v4 as of 8 Mar 2018

Summary of the 27th ASEAN+3 Bond Market Forum Meetings
1-2 February 2018, Phnom Penh, Cambodia

The 27th ABMF Meeting and related meetings were held in Phnom Penh, Cambodia, hosted by the Cambodia Securities Exchange (CSX) and the Securities and Exchange Commission of Cambodia (SECC) at the CSX Building, from 1 to 2 February 2018. The related meetings included the CSIF Meeting, as well as a half-day Corporate Bond Workshop and a half-day Custodian Workshop, hosted by the SECC. The ABMF materials are available from the ABMF website (asean3abmf.adb.org), while the CSIF Meeting minutes and materials are available separately to eligible participants.

I. ASEAN+3 Bond Market Forum - Sub-Forum 1

1. Mr. Koji Ito, Chairman of Sub-Forum 1, welcomed the audience to Phnom Penh and thanked the hosts for the preparations and great reception provided. He pointed to the opportunities to learn about the many developments in the Cambodian market and asked for active participation in the proceedings.

2. In his **welcome remarks,** Mr. Sok Hour Hong, CEO of CSX, acknowledged the early step of development for the Cambodia bond market but expressed his gratitude to the SECC for putting in place the necessary regulatory framework, and hoped the bond market would become a driver for the capital market development overall. Following 5 listed companies and 9,000 investors, he expected the first bond listing later in 2018. CSX is committed to international best practices, and will introduce new bond listing and trading procedures, including a negotiated trading segment. Bonds will settle on T+2. The continuous support from ADB is needed to maintain the speed of market development.

3. Mr. Samiuela Tukuafu, ADB Country Director for Cambodia, thanked the organisers and hosts, SECC and CSX, for their efforts, and stressed that ADB has been the lead development partner for building the financial sector over the past 18 years. The establishment of SECC and CSX had been key milestones of this support, together with the legislative and regulatory framework. Capital market development would always support country development, and there was an increasing role for the capital market in Cambodia. Yet, it being early days, many issues remained and are being addressed. ADB is committed to the continuous support for Cambodia.

4. Mr. Tukuafu also lauded the publication of the Bond Market Guides for Cambodia and Myanmar on the day; the guides represented the collective efforts of ABMF members and will help narrow the information gap and position the markets to attract the attention from foreign investors. ABMF has played an important role in the recent market development, through technical assistance for regulations and an AMBIF pilot issuance, drawing up the first AMBIF Implementation Guidelines for Cambodia. Mr. Tukuafu stressed the role of ABMF in facilitating market development and integration in and across the ASEAN+3 markets, and its function to bring together the public and private sectors on a common platform.

5. **Keynote Speech** (SECC): Mr. Socheat Sou, Director General of the SECC, welcomed the support from ADB past, present and future, and the opportunity to host an ABMF Meeting for the first time, which was an opportunity for Cambodia and its institutions to further enhance regional cooperation. Cambodia is a young economy, considered a free economy since the 1990s, and has managed to reduce the poverty rate by 1% annually. Economic measures and the stability of the exchange rate should give confidence to investors. With the help of ADB, Cambodia had formulated a clear roadmap for its capital market development from 2011 to 2020 and extended the plan to 2025. This roadmap contained an action plan for the bond market.

6. Mr. Sou drew attention to the publication of the Cambodia Bond Market Guide that day; the BMG describes the capital market ecosystem as it stood, was compiled with the participation of all market institutions, reports on the achievements but also the challenges ahead, and includes considerations for issuers and investors alike. The BMG will help boost market development and activities. Mr. Sou also pointed out that SECC is working closely with CGIF on a corporate bond pilot issuance, expected this year. He stated that market infrastructure was ready to welcome a bond listing. Mr. Sou also referred to the two workshops successfully concluded at the SECC earlier in the week, a corporate bond workshop aimed at issuers and investors, and a custodian workshop aimed at domestic financial institutions. The workshops, held in conjunction with ADB and ABMF, will further contribute to bond market development.

7. Mr. Satoru Yamadera added that ABMF Meetings typically attracted about 100 participants, as in Phnom Penh, sometimes more, and ABMF in general was receiving a lot of regional attention; indeed, it had become an important platform for regional dialogue between public and private sector stakeholders. He also thanked the ABMF International Experts for helping to prepare and conduct the workshops earlier in the week.

8. **Cambodia Capital Market Development and Future Plans** (SECC and CSX): Ms. Likea Hor, SECC, gave an overview of the recent development of Cambodia in general, and the capital market in particular. The economy had moved from dominance by the agricultural sector to a focus on the service sector, and was experiencing the fastest growth among ASEAN markets, including for tourism and exports. Some other highlights included the rapid growth of the financial sector, significant growth in per capita GDP and the

government vision to be an upper middle income economy by 2030 and a high income economy by 2050.

9. Ms. Hor also explained the setup of the SECC and its market segment development plans, under the financial sector blueprint 2016-2025. So far, 12 securities firms, 12 law firms, 8 audit firms, 4 appraisers and 5 securities agents had been licensed or accredited to provide services in the securities sector. Following the ongoing development of corporate bonds, the SECC plans to introduce commodities and derivatives markets over the period 2019 to 2022. The immediate focus was to promote issuance and listing of securities, including bonds. Included in this strategy was the need to simplify disclosure documentation, strengthening the cooperation with the related authorities and the granting of incentives for issuers and investors, including tax and measures that would reduce the cost of going public.

10. Policies to promote trading included an increase of the permitted fluctuation of securities prices – from 5% to 10% – and to simplify the trading methods. At the moment, SECC was testing a web-based mobile trading feature, which would make it easy for retail investors to route their orders and obtain trading info via their mobile phones. Next steps would see the introduction of securities lending and borrowing, a focus of enforcement of market conduct, and a path to dispute resolution, as well as investment operations under a new trust law. In cooperation with ADB and the Ministry of Education, SECC was also focusing on financial literacy. New products will be corporate bonds and collective investment schemes and new market participants will include asset managers, bondholder representatives and custodians. Overall, the SECC will focus more on the good companies – those well run and able to list – and policies that will enhance market depth, strengthen governance and enforcement, and build investor confidence. One positive achievement was the acceptance of the SECC as an associate member of IOSCO. One more issuing and listing application was being considered by the SECC Director General at the moment.

11. **Cambodia Securities Exchange and Upcoming Developments** (CSX): Ms. Kim Sophanita introduced to the participants the key milestones of CSX, the current market status and investor structure and upcoming developments. CSX holds licenses as the operator of a securities market, a clearing and settlement facility and a depository function; listed securities were dematerialized and existed as book-entry records only. Total market capitalization stood at USD308 million, with limited turnover in terms of volume or value. Trading on the Main Board and Growth Board is now carried out on a continuous auction basis and day trading was recently permitted. CSX acted as CCP to buyer and seller. Bond trading will be introduced shortly and CSX is ready for bond listing as it occurs. CSX was conducting a listing incubator programme, which offered consultation services to potential listed companies and education to the market at large. Many companies needed funding but had not considered issuing and listing securities so far. Among SMEs alone – a group of 500,000 companies with 8 or more employees – there was significant potential for the Growth Board. However, the expected path to listing, estimated to take 2 years, is

considered too long for most companies, which instead turn to banks for financing. CSX has been developing 2-3 listing candidates.

12. The investor structure showed a strong dominance by retail investors, with only 1% of the about 9,000 investors identified as institutional, and only accounting for 8% of total turnover in 2017; all individuals invested directly into equities (so far) via their brokers. Non-residents are easily identified through an indicator in the investor ID. Among the individual investors, about 31% were foreign, with the largest participation in turnover from PR China, Taipei, China and the Republic of Korea. In the last year, residents traded more than non-residents. CSX will next focus on the implementation of the mobile trading system and the Bond Negotiation Trading Platform (working name), which will allow participants to quote for and negotiate bond trades. This platform will also support government bonds envisaged from about 2019. Plans also include the integration of collective investment schemes, the participation in the settlement and depository functions by newly accredited custodians, as well as the study of depository receipts.

13. **Update on ASEAN Bond Market Guides** (ADB Secretariat): Prof. Inukai and Matthias Schmidt, ADB consultants, updated members and participants on the progress of the Bond Market Guides (BMGs). With the Cambodia and Myanmar BMGs published that day, 11 BMGs were available for download from the ADB and ABO websites. ADB now considered the BMGs as part of its flagship publications, a strong endorsement of the efforts of ABMF Members and Experts. In consequence, BMGs would now be published and presented as a series of publications, rather than standalone documents. This would increase visibility and marketability of BMGs and draw attention from readers to all BMGs in the series, not just the market they were looking for originally; as a result, the cover would no longer show a year, instead the publication date would show on the copyright page only; this made updates easier to manage. Other recent changes to the BMG format included a simplified cover and the return of the original ADB logo, the inclusion of Japan's Official Development Assistance logo and a statement on the support of ISO standards.

14. Prof Inukai stressed that, in addition to the Know Your Customer concept, or KYC, it was very important for stakeholders to also know their market – the BMGs supported this. After many market changes to consider, the Korea and Viet Nam BMGs were well under way, with drafts currently being reviewed by market participants. Both BMG are expected to become final versions within about 2 months. For the PR China BMG, the version published in 2012 had only included the Inter-Bank Bond Market, while the planned version was envisaged to create a comprehensive view across all bond market segments in China. Audience feedback suggested to consider short or condensed versions of the BMGs, since some stakeholders and policy makers may not be able to read 100+ pages for each market. While ADB Secretariat will consider this suggestion, it was pointed out that the BMG structure was chosen to provide access to information on specific subjects in an easy and practical manner.

15. The next steps for the BMGs were the completion of the remaining 3 markets, and a synchronization of the BMG contents with the AMBIF Implementation Guidelines, most of which were published in 2016. Updates to BMGs in 2018 may include Thailand, as planned regulatory changes may be implemented, other markets on a needs basis, as well as changes that resulted from the elevation to flagship status by ADB. The SF1 team will also produce in 2018 a new version of the Comparative Analysis (CA) first published in 2012, then limited to a few market features. The CA is intended to review and revisit in particular professional market features and developments since the SF1 Phase 2 Report published in 2014. It will use a bottom-up approach to describe major features of a given bond market and produce comparisons of these features across all ASEAN+3 markets, allowing members, policy makers and regulatory authorities to gain insights in which practices exist across the markets and then enter into a dialogue on the pros and cons, or implementation experiences of such practices. Findings from the CA work and discussions may result in policy recommendations.

16. **Introduction to Credit Guarantee and Investment Facility (CGIF) and Its Roles in Supporting Bond Market Development** (CGIF): Mr. Jo Ee Khoo reviewed the role and function of CGIF and how it may contribute towards the development of the Cambodian bond market. CGIF focused on local currency bonds by ASEAN+3 issuers in an attempt to strengthen the local currency bond markets in the region. CGIF generally supports first-time issuers in domestic bond markets and cross-border issuances, or where an issuer wants to access foreign investors. Among the asset classes supported other than corporate bonds are project bonds, green bonds, as well as securitization bonds. CGIF guarantees are irrevocable and unconditional, and cover non-payment of principal and interest, for a maximum tenor of 10 years for corporate bonds, or 15 years for project bonds. CGIF expects to rank pari passu with other creditors of the issuer.

17. Due to limited capacity and country limit, CGIF only expects to play a catalytic role in Cambodia, until such time issuers may access debt capital on a standalone basis. In facilitating the issuance of bonds, investors will have an additional/new asset class for investment whereas financial institutions will have an additional instrument for asset and liability management. Successful issuance of local currency bonds will demonstrate that bonds can be a source of large local currency funding and, thus, facilitate the gradual adoption of Cambodian riel (KHR) in the market. Guarantees are also expected to bridge gaps in a nascent bond market such as the absence of a credit rating agency and investor aversion. In the absence of government bonds at this juncture, CGIF-guaranteed bonds may be used as the indicative benchmark for the risk-free rate. Mr. Khoo explained the process to establish a CGIF guarantee and referred to the use of the Single Submission Form (SSF), created by ABMF, as an underlying document for disclosure for an AMBIF bond.

18. Audience feedback pointed to the prevailing supply and demand for USD instruments and the lack of hedging tools in the event of KHR issuance by issuers accounting in USD. CGIF was aware of the realities of the market and was collaborating with ADB, SECC, potential

investors and arrangers to structure a practical solution. At the same time, its mandate is to support local currencies. Participants pointed out that local currency bond markets and LCY issuance were focus topics at the IMF and G20 at the moment, which also raised expectations for efforts under ABMI and that as a result, CGIF had a primary focus on LCY issuance, while ADB and the World Bank were able to extend facilities in any currency. Mr. Yamadera added that ADB and ABMF had been in discussion with policy makers and regulatory authorities to address this subject, which also went beyond CGIF-supported issuances.

19. **Promotion of Local Currency Denominated Green Bonds for Infrastructure Development** (ADB): Ms. A. Noy Siackhachanh explained that green bonds differed from other debt instruments only in the use of proceeds for positive environmental purposes; they need to comply with explicit criteria to qualify and are subject to review by a third party to obtain green bond certification. ADB was finalising its green bond study, financed by the PR China MOF, as part of ASEAN+3 efforts to promote long-term financing for infrastructure projects under the Asian Bond Markets Initiative (ABMI). According to the study, drivers for the emergence of green bonds included the leadership by multilateral development banks and public entities in issuing green bonds, the establishment of Green Bond Principles to assess the credibility of green bonds and the increasing focus on responsible investments. Issuers also issued green bonds to improve their reputation and broaden their investor base.

20. With norms and naming conventions for green instruments not fixed or protected, industry-developed norms and voluntary standards have filled the gap left by a lack of formal public policy frameworks, most important among them the Green Bond Principles (GBP) and the Climate Bonds Standard (CBI). As a result, investors will now only accept bonds as ‘green’ if issued in accordance with these industry norms. GBP were developed by a group of major banks (among them Bank of America, Citi, Credit Agricole and JP Morgan) and are administered by the International Capital Markets Association (ICMA). GBP require the issuer to specify proceeds be used for environmentally beneficial projects and assets, define a clear project evaluation process and keep proceeds separate from others funds available to the issuer; key was a regular reporting on the use of proceeds and environmental impact of the project or asset. GBP also recommend an external review of compliance with its criteria.

21. CBI is aligned with GBP but went further in that ‘green’ refers specifically to projects and assets that support low-carbon industries, technologies and practices that mitigate green-house gas emissions and measures to adapt to the consequences of climate change. CBI feature enhanced eligibility criteria for green bonds and a dedicated certification scheme and are generally considered to be harder to meet. Green bond issuance requires an issuer to formulate a green bond framework, including descriptions of use of proceeds, project evaluation and reporting; this framework was subject to review by the external party to confirm compliance with the selected green bond standard, typically prior to issuance. Costs for third-party reviews or ‘second opinions’ rang from USD15,000 to USD50,000; a

representative figure for the US was USD35,000. Overall, the green bond label added costs of between 0.1 to 7 basis points to the issuance costs, while green bonds carried no discernable yield difference to conventional bonds.

22. Investors in green bonds include institutional and retail investor universes, both responsible and conventional investors, as well as domestic and foreign investors; decision-making processes for responsible investors include both financial factors and nonfinancial factors, referred to as environmental, social and governance (ESG) factors. A market survey indicated that 45-65% of green bonds are held by responsible investors. Green bond indices have developed since 2014, the most widely used being the Bloomberg Barclays MSCI Green Bond Index, representing about 150 green bonds issued in a variety of currencies. The Luxembourg and London exchanges featured the most listings of green bonds; in Asia, SGX listed green bonds and the Shanghai and Shenzhen exchanges list green bonds on a pilot basis. Globally, green bonds outstanding stood at only about USD180 billion.

23. As for the ASEAN+3 experience, PR China issued national green bond standards in 2015, which are broadly in line with GBP, except for the standards valid for state-owned enterprises. In Japan, the Ministry of Environment issued voluntary green bond guidelines – aligned with GBP – in 2017. The ASEAN Capital Markets Forum (ACMF) released green bond standards in November 2017, as part of the broader regional convergence programme; the standards are closely aligned with GBP and will be implemented into national standards by each member. PR China was the largest issuer (USD 6.2 billion in 2016 and 1H2017), followed by issuances in Japan, Korea, Singapore, the Philippines, Malaysia and Thailand. Barriers for supply of or demand for green bonds in the region included the lack of national policy frameworks, a limited supply and limited demand by investors not overly familiar or comfortable with green bonds and a small responsible investor universe.

24. Recommendations from the ADB report on green bonds included to link efforts to promote green bonds into national strategies for climate change or sustainable development; in PR China, for example, a mention in the current 5-year plan allowed the policy to filter down to individual market and industry segments. Policy makers should also consider making mandatory the inclusion of ESG into training and licensing requirements for investment managers; notably, Japan has a responsible investor universe. Financial incentives for issuers were not considered appropriate – those could only be taken back with difficulty. Instead, climate funds readily available in the region should be tapped for support for green bond issuance. For ABMF, the suggestion was to invite ICMA Asia to present updates on GBP – issued in 2014 but reviewed and updated annually – and report on activities in the green bond markets.

25. Audience feedback detailed that 50% of investments in Europe were considered ESG driven, compared to under 10% in Asia overall, and less than 0.02% in Japan. At the same time, if a national framework was missing, could green bond principles not be included in

the efforts by SROs who already governed their markets and constituents? Such SROs and market institutions had adopted global standards, e.g. GMRA, into domestic practices and represented the infrastructure that could implement and maintain such standards. Mr. Yamadera acknowledged this, stating that green bonds were increasingly important and offered first mover advantages in nascent markets. ABMF's focus on LCY issuance and a CGIF guarantee could ease the first issue barrier. Investors had a tremendous interest in additional supply and for diversified asset classes, so green bonds represented future possibilities across all regional markets. This will continue to be one focus area of the policy bodies tasked with regional development and integration.

26. **Collective Investment Scheme: Its Roles in Supporting Capital Market Development and Infrastructure Investment** (Stock Exchange of Thailand): Mr. Kitti Sutthiatthasil related the Thai experience with CIS, mostly based on equity investments. Thailand's capital market was relatively well developed among its peers in ASEAN, including by market capitalization over GDP. Thailand operated the largest exchange in ASEAN, measured by liquidity (as shown by average daily trading value) – this was most recently driven by trading via mobile phone. Sources of funds for the economy were reasonably balanced by 2017, between government bonds, corporate bonds, equity financing and bank loans; however, corporate bonds only accounted for 7% of the total outstanding balance. The investor base in the Thai stock market was well diversified, with about half the assets held by domestic individual investors. In international markets, domestic institutional investors typically held 30-40% of assets, while this number still stood at below 15% in Thailand. However, assets held by institutional investors have grown rapidly in the last 7 years, reaching USD332 billion or 75% of GDP; 14% of assets under management (AUM) were invested in Thai equities, with nearly 50% of those held by mutual funds. Part of this situation can be traced back to tax incentives available to certain CIS products investing in equities, specifically long-term funds and retirement mutual funds which now account for 17% of AUM; these incentives amounted to a tax saving of 30%.

27. Domestic fixed income funds represented about 44% of AUM by funds. Other investment vehicles included feeder funds, or so-called foreign investment funds (FIF) in search of yield. Mr. Sutthiatthasil opined that local institutional investor development required a long-term approach, illustrating this by superimposing policy measures and development milestones over average trading value and market capitalization, over a period of more than 30 years. One lesson from research efforts was that a market needed (new) products to invest in, otherwise market activities would always be low. At the same time, domestic institutional investors helped buffer demand and maintained investment activities, even and in particular when foreign institutional investors were leaving the market. Institutional investors also actively helped to promote good corporate governance. One specific development saw infrastructure funds bring together CIS as an investment product with the funding needs of developers, addressing both demand and supply dynamics. Drivers included that government funding alone would not be sufficient for many very large and

complex projects. Domestic institutions already were significant investors in listed infrastructure funds.

28. In conclusion, Mr. Sutthiatthasil argued that capital market development was a long-term journey and needed long-term objectives and strategies. Effective development worked best in concert among regulators, issuers and investors. Domestic institutional investors in particular played an important role by improving market stability and quality, and by representing a key source of funding for infrastructure investments. In response to questions, Mr. Sutthiatthasil mentioned that many market institutions made significant efforts to reach a broader investor market; SET conducted seminars and school programmes and had created the Thai Securities Institute (TSI) to further education on the capital market. The Thai Institute of Directors (IOD) was working with the SEC and listed companies to create a common curriculum for director education. Mr. Kosintr Puongsophol of ADB added that after the Asian financial crisis in 1997, market stakeholders realized the need to improve corporate governance. The Thai IOD was established with supports from the SEC, SET, Bank of Thailand, and the Foundation for Capital Market Development Fund, as well as international organizations such as the World Bank; by now, the Institute was self-sustaining.

29. **Progress of Working Group on Information Platform** (ABO team): Dr. Grace Tian shared with the audience that AsianBondsOnline (ABO) was hoping to become the official information portal of ABMI. The team had just renewed its agreement for technical assistance with JMOF and was looking to implement changes under a comprehensive revamp plan, with an emphasis to make data dissemination via the portal more user friendly. Navigation around the website was to be improved as well as market coverage and the provision of richer data in a more timely manner; here the focus were capital flow and foreign investment data, which were increasingly requested by readers. ABO had already added pricing data from several bond pricing agencies and made improvements to the website in 2017; key information and updates were now highlighted for easy accessibility. Targeted were also the inclusion of non-data information, such as from the Bond Market Guides, using a standard format to make individual subjects easily accessible. In addition, ABO also publishes the ADB flagship publication Asia Bond Monitor on a quarterly basis and has been conducting capacity building workshops on bond market developments in emerging East Asia.

30. Dr. Donghyun Park acknowledged earlier statements in the context of the BMGs about the general ignorance about the ASEAN+3 markets outside the region and pointed to the need for ABO and its efforts to present such data and relevant information to the investing public at large, e.g. through AsianBondsOnline and its events. He then shared some recent bond market developments: LCY bond markets in emerging East Asia had continued to expand in 3Q2017, reaching USD11.6 trillion in bonds outstanding; growth had been higher quarter-on-quarter and year-on-year compared to 2Q2017 and LCY issuance rose to USD1.3 trillion; PR China remained the largest bond market in the region, while Korea had the highest ratio of bonds over GDP. Overall, corporate bonds maintained their one-third

proportion in total bonds outstanding. ADB's GDP growth forecast for the region was 5.8% for 2018; PR China alone would grow at 6+%, which would spill over into other regional markets, including Cambodia. CDS premiums were declining, indicating less volatile markets. Markets recorded strong capital inflow into government bond markets.

31. In response to questions, Dr. Tian and Dr. Park accepted the suggestion that foreign investment data should also make reference to (certain) macroeconomic conditions, since domestic bond markets consisted of both LCY and FCY issuances, which may not allow a direct comparison or simple consideration. A further breakdown of the investor types may be possible on the basis of standard data but in particular foreign investor breakdowns may not always be able to be easily identified due to privacy and data protection laws. Any development of such standard data needed additional research and came at a cost to be considered; however, a better understanding of the LCY bond markets – a corresponding study was introduced at the last ABMF Meeting – helped in deriving such data. Mr. Schmidt added that investor breakdown was often limited not just because of privacy regulations but also the practice of maintaining omnibus accounts which simply did not allow to generate any underlying investor data.

32. **AMBIF Taxation Study** (ADB Secretariat): Mr. Puongsophol related the underlying question 'Why do we need local currency capital markets' and the findings from South America and the recent study by Dr. Park, which showed empirical evidence that LCY market brought stability and other benefits to economies. The ABMI policy recommendation had been not to wait for the next crisis but instead put structures into place to mitigate such crisis from the outset; this was also good advice for nascent markets like Cambodia. Mr. Puongsophol used the Thai experience to derive some of the more prominent drivers of bond market development, illustrated by tax relevant measures against the backdrop of FX rate fluctuation and foreign investor participation in the market. He concluded that most measures had been FX rate driven, however, many tax measures had significance in their own right. The study on taxation for Thailand – an outline was shown – should be complete by June 2018 and would explain which measures had a positive impact on the market, and what was to be learned from past developments. Mr. Puongsophol invited the International Experts to contribute to the study with their own examples of tax relevant issues for consideration. He also mentioned the ongoing discussions of ADB with the Philippine National Tax Research Center (NTRC) and market stakeholders on the capital income tax reform.

33. Members relayed typical investor statements that a removal of withholding tax would increase market revenue overall because of a higher participation of foreign investors and queried whether such evidence had been found as part of the study. Mr. Puongsophol emphasized that most investor feedback related not to the tax rate or the fact that tax was imposed, but instead to tax processing and related procedures. This finding will be included in the study. Mr. Yamadera added that the investor mindset appeared to be changing, in that tax was increasingly considered as cost of doing business but if a tax process was complex, it did not allow investors to easily determine their return, which was a bigger

impact. The tax study was intended to identify and discuss enabling features of a practical tax regime for a bond market, in particular for AMBIF type issuances.

34. **Update on ASEAN+3 Multi-Currency Bond Issuance Framework and Outcomes of Market Visits** (ADB Secretariat): Mr. Yamadera updated participants on the efforts with regards to AMBIF. ABMF was supporting an AMBIF pilot issuance in Cambodia, supported by CGIF. A potential issuer and investors had been identified, and to receive a CGIF guarantee was critical to make the pilot work for all stakeholders. However, there were still a number of issues to solve, including the permissible number of investors and the currency denomination, for which the Cambodian government may offer a practical solution. ABMF did not want to support private placement since it remained unregulated and the SECC wanted to create a market with specified disclosure. ABMF was developing the AMBIF Implementation Guidelines for Cambodia, to help facilitate the necessary market features with the help from SECC and CSX; the objective was to create an enabling market environment; the Guidelines would also help establish market practices. The lack of a custodian function in the market was significant for investors, and ABMF and ADB had started addressing this with a workshop earlier in the week, with the support from ABMF International Experts.

35. Mr. Yamadera would like input from International Experts and other ABMF members into the market documentation still to be defined; this way, ABMF could help create representative documentation which could become standard in the market. ADB will continue to support these efforts, since they fall under market development activities. Consequently, the SECC may take some of these developments into further market regulations to complement the corporate bond framework. At the same time, ABMF was trying to expand the AMBIF markets, to as many as possible. ADB Secretariat has been getting enquiries, including from issuers, for several markets. Next in line were Indonesia, Korea and Viet Nam, and possible pilot issuances in the Philippines. In 2017, ABMF had hoped to help create a pilot issue in the Philippines which did not eventuate because pricing efforts fell through at the time. ABMF also needed to ensure that regulatory authorities would be able to accept the SSF, preferably in English; regional regulations still required the submission of documentation in local language. The objective was to standardise approval and disclosure practices, to an extent possible.

36. For the market visits, ADB Secretariat was hoping to be able to visit China in Q2, to help complete the compilation of the PR China BMG and also to find out more about account structure. Possibly, the China document would not be a BMG but an information document, depending on the level of available information. The Korea and Viet Nam BMGs can be completed without a market visit. ADB Secretariat would travel to Lao PDR the following week, for an initial assessment of how best to support its bond market development. This was the first step in market support, and a proper market visit would follow. As always, members and experts were welcome to register their interest in participating in market visits.

II. ASEAN+3 Bond Market Forum - Sub-Forum 2

37. **Update on Account Structure Survey** (ADB Secretariat and NTT Data as ABMF International Expert): Mr. Masao Oumi, of NTT Data, shared the outcome of the joint market visits with ADB Secretariat to the Philippines and Indonesia in Oct and Nov 2017, respectively. The focus of the findings had been on who pays interest in each market, what information had to be collected to ensure interest can be paid at applicable tax rates (tax angle), and what type of information was collected on non-resident investors and in what frequency (KYC angle). Mr. Oumi illustrated the respective processes by showing flows between market institutions, domestic custodians, global custodians and investors. In the Philippines, the Bureau of the Treasury (BTr) and the Philippine Depository and Trust Corp (PDTC) needed investor information for tax purposes, PDTC in addition when acting as registrar for corporate bonds. In Indonesia, KSEI, the central depository, was the holder of investor information, if not all, while Bank Indonesia (BI) did not need to collect and store such information; KSEI acted as one of the sub-registries for government securities holdings of non-resident investors. Additional information for tax purposes was collected by the domestic custodian from the non-resident investor directly, and sent to the tax office, issuer and/or registrar.

38. As for account structure, the Philippines featured a nominee concept, where the name of the investor may not appear in the accounts at the domestic custodian, only that of the global custodian. Hence, accounts at PDTC may be omnibus in nature, and may be kept by tax status. In Indonesia, such nominee concept was not recognized as such; investors were encouraged to obtain a Single Investor ID (SID) from KSEI, via their custodian; the contents of the SID, application process and underlying data were shown; more information was collected from institutional investors. In contrast, at BI, accounts held by domestic banks were omnibus accounts, and their clients' SIDs were not necessary. The main purpose of (non-resident) investor information was for tax purposes, but also to support KYC processes. It was also found that investor information may need to be sent by the investor to the market one-time or periodically, depending on the type of info. The actual information collection differed by market: in the Philippines, the process depended heavily on individual practices, with typical requested investor information shown; in Indonesia, the information collection was more generalized among all market participants.

39. In terms of tax processing, the flows and findings showed that both markets were cumbersome. In the Philippines, the need for and flow of physical documents was considered a heavy burden on all parties, for both KYC and tax purposes. In Indonesia, the validity of the so-called DGT-Forms followed the Indonesia tax year, which may not be the same as investor's home markets' tax year; as such, tax certification from an investor's domicile may have to be raised and submitted multiple times during an Indonesia tax year. Feedback from investors put the potential cost of tax processing at 30-40 basis points off the performance of a fund or portfolio, which was a prohibitive number.

40. Mr. Oumi concluded that a streamlining of tax and KYC processes and market practices was an important task, in particular with a focus on the avoidance of physical documents as evidence of investor identity and tax status, and a move to digital forms. Investors considered uncertainties with regards to procedures and cumbersome administrative processes a heavy burden, which affected the calculation of investment performance. A streamlining of processes would reduce such burden significantly and also improve market attractiveness. Mr. Oumi also stated that individual measures might differ by market, since each market had its own practices that might need to be addressed in market-specific manner. A thorough analysis of each market could yield a detailed prescription for which steps to be taken to address such issues. Participants also pointed out that withholding at source often impacted timeliness of submissions of necessary documents and affected the reclaim process and its success rate. In addition, in some markets, DTAs did not avail all investment vehicles the same relief which was a disincentive for some investors to actively pursue an investor ID and tax relief. Finally, some investors were not able to comply with information requests to due privacy, data protection or administrative issues.

41. Mr. Yamadera added that only through market visits was it possible to gain the type of insights that Mr. Oumi had presented. Recent times had often seen proposals for regional KYC tools, but this did not preclude the need for official individual market analyses, to address and eliminate issues instead of just automating them. Some of the burdens may just stem from domestic market practices. At the same time, the market visits revealed that governments were increasingly implementing e-government strategies, with introduction of IDs and the use of electronic forms. A challenge from this development may also be how to support KYC and tax processes with physical documents if investor data was increasingly kept in digital form only. Mr. Yamadera suggested that these issues be addressed at regional level, since they were expected to represent common challenges for all markets. However, a common understanding of practices and how to address them might be needed beforehand. This led to AMBIF as a platform to explore practices and offer resolutions, since the focus was on institutional investors, often non-residents; tax authorities may be able to support such ring-fenced universe due to its professional nature, in return for an official – one-time - investor registration. After all, (tax) authorities also wanted to understand exactly what the challenge was that investors experienced and commented on, so that these challenges may be addressed. This required ABMF to continue to engage the authorities through its discussions. A further examination of, e.g., the Legal Entity Identifier (LEI) may be worth considering in this context.

42. **Update on the Payment and Settlement System Upgrade in Myanmar** (ADB Secretariat): Dr. Taiji Inui, in his capacity as JICA Expert working with the Central Bank of Myanmar (CBM), introduced the basic policy and concept for the revamp of the CBM payment and settlement infrastructure. Specified was a user-friendly payment and settlement system for the interbank market as well as the infrastructure required by CBM to support the financial market in Myanmar overall. CBM-Net is to serve as high value payment system, the central securities depository for government bonds, collateral and

credit management as well as intra-day overdraft facility, and bulk and retail payment services including cheque truncation. The new infrastructure should follow the CPSS-IOSCO Principles for Financial Market Infrastructures (PFMI) and represent one of the best solutions implemented globally. The new CBM-Net was expected to make use of state of the art technologies and adopt international standards, in particular ISO20022, while respecting domestic market practices.

43. Dr. Inui explained the types of payment services to be included in the new FMI and illustrated the complexity of the linkages between the various components. He also highlighted the possible payment and settlement functions, for both cash and securities transactions, including the need to integrate debit and credit card/point of sale and ATM channels. The new FMI would place an emphasis on direct connections with domestic financial institutions' own core banking systems using widely accepted technologies, including international standards, such as ISO20022 in addition to BIC, currency and country codes. User interfaces are intended to be more user-friendly, offering dashboard and alert features. Other key features to be realised were 1) liquidity saving features, following a concept originally developed by Deutsche Bundesbank; these included queuing and offsetting of payments; and 2) the concept of simultaneous collateralization and DVP, adopted from the Bank of Japan. In addition, today's markets and banking customers expected payments to be fast or instantaneous – this was leading to the inclusion of rapid retail payment system functionality.

44. Due to the increasing reliance on CBM-Net as critical market infrastructure, back-up and disaster recovery abilities were also critical. This would be fulfilled with a hot stand-by facility at the main processing center and a remote back-up facility in a different location, with near-zero delay of switching between the facilities, or a recovery period in case of a complete outage of within 2 hours. Disaster recovery planning also included the necessary activities by CBM constituents and market participants. With user and system requirements complete, the kick-off of the realization phase for the new CBM-Net will occur in 1Q2018, with production operation expected in 2020. While Myanmar was not the size of other regional markets, the project objectives and timeline would allow Myanmar to catch up with the other markets. Mr. Yamadera highlighted the participation in this ABMF from colleagues from SECM and CBM and thanked the colleagues for the strong support in compiling the Myanmar Bond Market Guide. He encouraged the colleagues to make full use of the ABMF network, to connect with other members and reach out to ADB Secretariat in case of need.

45. **The Importance of ISO20022 and its Interoperability with FinTech in Securities and Payment Business Processes** (SWIFT): Ms. Lisa O'Connor briefly explained the set-up of the SWIFT Standards team in Asia. It's 12 persons focused on market practice developments and the promotion of and conversion to business standards and ISO20022. ISO20022 was not so much only about messaging but, in fact, about business standards. Users would need to create business data models for their business processes, and ISO20022 was driven by business processes, hence, offering users the ability to replicate their processes using proven standards. Business drivers for ISO20022 implementations

included major infrastructure refreshes, instant payments and compliance needs for the payment space, with fewer drivers in the securities area, which was dominated by the impact from T2S and other CSD system changes or replacements and strategic discussions.

46. Ms. O'Connor shared with the participants aspects from the ongoing ISO20022 migration study. Its scope would take in all business areas covered by messaging, i.e. payments, securities, treasury and trade, and included the migration approach and related considerations, including timescales, community readiness and the impact on or by market practices and interoperability with market infrastructures. The deliverables include a consultation phase starting in Q2, 2018, consisting of information consultations and a survey, with the final recommendation and report due in the second half of 2018. The study would analyse migration strategies, the readiness and demands of market infrastructures and their communities and discuss processes that needed to be reproduced in ISO20022 and those, which may be done in a different manner. SWIFT is intending to provide practical support with market practice usage guidelines and translations of exiting into future processes.

47. Upcoming major ISO20022 migrations included the ECB – merging T2 with T2S and other features in 2021, with the Bank of England following with a deep infrastructure renewal in 2022 and 2023. The New Payments Platform (NPP) in Australia already used ISO20022. One increasingly important driver was the interoperability of systems and infrastructures, and typical upgrades were driven by high value payment systems (HVPS) and instant payment systems. For example, HVPS+, a group of 13 market infrastructures and 7 banks, convened in April 2016 to derive common practices for ISO20022 implementations for HVPS. The group finalized guidance for 6 core payment messages in March 2017 and has organised subgroups to deliberate on interoperability, liquidity management and direct debit practices, among other areas. MyStandards, managed by SWIFT, is used as the tool to describe and maintain these guidelines on an annual basis.

48. Another driver for ISO20022 was the trend towards 'open banking', a term used to describe the ability for new market entrants or other participants to connect to existing market infrastructures using common application programming interfaces (APIs) available to all, and standard messaging and communication protocols. Open banking was increasingly prescribed in regulations to stimulate competition and standardise technical and functional delivery and ensure compliance through open collaboration in the industry. Open banking will require market participants to change their mind-set and business processing approaches from a closed to an open but secure one. Profit considerations may need to be replaced by practicality, a sense of community and the feasibility to stay in business if one does not adopt such new approaches. One key factor was the standardisation of open APIs for all business areas and infrastructures and their need to be secure to ensure no corrupt or misleading data would flow through them. ISO20022 offered enhanced models with API specific features, while standards schemas for APIs were being developed.

49. SWIFT had also conducted a number of proofs of concept using distributed ledger technology (DLT, often referenced summarily as blockchain) in comparison to existing business standards. SWIFT used the ISO definitions of actors in business processes and focused on each actor's activities in transactions during the lifecycle of a bond, as well as the underlying data model. Also tested was the concept of smart contracts. The efforts showed the ability to reuse existing standards, including BIC, LEI, ISIN, etc. and business process definitions. In fact, DLT and ISO20022 were found to share the same business definitions. SWIFT was able to define specific business standards for DLT using ISO20022, which are now available for re-use by the industry at large.

50. Among the constraints, SWIFT observed the need for stable technology to ensure higher throughput of transactions, the need for standardisation of smart contracts (a feature inherent only to DLT), and a need to adopt roles and responsibilities in normal business processes to those applicable in DLT. The ISO Technical Committee 307 (TC307, focused on DLT/blockchain) had since created study groups to address terminology, technology and identity subjects. Other TCs, including TC68 (Financial Services) were liaising with TC307 to ensure that industry specific requirements would be considered. Ms. O'Connor closed with showing the transformation of the traditional '4-corner' payment transaction (buyer and seller with correspondent bank each) via mobile and e-banking, and the emergence of DLT; however, the business standards used in each iteration of the changing transaction remained the same.

51. Participants feedback include a question when the US would adopt ISO20022 in the business areas covered and heard that the Fed was part of HVPS+, aiming to implement by 2023. Asian institutions need not follow the US or European examples, but should be aware of other regions' efforts, also because interoperability became more and more important. Asian markets were probably able to focus more on a full migration to ISO20022, instead of a like-for-like conversion, since many markets had limited legacy infrastructure. The key was to use rich data from the beginning to ensure the serviceability of future requirements. The ability to apply the findings from the ISO20022 migration study to small or medium sized environment, such as is common in Asia, should be easily possible regardless of scale, provided that the same underlying business model, definitions and standards are used. Key was to determine what was suitable for a given market and to document the business processes. Existing standards and data models should be used. ABMF was asked to allow for more info sharing sessions on open banking; an example with relevance for members might be the recent change in the Japan Banking Act to encourage open banking and the use of APIs.

III. Next ABMF Meeting

52. The next ABMF Meeting is scheduled to be held in Fukuoka, Japan, in the week starting 18 June 2018. The agenda is still being drawn up and may also include fintech (financial technology) and regtech (regulatory technology) subjects, as well as representations from

the Global LEI Foundation and ISO. Another XBRL Asia Roundtable is also planned for the same week and venue. Details of the meeting will be shared with members soon.

53. The subsequent ABMF Meeting may be held in Indonesia, to use the opportunity to show the market developments and latest changes in the Indonesian bond market. ABMF Meetings may increasingly be used to create a platform to highlight overall or specific market developments or achievements. ADB Secretariat was discussing possible dates and formats with the Indonesian authorities and would announce the outcome at a later stage.