALL**
   - Bonds issued by banks are more attractive from investors’ point of view (WHT exempted)
   - Large corporates get more favorable tax treatment (lower WHT) than smaller issuers.
   - Bond market should be viewed as complementary to bank loans, which could resolve single borrower limit issue and reduce concentration risk
   - LCY financing allows the Government to meet the financing mix target of 80:20 for infrastructure investments

2. **LACK OF INVESTMENT OPPORTUNITIES**
   - Only 133 issuances are registered with PDEX by 49 issuers (September 2017) as compared to 2,267 issuances registered with ThaiBMA by 501 issuers (August 2017)
   - Nascent fund management industry, limited investment choices for institutional and retail investors, particularly insurance companies and pension funds.

3. **CUMBERSOME TAX PROCEDURES AND COMPLICATED TAX FRAMEWORK**
   - Significant ongoing compliance and monitoring costs as a result of different tax rates for different types of investor and investment period
   - Inconsistent interpretation, particularly the 19-lender rule (how and when to count) and GRT (lending vs non-lending income), what constitutes lending?
   - Current framework is not competitive among regional peers e.g. IPO tax, DST on dematerialized securities
RECOMMENDATIONS

1. REVIEW CAPITAL INCOME TAX FRAMEWORK TO REDUCE COMPLIANCE COSTS AND INCREASE COMPETITIVENESS OF THE PHILIPPINE’S FINANCIAL MARKETS BY:
   - standardizing tax rates based on types of investor, types of securities etc
   - creating level playing field for competing products and institutions
   - benchmarking among international practice and regional peers
   - reconsidering multi-rated taxes and taxes that are difficult to implement e.g. pre-termination of LT securities, GRT for financial institutions etc.
   - review taxes that are deterrent to capital market development e.g. IPO tax, DST for dematerialized securities

2. PROVIDE CONSISTENT INTERPRETATION TO THE MARKET
   - create common understanding on the interpretation of 19-lender rule and application of of bank secrecy act on trust accounts

3. CLOSE COORDINATION AMONG RELEVANT REGULATORY AUTHORITIES AND MARKET PLAYERS
   - no mention of taxation in the current roadmap.

COMPARING THE SIZE OF FUND MANAGEMENT INDUSTRY

Source: PWC
THANK YOU

CURRENT CAPITAL MARKETS TAXATION FRAMEWORK

<table>
<thead>
<tr>
<th>Without Condition</th>
<th>Conditions Apply</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Denmark</td>
<td>1) Netherlands</td>
</tr>
<tr>
<td>2) Germany</td>
<td>2) United Kingdom &amp; North Ireland</td>
</tr>
<tr>
<td>3) France</td>
<td>3) Canada</td>
</tr>
<tr>
<td>4) Singapore</td>
<td>4) Switzerland</td>
</tr>
<tr>
<td>5) Italy</td>
<td>5) Israel</td>
</tr>
<tr>
<td>6) Belgium</td>
<td>6) Spain</td>
</tr>
<tr>
<td>7) Pakistan</td>
<td>7) Uzbekistan</td>
</tr>
<tr>
<td>8) India</td>
<td>8) Cyprus</td>
</tr>
<tr>
<td>9) Laos</td>
<td>9) Norway</td>
</tr>
<tr>
<td>10) Mauritius</td>
<td>10) Slovenia</td>
</tr>
<tr>
<td>11) Bangladesh</td>
<td>11) Turkey</td>
</tr>
<tr>
<td>12) The United Arab Emirates</td>
<td>12) Hong Kong</td>
</tr>
<tr>
<td>13) Oman</td>
<td>13) Myanmar</td>
</tr>
<tr>
<td>14) Taiwan</td>
<td>14) South Korea</td>
</tr>
<tr>
<td>15) Kuwait</td>
<td></td>
</tr>
<tr>
<td>16) Republic of Estonia</td>
<td></td>
</tr>
</tbody>
</table>
DAY 1
(11 October 2017)

SESSION 8
Session 8:  
The US’ move to T+2  
– Lessons for Changing Market Practices  

Nellie Dagdag  

11 October 2017, 26th ABMF meeting, ADB Manila
WE BRING ECONOMIES OF SCALE

PROCESSING $1.5 QUADRILLION OF TRANSACTIONS PER YEAR, SETTLING 100 MILLION TRANSACTIONS PER DAY

Our unique capabilities and decades of experience deliver a network no other market infrastructure can match – 6,300 clients in 70 countries.

SHAREHOLDERS

283 Participant Shareholders

BOARD OF DIRECTORS

12 Industry Directors
2 Independent Directors
2 Industry Preferred Shareholder Directors
1 DTCC CEO
1 Non-Executive Chairman

PRIMARY REGULATORS
DTCC STRATEGY OVERVIEW

OUR GLOBAL PRESENCE

A global client base served across 23 locations in the Americas, EMEA, APAC
A global location strategy focused on right-sizing high-cost locations, expanding regional sites to support growth and building out global site capabilities.

Multiple data and operating centers worldwide providing strong continuity and around-the-clock support

30% DTCC Resources in Global Low Cost Centers
27% DTCC Resources in U.S. Low Cost Centers
37% DTCC IT Resources in Global Low Cost Centers
Employee population in Manila has grown 140% since 2012

DTCC STRATEGY OVERVIEW

WHAT DRIVES US

DTCC is an extension of our clients' infrastructure, aligned in purpose and governed by the industry.

INDUSTRY LANDSCAPE
- Evolving Regulatory Landscape
- Demand for Multiple Submissions across Securities, Derivatives & Commodities
- Advances in Transformational Technologies
- Increasing Cyber Threats
- Industry Cost Pressures

CLIENT PRIORITIES
- Cost Reduction
  - STRR Fee Reduction 2017
- Risk Reduction
  - Resilience, Stability, Security
  - N في Policing
  - Post-Trade Compliance
- Capital Efficiency
  - Solvency II
  - Capital Adequacy
  - Post-Trade Efficiency
- Regulated Compliance
  - OTC Trade Reporting
  - ENTITY Agreements
  - قانونية
  - Compliance
  - Trade Data Security
DTCC Services

Available in APAC

DTCC Services are offered through DTCC subsidiaries National Securities Clearing Corporation (NSCC) and Fixed Income Clearing Corporation (FICC).

DTCC Settlement and Asset Services are offered through DTCC subsidiary The Depository Trust Company (DTC).

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Agenda

1. Settlement Lifecycle – Setting the Context
2. Historical Background of Shortening of Settlement Cycle (SSC)
3. The US’ T+2 Journey
   - Boston Consulting Group Oct. 2012 study, “Cost-benefit analysis of shortening the settlement cycle”
   - PwC June 2015 whitepaper, “Shortening the Settlement Cycle: The Move to T+2”
   - Deloitte & Touche Dec. 2015 study, “T+2 Industry Implementation Playbook”
4. Lessons Learned

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## Settlement Lifecycle

<table>
<thead>
<tr>
<th>T</th>
<th>T+N (e.g., T+1, T+2, T+3)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TRADING</strong>&lt;br&gt;(Buyer and Seller agree on terms)</td>
<td><strong>SETTLEMENT</strong>&lt;br&gt;(Actual exchange of Values)</td>
</tr>
</tbody>
</table>

---

Old adage: Nothing good happens between Trading and Settlement Dates. Solution: Shorten the Settlement Cycle (SSC).

---

## US T+3 Trade Processing Flow

* Source: [www.ust2.com](http://www.ust2.com) (PwC study, 2015)
Historical Background of SSC

1990s
- 1989 Group of Thirty (G30) Recommendations
  - US moved to T+3 from T+5 in 1995

#7: A "rolling settlement" system should be adopted by all markets. Final settlement should occur on T+3 by 1992.

#5: The major risks in Securities Systems should be mitigated by five key measures, namely:
  - the implementation of real DvP
  - the adoption of a trade date plus one settlement cycle in a form that does not increase operational risk
  - xxxx

2000
- ISSA Recommendations
  - 2000: US began planning for T+1; AC study

2009–2012
- 2009: the European Commission decided to transition to T+2
  - 2012: BCG study

2014
- EU migrated to T+2
  - US - formation of T+2 ISC and IWG
  - Other countries have migrated since

Oct 2014: 27 EU countries converted from a T+3 to T+2 in support of the pan-European "Target2 Securities" (T2S), system initiative, slated to be fully implemented by July 2017.

An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.

Andersen Consulting 2000 Study: T+1 Business Case

Commissioned by the Securities Industry Association, the predecessor of SIFMA, to assess the readiness of the US securities industry to move to T+1.

10 Building Blocks:
1. Modify internal processes to ensure compliance with compressed settlement deadlines
2. Identify and comply with accelerated deadlines for submission of trades to the clearing and settlement systems
3. Amend DTCC’s trade guarantee process to provide guarantee on trade date
4. Report trades to the clearing corporations in locked-in format and revise clearing corporations’ output
5. Rewrite the Continuous Net Settlement system (“CNS”) to enhance speed and efficiency
6. Reduce reliance on checks and use alternative means of payment
7. Immobilize shares prior to conducting transactions
8. Revise the prospectus delivery rules and procedures for IPOs
9. Develop industry matching utilities and linkages for all asset classes
10. Standardize reference data and move to standardized industry protocols

NEXT STEP
The industry deferred the shortening of settlement cycle but progressed work on addressing the 10 building blocks.
Boston Consulting Group 2012 Study

On October 4, 2012, Boston Consulting Group (BCG) released the findings of a study, commissioned by the DTCC, with guidance of the SIFMA, which highlighted the costs and benefits of shortening the settlement cycle for securities transactions in the US. The study examined three areas of concern: reducing risk, optimizing capital, and reducing cost.

KEY FINDINGS:
- The payback period for a T+2 cycle would be three years; moving to T+1 would result in a 10-year payback.
- 68 percent of survey participants supported a move from T+3, with 27 percent considering a shortened cycle to be a “high priority.”
- Competing priorities and other regulatory initiatives represent a potential challenge to shortening the settlement cycle at this time.
- Securities lending and the timing of foreign exchange (F/X) transactions to support cross-border trades, particularly in a T+1 environment, was a major concern.
- T+0 was ruled out as unfeasible for the industry to accomplish at this time, given the exceptional changes required to achieve it and weak support across the industry.

The next step in the process is to present this research to the securities industry and encourage the industry to decide the appropriate path forward. Research suggests that a move to T+2 could be achieved within three years once the path has been set. From there, a transition to T+1 would take an additional four to six years, and would require improvements in real-time processing. A direct move to T+1 would likely take seven to eight years.

NEXT STEP
- Following an extensive analysis, the industry endorsed a move to T+2.
- The T+2 Industry Steering Committee (ISC), led by DTCC, ICI, and SIFMA, and comprised of 20 participants across key market segments, was formed as a governing body for the T+2 effort.
- The ISC established an Industry Working Group of over 600 experts to assist in the initiative.
- In response to a request from then SEC Chair White, SIFMA and ICI commissioned Deloitte & Touche LLP to work with the ISC and develop a playbook outlining steps necessary for achieving T+2, including the timely finalization of the necessary regulatory changes.
- The industry identified September 5, 2017 as the target transition date after robust analysis.
- Regulators proposed and finalized rule changes to facilitate T+2.
- Internal, service provider and industry-wide testing hosted by DTCC was carried out to address the technical changes needed to shorten the settlement cycle.

Regulatory Actions: Almost 50 Separate Rules were Addressed to Make T+2 a Reality
- Regulatory action was critical for T+2, providing certainty for the industry initiative.
- In March 2017, the SEC amended Exchange Act Rule 15c6-1 to shorten the standard settlement cycle to T+2.
- Then, nine other regulators changed or addressed through guidance an additional 48 rules. These rule changes impacted, among other things: 1) dates by which to take certain corporate or other actions, 2) changes to settlement processes, and 3) confirmation/affirmation.
PwC 2015 Study - Proposed Migration Timeline

* Source: www.ust2.com (PwC study, 2015)

Industry Level Requirements

* Source: www.ust2.com (PwC study, 2015)

The industry-level requirements in each category provide the changes that various organizations must undertake to migrate to T+2

- **Trade Processing**
  1. Reference data and trade processing systems must be configured to T+2 as standard settlement
  2. Trades must be matched in NSCC’s Real-Time Trade Matching (RTTM) by 11:30am on T+2
  3. Affirmed trades must be submitted to Clearstream by 12pm on T+1 for downstream processing (NSCC, unless EMIC)
  4. Processing of physical securities must support T+2 settlement

- **Asset Servicing**
  1. Organizations must adjust the ex-date period for regular-way ex-date calculations and modify the due date period calculation for regular-way and irregular ex-dates
  2. Covered/Put protected expiration date must be calculated as two business days instead of three business days after the offer expiration date

- **Regulatory**
  1. The comment letter identified three categories of potential rule changes:
     1. Rules that specifically establish or reference a T-3 settlement cycle
     2. Rules that do not specifically reference T-3 as the standard settlement cycle, but establish time frames based on the settlement date of a trade, and require one or more parties to act prior to settlement taking place
     3. Rules that establish time frames based on settlement date, but do not require action before settlement occurs

- **Documentation**
  1. Agreements, official statements, prospectuses, statements of additional information, and subscription documentation must be updated to accommodate the move to T+2
  2. Procedure documentation and training materials must be updated to specify T+2 as an alternate settlement
Impact to Individual Firms
* Source: www.ust2.com (PwC study, 2015)

The shortened settlement cycle will require organizations to consider and manage the impact to their operating model:

- Failed Trade Management
- Securities Lending
- Liquidity and Collateral Management
- Processing of Multi-listed Securities
- Foreign Investment/Cross-border Transactions
- Secondary Issuance for Municipal Bonds

Leading Practices and Other Industry Initiatives
* Source: www.ust2.com (PwC study, 2015)

Organizations should consider implementing leading industry practices to promote operational efficiencies and enable settlement finality:

- Trade Date Match/Affirm
- Automated Exchange of Standing Settlement Instructions (SSI)
- Electronic Funds Payment/ACH Processing
- Early and On-going Stakeholder Communication

Other Industry initiatives, although not integral for a migration to T+2, support a shortened settlement cycle:

- Extending Digital Delivery and Use of the Summary Prospectus Delivery Option
- Dematerialization
- Automated Customer Account Transfer Service (ACATS)
Key Lessons

**Industry-led**
- Lead group: DTCC, ASIFMA, Investment Company Institute
- Buy-in: Establish value proposition, cost/benefit and industry impact upfront
- Own the work: Industry Steering Committee, Industry Working Group, sub-groups
- Effective use of consultants (BGC, PwC, EY)

**Or Regulatory Mandate**
- NSCC simulation earlier this year showed the move to T+2 reduces the NSCC clearing fund by approximately 25% or $1.36 billion.

**Thorough Planning**
- Detailed industry implementation planning – migration plan, system testing, regulatory filings, stakeholders education, communication plan, resourcing
- At the individual firm level, access to information and resources to make own internal plans
- Over-communicate – message matching target audience; use various channels (websites, webinars, industry events)

**Regulator Collaboration**
- Open dialogue between regulators, the infrastructures and industry players
- Strong regulatory support (Capitol Hill, SEC, 9 other regulators)
DAY 1
(11 October 2017)
SESSION 9
Recap: ISO 20022 in APAC
ISO 20022 adoption – Financial Market Infrastructures

- 200 initiatives
- Under discussion > planned > rollout > live
- 580 Corporates
- 90 countries

Europe
- Asia Pacific
- Americas
- Middle East & Africa

Transformation
Globalisation
Regulation

ISO 20022 Benefits for Securities Market Infrastructures (SMIs)

Early 90’s Internet standards became dominant, notably XML

- Model Driven
- ISO Validated
- Open. Development by anybody

New messages
Financial Dictionary
Reverse engineering of ISO 15022 messages
ISO 20022 adoption – Securities MI & Treasury MI
From discussion to implementation

ISO 20022 Adoption – SWIFT for Funds

This map shows countries where one or more players are sending/receiving ISO 20022-based Funds transactions.
This includes major MI Funds hubs such as Clearstream, Euroclear, Benefit Trust Company, Funds Messaging, Hong Kong (HKMA), Korea (KSD), Taiwan (TDCC), etc.

* Indirect SWIFT adoption via service providers: BBHi, Calastone, Euroclear
Singapore Exchange
Journey in ISO 20022 Adoption

The Background

1980s – 2010s (closed environment architecture)
- Existing post-trade system (PTS) and the client accounting system (CAS) were purpose built to support domestic securities brokers
- The PTS and CAS was further enhanced in 1990 when the CSD was established – integrated broker back office and exchange trade processing
- SGX also provides broker back-office software and ancillary services
Moving Forward: SGX Post-Trade Modernisation

- Modernise Systems
- Different Operating and Business Models
- Delineation of Services
- Modernise Communication Protocol
- Adoption of International Standards

SGX New Post Trade System (PTS) timeline

- Aug 2012: Completed post-trade business and system upgrades and assessed ISO 20022 feasibility study
- 1 Jul 2016 (go live) - Sep 2017: Phase 1 of PTS
- 21 Aug 2015: Finalised and published SGX ISO 20022 technical specification v1.2 for testing
- 9 Nov 2015: SGX’s new post-trade infrastructure for Phase 1 supporting ISO 20022 for settlement and P&I, for clearing messages, go live
- 31 May 2016: Finalised and published SGX ISO 20022 technical specifications v1.3 for banks
- 13 Aug 2013: Finalised and published the new PTS Phase 1 project
- 30 Aug 2013: Published SGX ISO 20022 technical specifications v1.0

Milestones for 2017 and beyond: SGX and members to complete PTS Phase 2 clearing system implementation

Determine the SGX ISO 20022 version update processes
Corporate Announcements on ISO 20022
Use of Global standards, elimination of intensive manual processing and Improved data content

Why ISO 20022 for Settlement?

- SGX has implemented ISO 20022 for the post-trade services (settlement)
- SWIFT, as a global messaging channel, has been added as a network connectivity option for SGX’s PTS

Key drivers
- Modernise the SGX infrastructures
- Adopt internationally recognised standards and best practices
- Reach an end to end STP in the post-trade environment
- Adopt an API infrastructure

Benefits
- High community benefits when using standardised format vs proprietary
- Advantages of xml format
- End-to-end STP for clearing, settlement and CA processing
- Improved market access by adopting international standards
- Improved efficiency in the post trade settlement and clearing environment
- Reduce data processing risk

ISO 20022 message implementation « semt, sese, ... »

New standardised flows allowing for automation

Before, batch file upload MT 54x alike, not real-time
Other Considerations in Selecting ISO 20022

- Maturity of the ISO 20022 standards against SGX’s needs
  - Extensibility to other business domains and areas

- ISO 20022 adoption trends
  - Global adoption and in Asia

- Availability of ISO 20022 experts
  - Growing market knowledge base, globally and regionally

- Where does ISO 20022 implementation fit in? a stand alone project or part of the larger project?
  - Aligns well with SGX overall post-trade strategy
  - Future proof SGX messaging system. DLT investigation currently considered
  - Consistent data structure across all its service and customer segments

- Leadership and stakeholder support

SGX ISO 20022 Messages – Securities Settlement

<table>
<thead>
<tr>
<th>Message Identifier</th>
<th>Message Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>sese.023.001.04</td>
<td>SecuritiesSettlementTransactionInstruction</td>
</tr>
<tr>
<td>sese.024.001.04</td>
<td>SecuritiesSettlementTransactionStatusAdvice</td>
</tr>
<tr>
<td>sese.025.001.04</td>
<td>SecuritiesSettlementTransactionConfirmation</td>
</tr>
<tr>
<td>sese.028.001.03</td>
<td>SecuritiesSettlementAllegementNotification</td>
</tr>
<tr>
<td>sese.029.001.03</td>
<td>SecuritiesSettlementAllegementRemovalAdvice</td>
</tr>
<tr>
<td>sese.040.001.01</td>
<td>SecuritiesSettlementTransactionCounterpartyResponse</td>
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<td>SecuritiesSettlementConditionModificationRequest</td>
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<tr>
<td>sese.031.001.04</td>
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<tr>
<td>sent.021.001.03</td>
<td>SecuritiesStatementQuery</td>
</tr>
<tr>
<td>sese.022.001.01</td>
<td>SecuritiesStatusOrStatementQueryStatusAdvice</td>
</tr>
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</table>
SGX ISO 20022 Messages – Securities and Cash Management, Payments Initiation

<table>
<thead>
<tr>
<th>Message Identifier</th>
<th>Message Name</th>
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</thead>
<tbody>
<tr>
<td>semt.013.001.03</td>
<td>IntraPositionMovementInstruction</td>
</tr>
<tr>
<td>semt.014.001.03</td>
<td>IntraPositionMovementStatusAdvice</td>
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<tr>
<td>semt.015.001.04</td>
<td>IntraPositionMovementConfirmation</td>
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<td>SecuritiesTransactionPostingReport</td>
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<tr>
<td>semt.018.001.04</td>
<td>SecuritiesTransactionPendingReport</td>
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<td>semt.019.001.03</td>
<td>SecuritiesSettlementTransactionAllegementReport</td>
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<tr>
<td>pain.001.001.05</td>
<td>CustomerCreditTransferInitiation</td>
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<tr>
<td>pain.002.001.05</td>
<td>CustomerPaymentStatusReport</td>
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<tr>
<td>pain.007.001.04</td>
<td>CustomerPaymentReversal</td>
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<tr>
<td>pain.008.001.04</td>
<td>CustomerDirectDebitInitiation</td>
</tr>
<tr>
<td>camt.054.001.04</td>
<td>BankToCustomerDebitCreditNotification</td>
</tr>
</tbody>
</table>

- 25 ISO 20022 messages documented on MyStandards covering securities settlement, securities management and cash management. More messages could be added in Phase 2.

- Benefits of MyStandards
  - One-stop access to SGX’s guidelines for analysis, publication and download
  - Web-based platform: easy to operate and browse
  - Consistent way to share specifications and familiar formats (online, PDF, excel, xsd)
The challenges

- Renewal of Post-Trade System – ISO 20022 settlement API that covers settlement and reconciliation activities
- Alignment with other global ISO 20022 initiatives
- Future proof technology, enhanced integration and straight-through processing
- Make the local market attractive to international brokers, custodians, intermediaries, etc.

The solution

- SWIFT standards & integration services including:
  - Detailed impact assessment
  - Message formats gap analysis
  - Business workflows review
  - Multi-year implementation roadmap
  - MyStandards for message specifications' documentation
  - Education of ISO 20022 usage guidelines through MyStandards
  - SWIFTNet Connectivity to ensure security, resiliency, multiple formats supported

The benefits

- Streamlined operational processes and STP capabilities
- Adoption of international best market practices and standards - ISO 20022 message formats
- Building an agile infrastructure that can quickly meet new business requirement and cost efficiencies.

Case study available for download: www.swift.com