

#### **MEETING AGENDA**

#### 30<sup>TH</sup> ASEAN+3 BOND MARKET FORUM (ABMF) MEETING 28-29JANUARY 2019

Auditorium Zone ABCD Asian Development Bank Manila, Philippines

TIME	PROGRAM						
DAY 1 – 28 January 2019: ABMF Sub Forum 1 (SF1) Meeting							
08:30 - 09:00	Registration						
09:00 - 09:10	<b>Welcome Remarks</b> by Mr. Bambang Susantono, Vice President (Knowledge Mgt and Sustainable Devt), ADB						
09:10 - 09:15	Opening Remarks of SF1 by Mr. Koji Ito, Sub Forum 1 Chair						
09:15 - 10:45	<ul> <li>Session 1: Update of ASEAN+3 Multi-Currency Bond Issuance Framework</li> <li>Presentation on the first CGIF-guaranteed AMBIF Bond in the Philippines <ul> <li>Presentation by SEC Philippines (20 min) by Comm. Ephyro Amatong</li> <li>Role of regulators to innovate the market</li> <li>Presentation by AEON Credit Philippines (30 min) by Mr. Takayuki Araki</li> <li>Fintech and bond market to support financial inclusion</li> </ul> </li> <li>Presentation on the first corporate bond in Cambodia <ul> <li>Presentation by SEC Cambodia (20 min) by Mr. Rady Mok</li> <li>First bond issue: lessons for other markets</li> <li>Presentation by SBI Royal (20 min) by Mr. Seng Chan Thoeun</li> <li>Prospect of Cambodia Bond Market</li> </ul> </li> </ul>						
10:45 – 11:05	Coffee Break						
11:05 - 11:20	Session 2: Update of CGIF guarantee operations by Mr. Kiyoshi Nishimura Credit Guarantee and Investment Facility (CGIF)						
11:20 – 12:15	Session 3: Country study update by Mr. Kengo Mizuno, Nomura Research Institute as TACT consultant - Corporate bond regulations in Indonesia, Lao PDR and Viet Nam						
12:15- 12:35	Session 4: Bond Market Guide Update by Prof. Shigehito Inukai, ADB Secretariat - China exchange market and interbank bond market						
12:35 – 12:55	Session 5: Asian Bonds Monitor update by Dr. Donghyun Park and Dr. Shu Tian, ABO team, ADB						

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

TIME	PROGRAM						
12:55 – 13:00	Closing Remarks by Mr. Koji Ito, Sub Forum 1 Chair						
13:00 – 14:10	Lunch (EDR Coffee Lounge, 2 <sup>nd</sup> Floor)						
ABMF Sub Forum 2 (SF2) Meeting							
14:10 – 14:15	Opening Remarks by Mr. Seung-Kwon Lee, Sub Forum 2 Chair						
14:15 – 14:30	<b>Session 6: Recap of account structure study and taxation</b> by Messrs. Shinya Kim, Daisuke Kim & Naotaka Shibasaki, NTT DATA System Technologies Inc., International Expert						
14:30 – 15:00	Session 7: Update on the New Registry of Scripless Securities (nRoSS) in the Philippines by DTOP Erwin Sta. Ana, Bureau of Treasury of the Philippines - Improvements in account structure management						
15:00 – 15:15	Session 8: Progress and update on standardization in the Philippines by by Ms. Cornelia Dagdag, PH-NMPG						
15:15 – 15:35	Coffee Break						
15:35 – 15:55	Session 9: Progress and update on standardization in the region by Ms. Cindy Foo, SWIFT						
15:55 – 16:05	Wrap-up by Mr. Satoru Yamadera, ADB Secretariat						
	Slideline meetings between the members and the Secretariat team - The secretariat will request a meeting with selected members.						
17:30	Welcome cocktail (ADB Central Courtyard)						
	DAY 2 – 29 January 2019: ABMF Sub Forum 2 (SF2) Meeting						
08:30 - 09:00	Registration						
09:00 – 10:20	<ul> <li>Session 10: WG-Cross-Border Collateral and Repo</li> <li>Recap of WGCR discusson by Messrs. Shinya Kim, Daisuke Kim &amp; Naotaka Shibasaki, NTT DATA System Technologies Inc., International Expert (15 min)</li> <li>Study on prime collateral usage in Asia by Dr. Gong Pil Choi, Korea Institute of Finance (20 min)</li> <li>Presentation by Mr. Eric Chng, BNY Mellon on APAC Hub (15 min)</li> <li>Presentation by Mr. Fei Tao, CCDC on cross-border collateral service (30 min)</li> </ul>						
10:20 - 10:40	Coffee break						

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

TIME	PROGRAM						
10:40 – 11:10	Session 11: Use of Distributed Ledger Technology by market nfrastructures by Ms. Cornelia Dagdag, DTCC						
11:10 – 11:40	esson 12: APEC Data Ecosystem Roadmap by Dr. Julius Caesar Parreñas, lizuho Bank, Ltd - APFF						
11:40 – 12:00	Session 13: Good Practice to develop a Bond Market by Mr Satoru Yamadera, ADB Secretariat						
12:00 – 12:10	Wrap-up by Mr. Satoru Yamadera, ADB Secretariat						
12:10 – 12:15	Closing Remarks by Mr. Seung-Kwon Lee, SF2 Chair						
12:15 – 13:15	Lunch (EDR Coffee Lounge, 2 <sup>nd</sup> Floor)						
<b>17<sup>th</sup> CSIF Meeting</b> 13:15 - 16:30 CSIF meeting (official members and observers only)							
ABMF - Slideline meetings between the ABMF members and the Secretariat team The secretariat will request a meeting with selected members.							

## **AMBIF BOND ISSUANCE IN THE PHILIPPINES**

**Update on ASEAN + 3 Multi-Currency Bond Issuance Framework** 

28 January 2019, ADB Headquarters



EPHYRO LUIS B. AMATONG COMMISSIONER

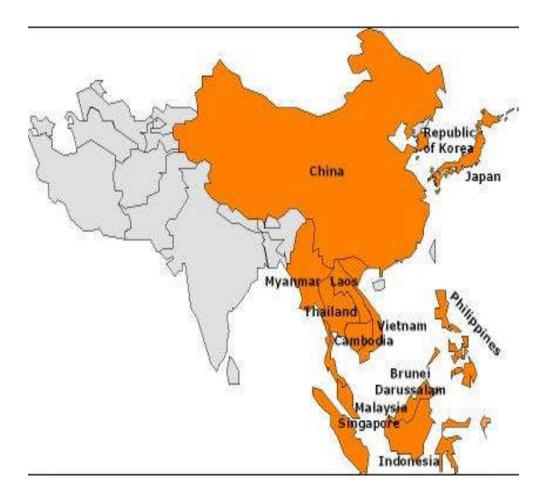
## OUTLINE

- Background
- AEON AMBIF Issuance
- Benefits of the Issuance
- Considerations during the Issuance
- Timeline of the Issuance
- Major Takeaways from the Issuance



## ASEAN + 3 MULTI-CURRENCY BOND ISSUANCE FRAMEWORK (AMBIF)

- Policy initiative under the ABMI to help facilitate intraregional transactions through standardized bond and note issuance and investment processes
- Creates common market practices; utilizes a common document for submission, the Single Submission
   Form (SSF); and highlights transparent issuance procedures as documented in the Implementation
   Guidelines for each participating market, including the Philippines





## AEON AMBIF ISSUANCE







TERMS AND CONDITIONS					
Borrower	AEON Credit Service (Philippines) Inc.				
Facility	PHP1 Billion				
Issue Date	16 November 2018				
Tenor	- 1 <sup>st</sup> Tranche: 3 years (November 16, 2021) - 2 <sup>nd</sup> Tranche: 5 years (November 16, 2023)				
Guarantee	Credit guarantee by Credit Guarantee and Investment Facility (CGIF)				
Issue Rating	Unrated				
Use of Proceeds	To provide tricycle loans and personal loans, as well as financial services for the purchase of consumer products focusing particularly on the unbanked population and those with limited access to financial services.				
Sole arranger	First Metro Investment Corp.				

#### ÆON Financial Service Co. Ltd. (AFS) Corporate Profile

Incorporation	20 June 1981
Capital	45.673 Billion Yen (Approx 396 Million USD)
Major Shareholder	AEON Co., Ltd. (45.63%) etc.
Listed Market	First section of the Tokyo Stock Exchange
Core Business	Bank Holding Company • Credit Card Business, E-Money Business • Banking business, Bank Agency Business • Insurance agency business, insurance business • Servicer Business • Personal Loan, Hire-purchase
Ordinary Profit	537 Million USD ( Japan Share:66%; Oversea subsidiaries share:34%)





## **AEON AMBIF ISSUANCE**

## ✓ First AMBIF issuance in the Philippines

- Single Submission Form
- Domestic settlement at designated CSD (PDTC)
- Registration or profile listing in ASEAN+3 market (PDEx)
- ✓ First AMBIF issuance that has been credit enhanced by the CGIF



## **BENEFITS OF THE AEON TRANSACTION**

- 1) Raised Peso proceeds to provide innovative financing options for the unbanked population (Financial Inclusion)
- 2) Adds diversity to the Philippine market, offering investors a new and high-quality investment opportunity



A total of 7 institutions participated in the transaction as lenders for the Notes.



## **CONSIDERATIONS DURING THE ISSUANCE**



## PDS Group



AEON is a Restricted Security Issuer and Non Reporting Company

Tradability guidelines for the 19-lender count Approval of addendum to existing PDEx guidelines to allow the enrollment of Restricted Issuers and Non-Reporting companies

• AEON to report to PDTC its total number of lenders every coupon payment

• Prevents transfers that would breach the 19-lender rule

Need to familiarize potential issuers, underwriters and investors with the AMBIF process



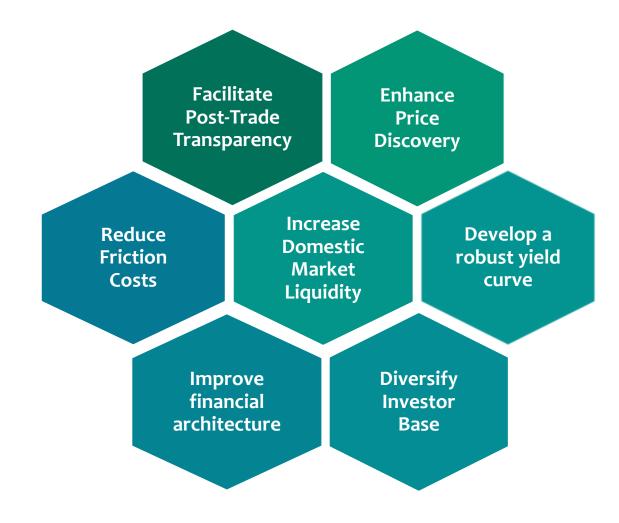
## TIMELINE OF THE ISSUANCE

Key Activities	Timetable			
Kick-off among AEON Credit, First Metro Investment Corporation, Mizuho Securities, CGIF and legal counsels*	4 <sup>th</sup> week of June			
Pre-marketing activities to potential investors	2 <sup>nd</sup> to 3 <sup>rd</sup> week of July			
Preliminary discussions with ADB, SEC and PDEx on the feasibility of the AMBIF Notes issuance by a Restricted Issuer and Non-Reporting Company such as AEON Credit under existing rules and regulation	4 <sup>th</sup> week of July to 2 <sup>nd</sup> week of August			
Formal Launch to potential investors	4 <sup>th</sup> week of August			
Investor Briefing	September 12			
Due Diligence of Investors and Documentation	2 <sup>nd</sup> week of September to 1 <sup>st</sup> week of November			
SEC and PDEx approval of the Addendum to the Enrolment Guidelines for Restricted Issuers and Non-Reporting Companies	October 10			
Signing of Notes Facility Agreement	November 12			
Listing/Issue Date	November 16			

\*NOTE: Mizuho Securities, as Financial Advisor to AEON Credit, initially reached out to First Metro in April 2018 to discuss possible debt funding options for the Company. At the time of the preliminary discussions between Mizuho Securities and First Metro, AEON Credit had already entered into an agreement dated January 4, 2018 with CGIF for the guarantee of a debt issuance of up to PHP 1.0 billion.



## **CONDUCIVE ENVIRONMENT:** GS MARKET REFORMS



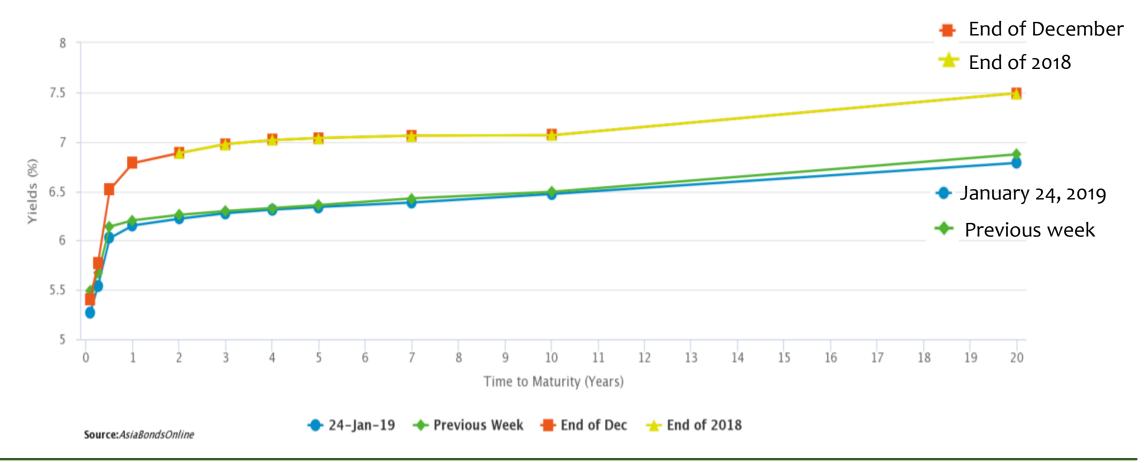
- Introduction of the National Registry of Scripless Securities (nRoSS) by BTr
- Enhanced Primary dealer system for Government Securities
- Introduced GMRA based Repo
- Revamp of the benchmark calculation methodology
- Revamp of the Front-end Trading System
- Revised GSED guidelines to incentivize market-making



## CONDUCIVE ENVIRONMENT: GS MARKET REFORMS

LCY Government Bond Yield Movements (PH)







## AEON AMBIF ISSUANCE: TAKEAWAYS

- **1.** AEON issuance has:
  - a) proven the AMBIF concept in the Philippines
  - **b)** provided replicable model for:
    - a) foreign/cross-border issuers tapping the local currency capital market
    - **b)** Financing/Credit companies to raise funds through the capital market
    - c) Promoted financial inclusion through AEON's innovative lending activities
- 2. Use of innovative risk reduction tools (CGIF guarantee) is useful to build confidence around new capital market products
- 3. Cooperation among agencies and stakeholders is crucial



# **THANK YOU!**

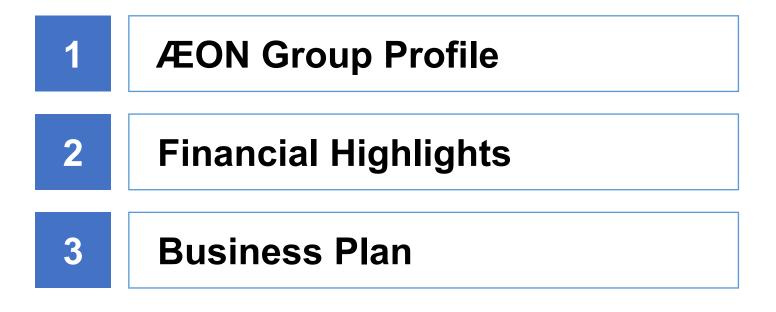




28 January 2019



### **Presentation Agenda**





## **Company Profile**



1



### 1) ÆON Group - Business Domains



Beauty & Cosmetic





## 1) ÆON Group - Structure

#### ÆON Co. Ltd., Group Structure



#### Ratings

Standard & Poor's: BBB+ (Long Term), None (Short Term) Rating and Investment Information, Inc :A- (Long Term), a-1 (Short Term)



## 2) ÆON Financial Service

AFS is one of the most well-known consumer finance service provider in Asia.

#### ÆON Financial Service Co. Ltd. (AFS) Corporate Profile

Incorporation	20 June 1981				
Capital	45.698 Billion Yen (Approx 417 Million USD)				
Major Shareholder AEON Co., Ltd. (44.86%) etc.					
Listed Market	First section of the Tokyo Stock Exchange				
Core Business	<ul> <li>Bank Holding Company</li> <li>Credit Card Business, E-Money Business</li> <li>Banking business, Bank Agency Business</li> <li>Insurance agency business, insurance business</li> <li>Servicer Business</li> <li>Personal Loan, Hire-purchase</li> </ul>				

**Ordinary Profit** 600 Million USD (Japan Share:59%; Overseas subsidiaries share:41%)



Credit Card



Electric Money



Personal Loan

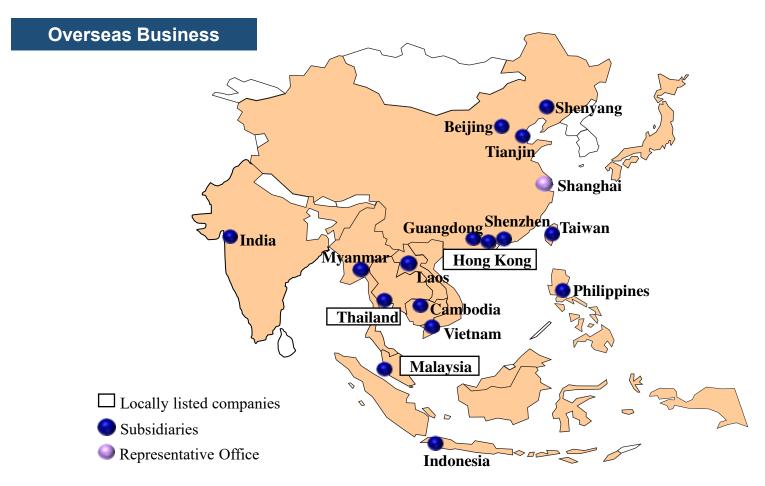


**Hire-Purchase** 

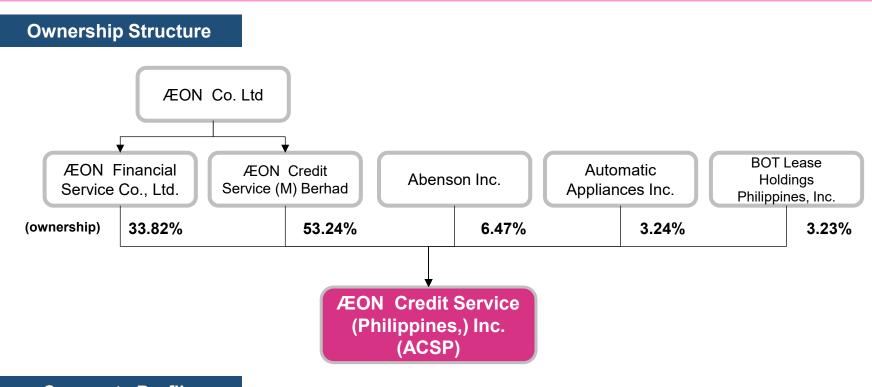


## 2) ÆON Financial Service - Overseas Business

AFS accelerated business development in emerging markets in Asia by establishing the bank holding company. It expanded Credit Card and related business in 12 countries in Asia.





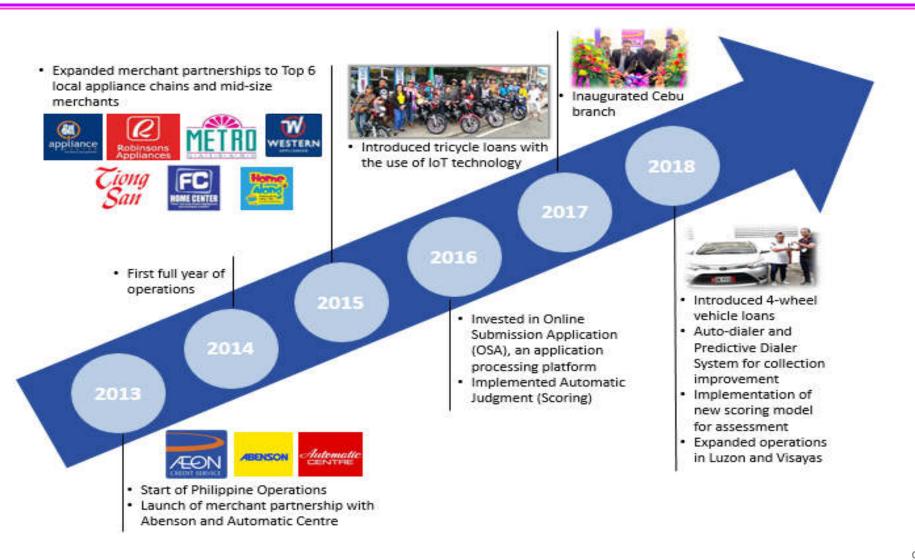


#### **Corporate Profile**

- **Registration** Financing Company under the Securities and Exchange Commission
- Business Hire Purchase, Vehicle Loans, Personal Loans
- Paid up Capital PHP 500 million
- **Head Office** 3<sup>rd</sup> and 5<sup>th</sup> Floors Hanston Square, 17 San Miguel Avenue, Ortigas Center, Pasig City



## 3) Milestones





## 3) Target Market

#### Socio Economic Structure in the Philippines

#### **Banking patterns**

Share of Income Classes to Pop'n (Annual Household Income)

- Credit Card holder
- 1 bank account for savings
- Limited financial access

10% Class A & B USD1,100-USD2,200, or PHP46,500-PHP93,000 per month

19% Class C USD440-USD1,090, or PHP18,500-PHP46,000 per month

- Unbanked
- Cash-based transactions

42% Class D USD176-USD430, or PHP7,400-PHP18,000 per month

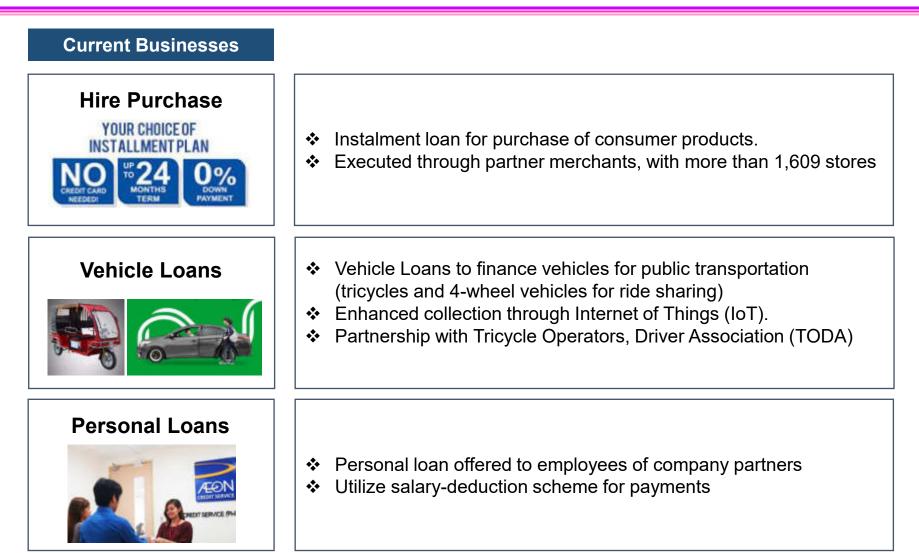
> 29% Class E < USD176, or < PHP7,000 per month

With the aim of providing financial services to the unbanked and support financial inclusion initiatives, ACS targets to provide financial services to Classes C ad D.

As of 2017, BSP's Financial Inclusion Survey, 77.4% of Filipino adults are unbanked.



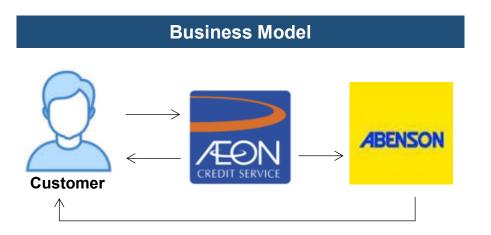
## 3) Core Businesses





## 3) Core Businesses: Hire Purchase

- Offered to customers who have monthly income but do not have bank or credit card accounts.
- Executed through partner merchants, totaling to more than 1,609 stores as of December 2018.



ÆON finances customer's purchase of consumer electronics or home appliances from partner merchants. Monthly, client pays ACSP for the installment loan through banks, convenience stores or payment centers.



#### ✤ 2018 Trade volume: PHP 2.873 Billion

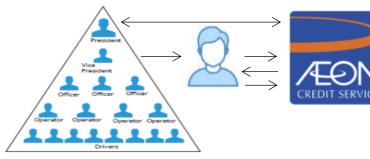
- Metro Manila PHP 1.348 Billion
- South Luzon PHP 712 Million
- North Luzon PHP 517 Million
- Visayas PHP 276 Million
- Mindanao PHP 18 Million



## 3) Core Businesses: Vehicle Loans (Tricycle)

- ✤ Offered to customers to finance purchase of motorcycle to be used for public transportation.
- Executed through partnership with tricycle operators and driver associations and Global Mobility Services.

#### **Business Model**



Tricycle loans are provided to TODA members.

#### Partners





Global Mobility Services, a Japanese start-up specializes in installation of GPS tracking systems used to monitor collection payments.



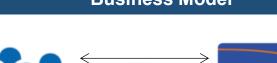
**Highlights** 

TODA Close partnership with TODA to identify potential customers.

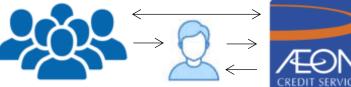


## 3) Core Businesses: Vehicle Loans (4-Wheels)

- Offered to customers, through ride-sharing operators and drivers association, to finance \*\* purchase of vehicles for ride-sharing
- Executed through partnerships operators and driver associations, TAU Corporation and Global \*\* **Mobility Services.**



#### **Business Model**



Vehicle loans are provided to association members.







As of December 2018						
Trade Vol	PHP 65 Mn					
Units	91					
NPL	0%					

#### **Partners**



Cooperation with association to identify potential customers.



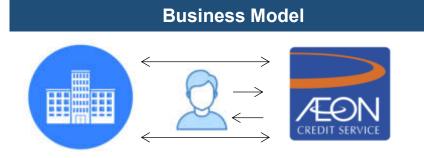
TAU sources secondhand vehicles to be used for ride-sharing.

GMS GPS tracking systems used to monitor collection payments



### 3) Core Businesses: Personal Loans

- Short-term non-collateral personal loan offered to credit-worthy customers.
- Currently offered to good-paying customers from Hire Purchase business, also offered employees of company tie-ups to utilize salary deduction scheme for loan payments.



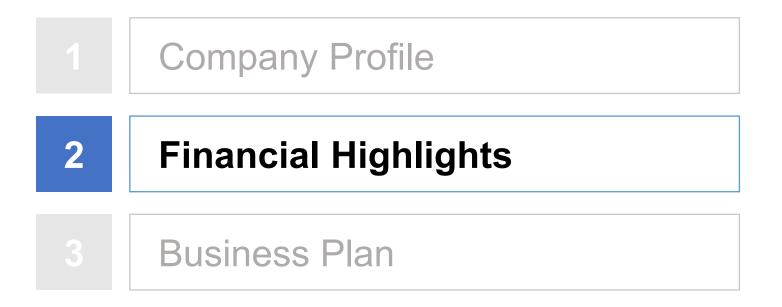
ACSP ties-up with companies and offer personal loans to partner-companies' employees. Loan payments are through salary deduction scheme.

As of December 2018					
Trade Vol. PHP 63 Mn					
Customers	1,296				



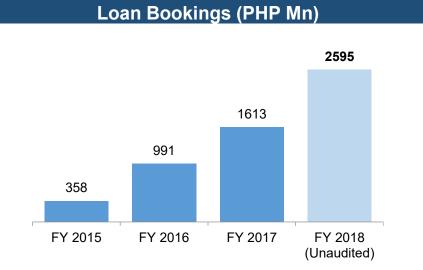
- On going discussion with suppliers and merchants for the Salary Deduction Scheme Personal Loan.
- On going feasibility study for the roll-out of Personal Loan to retail customers.



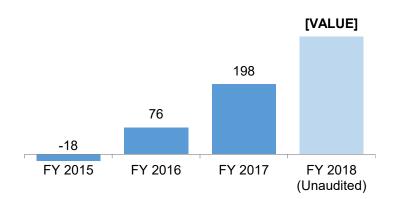


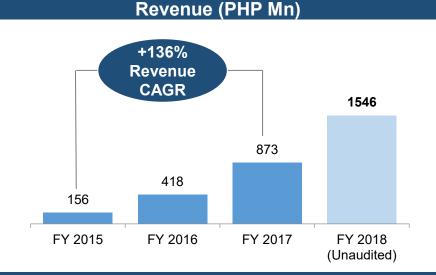


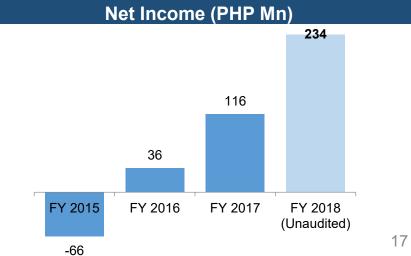
## 1) Financial Performance Highlights



#### **EBITDA (PHP Mn)**



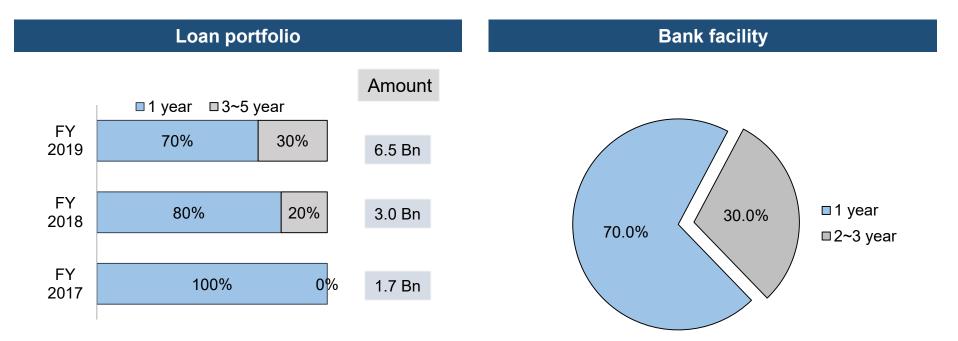






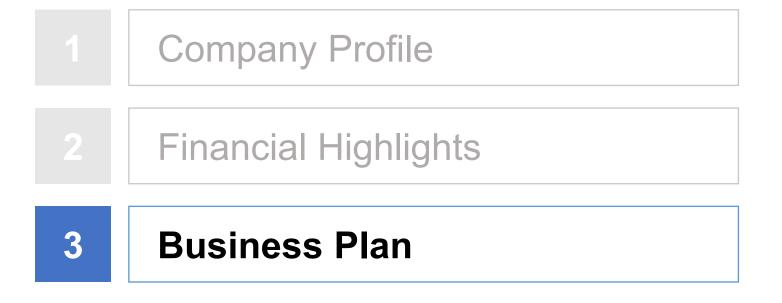
## 2) AMBIF Corporate Notes Proceeds

- ✤ ÆON Credit Service (Philippines,) Inc. aims to properly match its growing portfolio of Tricycle Ioan with 3 to 5 years term.
  - Current bank facilities term is up to 3 years only; it has been challenging to secure banks facilities of more than 2 years with a favorable cost.



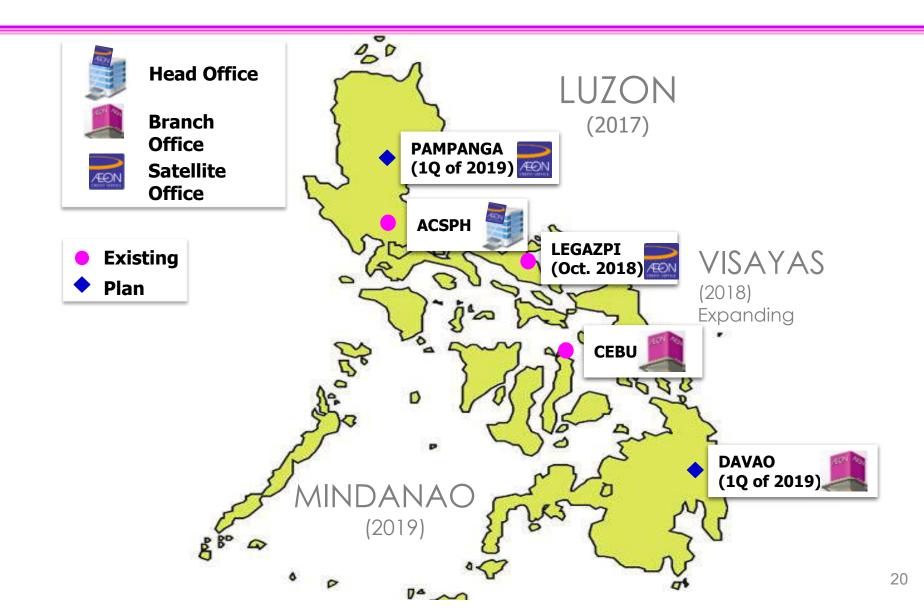
ÆON intend to expand its Tricycle loan operation in Cebu and Davao by 2019. This would enable the company to provide financial services to the unbanked client in Visayas and Mindanao Regions.







## 1) Business Areas Expansion





## 2) Financial Projections – Income Statement

#### **Income Statement**

Unit: PHP Mn

Revenue Segment	2017 (A)		2018 (Unaudited)		2019 (B)		2020 (F)		2021 (F)	
Hire Purchase	2,274	98%	3,052	89%	4,900	65%	5,635	53%	6,480	46%
Tricycle	50	2%	323	9%	1,600	21%	2,198	21%	3,021	22%
Personal	6	0%	64	2%	600	8%	850	8%	1,038	7%
Card Business	-	0%	-	0%	450	6%	1,917	18%	3,423	25%
Total Sales	2,330	100%	3,439	100%	7,550	100%	10,600	100%	13,962	100%
Revenue	941	100%	1,546	100%	2,815	100%	4,471	100%	5,644	100%
Bad Debt Expense	415	44%	563	36%	865	31%	1,297	29%	1,535	27%
Other OpEx	405	43%	650	42%	1,351	48%	2,174	49%	2,825	50%
Operating Profit	121	13%	333	22%	599	21%	1,000	22%	1,284	23%
Net Income	116	12%	234	15%	420	15%	700	16%	899	16%



### 2) Financial Projections – Balance Sheet

**Balance Sheet** 

Unit: PHP Mn

Asset	2017	' (A)	201 (Unauc		2019	(B)	2020	(F)	2021	(F)
Accounts Receivable	1,780	81%	2,808	75%	6,486	80%	9,302	85%	12,862	86%
Bad Debt Provision	(166)	(8%)	(215)	(6%)	(768)	(9%)	(915)	(8%)	(1,291)	(9%)
Current Assets	2,073	95%	3,555	95%	7,733	95%	10,430	96%	14,196	95%
Non-current Assets	116	5%	171	5%	423	5%	461	4%	680	5%
Total Assets	2,189	100%	3,726	100%	8,156	100%	10,891	100%	14,876	100%
Liabilities	2017	' (A)	201 (Unauc		2019	(B)	2020	(F)	2021	(F)
Borrowings	1,766	81%	2,819	76%	6,115	75%	8,190	75%	10,716	72%
Total Liabilities	1,879	86%	2,982	80%	7,185	88%	9,290	85%	12,466	84%
Issued Capital	300	14%	500	13%	500	6%	500	5%	500	3%
Retained Earnings	10	0%	244	7%	471	6%	1,101	10%	1,910	13%
Net worth	310	14%	744	20%	971	12%	1,601	15%	2,410	16%
Liabilities and Equities	2,189	100%	3,726	100%	8,156	100%	10,891	100%	14,876	100%

#### គណៈកម្មតារមូលមត្រកម្ពុជា SECURITIES AND EXCHANGE COMMISSION OF CAMBODIA

II—(+D)(C+)(-)



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Cambodia Securities Market Development,

# And Lesson from the

# **First Bond Issuance**

ADB Manila, 28 January 2019 Presented by Mr. Rady Mok | Deputy Director Email: m\_rady@secc.gov.kh

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# Contents

- I. Regulator
- II. Policy and Regulation
- III. Market Structure
- IV. Product Development Stage
- V. First Corporate Bond
- VI. Tax Incentives







In Cambodia, the Securities industry is regulated by the **Securities and Exchange Commission of Cambodia** (SECC) which is established in **2007** under the Law on the Issuance and Trading of Non-Government Securities.

### **II. Policy and Regulation**







# Equity and Bond Market Players



PROVIDE YOU SUPPORT

#### **Cambodia Securities Exchange**

- Market operator
- Depository operator
- Clearing and settlement operator

#### **Intermediaries**

- Underwriter x 6
- Dealer x 1
- Broker x 3
- Investment advisor X1
- Financial Advisor x 1





# Equity and Bond Market Players

#### Investors

- Individual: Resident x 17289 Non-resident: 3136
- Total: 20425 (as of Dec 2018)

#### **Securities Agent X 3**

• Securities Registrar Agent

Registrar

• Transfer agent

• Paying agent



#### Auditing Companies × 8



# Equity and Bond Market Players





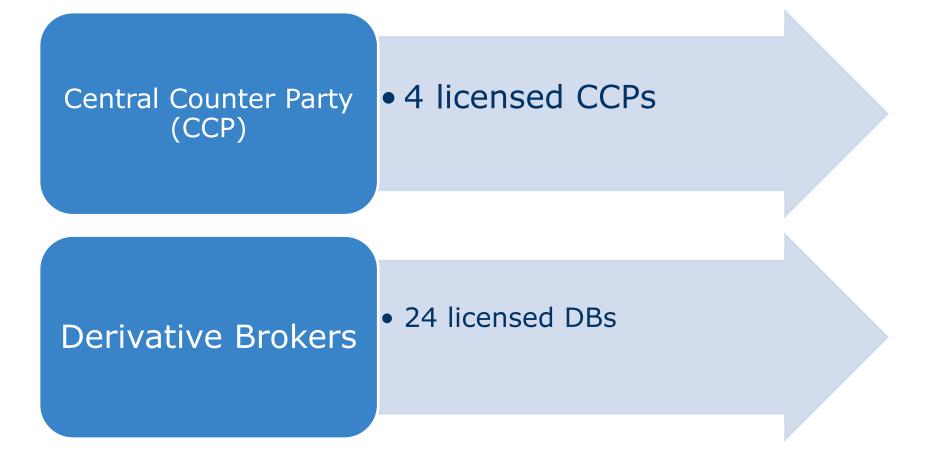
### Cash Settlement Agents X 3

- Acleda Bank Plc
- BIDC
- Canadia Bank





# Derivatives Market Players



# **IV. Product Development Stage**





# V. Corporate Bond in Cambodia



- Thanks the ABMF Team
- Prakas on Debt Securities

Issuance

- Plain bond
- Guaranteed bond
- Secured bond
- Prakas on Accreditation of Credit Rating Agency
  - Regional CRA
- Prakas on Accreditation of Bond Holder Representative
  - Acleda Securities Plc

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



# V. Corporate Bond in Cambodia



The <sup>1st</sup> corporate bond issuer:

Hattha Kaksekar Limited (HKL)

Other potential issuers in the pipeline:

- Commercial Banks
- Specialized Banks
- Microfinance Institutions
- Conglomerates

Government bond is almost ready: the SECC is appointed by MEF as Secretariat







Ref: Sub-decree on Tax Incentives in Securities Sector, No.01 AnkBK, dated 04 January 2019



### **THANKS FOR YOUR ATTENTION**



**គលភៈកម្មការមូលបក្រកម្ពុជា** securities and exchange commission of cambodia



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# **Question?**



### **HKL'S AMBIF BOND ISSUANCE**

THE FIRST CAMBODIAN CORPORATE BOND



JAN 28, 2019





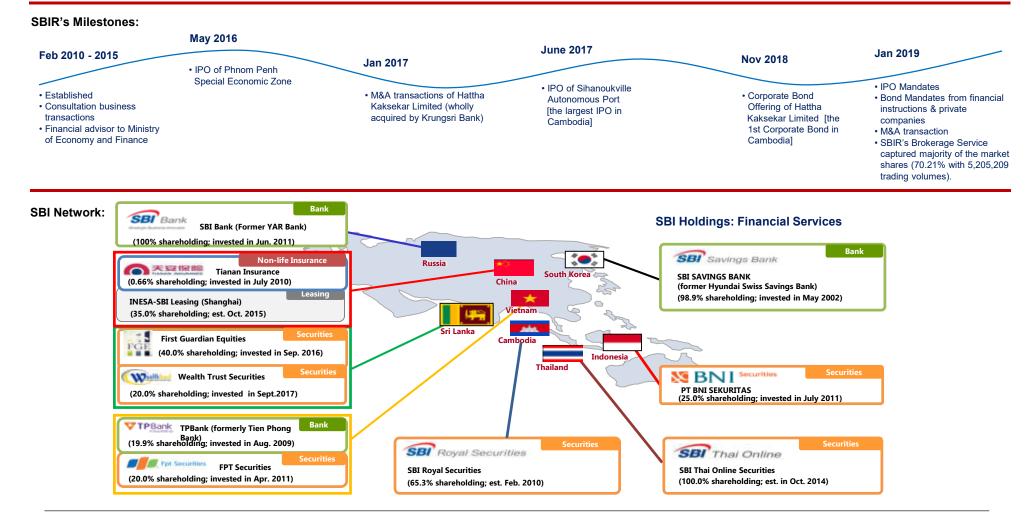
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### **SBI Royal Securities - At a Glance**

- SBI Royal Securities "SBIR" was established in Feb 2010 under the name "SBI Phnom Penh Securities" which was a subsidiary of SBI Holdings, a major Japanese financial service firm listed on Tokyo Stock Exchange.
- Since May 2014, SBIR's shareholders include: SBI Holdings (65.3%) Finansia Syrus (20.0%) and Royal Group (14.7%)
- SBIR's services cover: Underwriting Research & Brokerage Mergers & Acquisitions (M&A) Other Corporate Finance Advisory



Section I.

THE CORPORATE BOND OF HATTHA KAKSEKAR LIMITED (HKL)



### 1. Current State of the Capital Market (1/2)

#### **Market Basics**

- Currently 5 listed companies and 1 listed bond
- First listed company in 2012
- Average of one listing per year
- Bonds could rapidly increase the size of the Cambodian capital market

#### A Year of Growth (2017-2018)

- Trading volumes and market capitalization continue to increase.
- Market capitalization increased 44% from \$303.80 million to \$442.92 million.
- CSX index increased 41% from 340.22 to 480.98.
- Average daily trading value increased 101% from 13,149 to roughly \$26,701 per day.
- Trading volume increased 7% to average of 16,228 shares traded per day.
- The number of trading accounts increased nearly 129% to a total of 20,525 accounts.

Company	Trading Symbol	Date Listed	Type of Security	Number of Shares Listed	Market Cap* (KHR Million)
Hattha Kaksekar Limited	HKL21A	Dec 2018	Debt	30,000,000	N/A
Sihanoukville Autonomous Port	PAS		Equity	85,771,967	583,249
Phnom Penh Special Economic Zone	PPSP	May 2016	Equity	71,875,000	199,813
Phnom Penh Autonomous Port	PPAP	Dec 2015	Equity	20,684,365	135,276
Grand Twins International	GTI	Jun 2014	Equity	40,000,000	148,400
Phnom Penh Water Supply Authority	PPWSA	Apr 2012	Equity	86,973,162	289,621

\*As of Nov 26, 2018

### 1. Current State of the Capital Market (2/2)

- At this moment, Cambodian companies mainly rely on the bank loans and unofficial financing sources. Cambodian stock market is still at an infant stage.
- For emerging market like Cambodia, a bond market is the urgent needs to mobilize large amounts of long-term financing for infrastructure in order to sustain the present rate of economic growth. Major investments are required, especially in power, manufacturing, transportation and telecommunication.
- A launch of the corporate bond market in Cambodia in 2018, spearheaded by the bond issuance of Hattha Kaksekar Limited (HKL) will bring a new approach to both financing and investments.
- SECC and ADB are working on selecting the first group of corporate bond issuers from financial sector, manufacturing sector etc. (Pilot project). Major infrastructure companies and financial institutions are often the largest issuers in the early stage of bond market development.
- To support Cambodian companies to successfully issue local currency bonds with longer maturities, the bond can be guaranteed by the Credit Guarantee and Investment Facility (CGIF) in the ASEAN+3 regions. The aim of CGIF is to help companies that would have difficulty tapping local bond markets to secure longer-term financing, reduce their dependency on short-term foreign currency borrowing to mitigate currency and maturity mismatches.
- Bonds in USD and KHR are allowed in Cambodia.



MC Bond Loan GDP

### 2. Information on HKL's Bond (1/2)



- HKL is the third largest microfinance deposit-taking institution (MDI) in Cambodia in terms of assets, loan portfolio and net profit, and ranked second in terms of deposits from customers as of 31 December 2017.
- On 08 September 2016, HKL was acquired by Krungsri Bank, the 5th largest bank in Thailand and a member of Mitsubishi UFJ Financial Group (MUFG), Japan's largest banking group and one of the world's largest and most diversified financial groups.

Bond Name	The First Cambodian Corporate Bond No.1
Symbol Code	HKL21A
Bond Type	Unsecured and unsubordinated
Offering Amount	KHR 120 billion
Nominal Value	KHR 100,000
Coupon Rate	8.50%
Tenor	3 years
Coupon Payment	Semi-annually
Issue Date	14-Nov-2018
Listing Date	5-Dec-2018 (on CSX)
Maturity Date	14-Nov-2021
Use of Proceeds	Funding the growth in lending business, working capital, and capital expenditure
Bondholders Representative	ACLEDA Securities Plc
Underwriter and Financial Advisor	SBI Royal Securities Plc

#### **Terms and Conditions**

#### **Execution Highlight**

- **"The First Cambodian Corporate Bond No.1"** issued by HKL and listed on the CSX is the first corporate bond in Cambodia's capital market.
- International Finance Corporate (IFC), an investment arm of the World Bank, is the cornerstone/anchor investor of this historic transaction.
- The bonds were fully subscribed by banking and insurance companies.
- The bonds have been registered under AMBIF program.



#### Challenges of HKL Bond

Challenges	Reasons	Solutions
Building the Regulatory Framework for Corporate Bonds	<ul> <li>Regulatory framework for corporate bonds was created in 2017, but it did not completely address all documentations and issuance procedures.</li> </ul>	<ul> <li>Besides our group experiences in corporate bond, SBI Royal Securities studied previous transactions in other markets.</li> <li>Multilaterals such as ADB and IFC provided expert advice and consultation to SBI Royal Securities and to Cambodian authorities.</li> <li>Processes are now established after HKL's bond.</li> </ul>
Regulatory Approvals	<ul> <li>As the first ever bond, regulators took extra time to study the essentials and details before granting approvals.</li> <li>An additional approval was needed from NBC for the financial institutions.</li> </ul>	<ul> <li>It took time and continually providing supplementary information to the authorities to obtain approvals.</li> <li>The authorities and SBI Royal Securities now know more precisely what information will be needed to gain consideration and approval.</li> <li>Future approvals should be more timely.</li> </ul>
Weak Investor Demand for LCY Bonds	<ul> <li>There is no established pool of investors for KHR bonds.</li> <li>Foreign investors are not familiar with the Cambodian capital markets or the local currency.</li> <li>Cambodia has a highly dollarized economy, and local potential institutional investors conduct the vast majority of their business in USD.</li> </ul>	<ul> <li>IFC provided strong support for this transaction and subscribed two-thirds of the offered bonds.</li> <li>A few financial institutions invested in order to support the creation of the bond market.</li> <li>The central bank allowed investment in the bonds to count towards the 10% Khmer Riel loan portfolio requirement, so banks had extra incentive to invest.</li> <li>The coupon rate was set at 8.50% to attract investors.</li> </ul>

Section II.

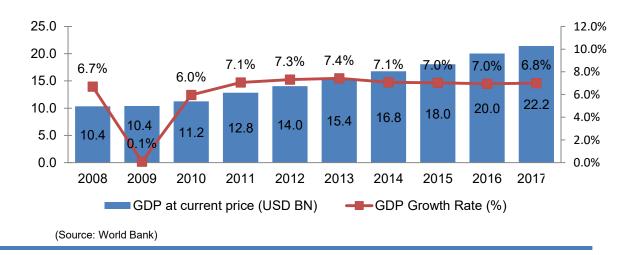
### THE PROSPECTS OF THE CAMBODIAN BOND MARKET



### 1. Favorable Economic Conditions (1/2)

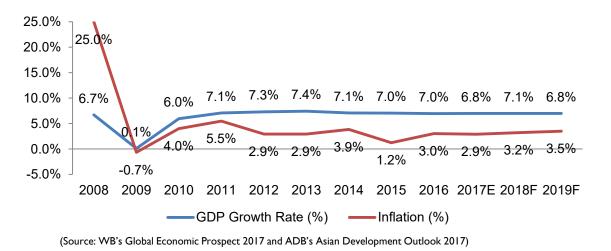
#### **Strong GDP Growth**

- The Cambodian economy has averaged economic growth of 7.6% from 1994-2015.
- Growth of 7.1% is estimated for 2018.
- Growth of 6.8% is estimated for 2019 and 2020.
- Tourism, agriculture, and manufacturing are the leading contributors to economic growth.



#### **Inflation Remains Stable**

- The inflation rate was at an estimated 2.9% in 2017, compared to the similar inflation rate of 3.0% in 2016.
- The 2018 ADO attributed the rise in inflation rate to the rising international oil price and other commodities and strong domestic demand.
- Inflation is expected to rise steadily at 3.2% and 3.5% in 2018 and 2019 respectively, according to ADB's forecast.



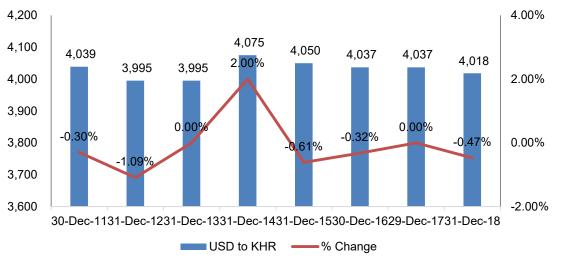


### 1. Favorable Economic Conditions (2/2)

#### **Stable FX Rate**

- FX rate of KHR/USD is very stable for the last 5 years. The central bank of Cambodia is doing a good job in stabilize it.
- Compared to other main currencies in Asia including Thai Bath (THB), Singaporean Dollar (SGD) and Malaysian Ringgit (MYR), KHR will incur less FX risk due to its low annual fluctuation of less than 2%.

#### USD to KHR Exchange Rate



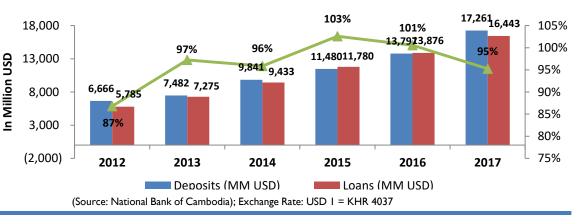
(Source: National Bank of Cambodia)

### 2. Banks and MFIs as Potential Bond Issuers

#### **Commercial and Specialized Banks**

- Growth in loans to customers averaged 25.04% per year from 2012-2017.
- Deposits grew at an average rate of 22.34% per year from 2012-2017.
- Assets grew at an average rate of 23.98% per year from 2012-2017 to USD 28.63 billion as of 2017.
- Total profits of USD 441 million as of 2017.

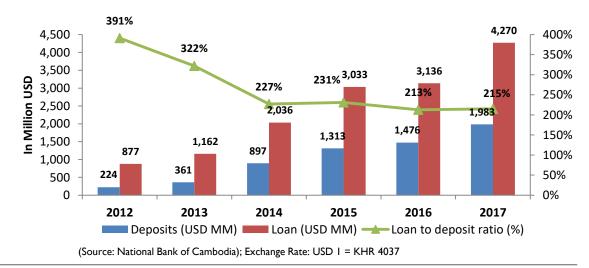
Banking industry's loans, deposit and loan-to-deposit ratio (USD' MM, %)



#### **Microfinance Institutions**

- Growth in the MFI industry has been especially robust.
- Growth in loans to customers averaged 38.84% per year from 2012-2017.
- Deposits grew at an average rate of 66.61% per year from 2012-2017.
- Total profits of USD 136 million as of 2017.
- MFIs in particular could benefit from bond issuances since their loans to customers far exceed their deposits. The loan to deposit ratio shows signs of decreasing but is still at 215% percent as of 2017.

MFI industry's loans, deposit and loan-to-deposit ratio (USD' MM, %)





Corporate Bo	onds in Cambodia
Issuers	<ul> <li>The SECC allows bond issuance in both KHR and USD. There are many prospective bond issuers , especially USD bonds.</li> <li>Financial institutions are good candidates for bond issuances due to their audited financial records and strong corporate governance.</li> <li>Many incentives for bond issuers: <ul> <li>Diversifying their funding sources</li> <li>Large amounts of foreign funds ready to invest</li> <li>Lower cost of funds</li> <li>Tax Incentives – The sub-decree on 50% reduction of income tax has been extended until 2022.</li> </ul> </li> </ul>
Investors	<ul> <li>Strong interest in USD-denominated bonds:</li> <li>Oversea institutional investors look for USD bonds, particularly with CGIF guarantee.</li> <li>Cambodian institutional investors, particularly insurance companies having almost 100% premium in USD want USD bonds to diversify their investment portfolios.</li> </ul>
Challenges	<ul> <li>Local currency bonds have few issuers and few investors.</li> <li>The functional currency for business in Cambodia is USD.</li> <li>The National Bank of Cambodia is taking measures to have the Khmer riel become the dominant currency, but it will take times.</li> <li>No credit rating agency in Cambodia. Then, it will rely on the offshore ratings.</li> <li>No custodian bank to facilitate the fund investment. The regulation on custodian license is already adopted and some banks are applying for this license. We may expect it in the next few years.</li> <li>Many companies in Cambodia have yet to adapt strong corporate governance or have audited financial statements, both of which are SECC requirements for issuing bonds.</li> </ul>

#### Next Steps for a Thriving Bond Market



#### More Laws, Framework, and Regulatory Approvals:

- SBIR is currently working on different types of securities such as Collective Investment Schemes and Mortgage-backed securities.
  - These will need to be studied by regulators before they can be approved.
- We are working on hedging and swap arrangements, so USD investors and issuers can access the Cambodian bond market in their preferred currency while avoiding FX risk.
  - This type of arrangement still needs to be approved by MEF and SECC.
  - Additional approval will be needed from NBC for issuances by financial institutions.



#### **Education and Awareness to Increase Issuers:**

- The capital markets are new to Cambodia, and many potential issuers have yet to understand the benefits and opportunities of fundraising through it.
- The SECC, CSX, and SBI Royal Securities are continuing efforts to hold forums, workshops, and talk to individual companies about accessing the capital market.



#### **Developing a Pool of Qualified Investors**

- Continued efforts from CSX and SECC like the Listed Companies Forum and Excellence Program
- As more issuances come to the market, there will be greater awareness by local and international investors about the investments opportunities on the Cambodian capital markets.
  - Issuances under AMBIF will help developing a pool of qualified investors.

### Thank you!

Seng Chan Thoeun (Mr.)

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# Update of CGIF Guarantee Operations

30<sup>th</sup> ABMF Meeting Manila, Philippines 28 January 2019



# **CGIF Profile**

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Legal Structure	A Trust Fund of the Asian Development Bank (ADB) (Operationally independent from ADB)					
Establishment	12 November 20	<b>12 November 2010</b> (commenced operations May 2012)				
Paid-In Capital	US\$ 859.2 million	US\$ 859.2 million (to be increased to US\$1.2 billion)				
Guarantee Capacity	<b>US\$ 2.3 billion</b> with 2.5 x leverage (to be increased to US\$ 3 bil)					
<b>Contributors</b> (Shareholders)	<b>Governments of ASEAN+3</b> (10 member countries of ASEAN + China, Japan, South Korea and Asian Development Bank (ADB))					
Objective	<b>Development of Capital Markets in ASEAN+3</b> (Part of Asian Bond Markets Initiative (ABMI))					
Main Operations	Guaranteeing Bo	nds issued in ASEAN+3				
Ratings	Global Scale ASEAN Scale National Scale	<ul> <li>AA (Standard &amp; Poor's) AAA (RAM - Malaysia)</li> <li>AAA (RAM - Malaysia)</li> <li>AAA (RAM, MARC – Malaysia, TRIS Rating – Thailand, Fitch Ratings – Indonesia)</li> </ul>	2			



# **CGIF Major Milestones (1)**

#### as of December 2018

2010	Nov	CGIF established (effectuation of Articles of Agreement (AoA) and Operational Policies (OP))
2011	Oct	Core management team (CEO & CRO) appointed
2012	Apr	CGIF initial capital of USD 700m fully paid-in
	May	Ready to commence guarantee operations
2013	Apr	First guarantee issued
	Nov	Guarantee capacity scaling-up (Meeting of Contributors approved an increase of leverage ratio to 2.5 times of capital to enable USD 1.75b capacity)
2014	Jan	Financial control and accounting function taken over from ADB
2015	Mar	CGIF office relocated to ADB HQ building
	Apr	Operational Review completed by BOD
2016	Oct	Quota share reinsurance treaty became effective (transferring CGIF into Public-Private Partnership)
2017	Aug	Medium-term Business Strategy and Capital Increase Proposal (CIP) approved by BOD
	Dec	CIP approved by Special MOC
		1 <sup>st</sup> subscription/1 of 3 payment received from Philippines under CIP



# **CGIF Major Milestones (2)**

as of December 2018

- 2018 Jan 2nd subscription and 1st full payment from Japan under CIP PHP bonds issued by ASA PH Philippines, 1st Micro Finance Bond, Advance 3 [Twentieth guarantee issued]
  - Feb THB bonds issued by Siamgas Petrochemical, Thailand [Twenty-first guarantee issued]
  - Mar 3rd subscription and 2nd full payment from Singapore under CIP
  - May 4<sup>th</sup> subscription from Thailand under CIP and 2 of 3 payment received from Philippines
  - July 5<sup>th</sup> subscription from Lao People's Democratic Republic under CIP
  - Aug 6<sup>th</sup> subscription and 3rd full payment from Cambodia under CIP
  - Sep VND bonds issued by The Pan Group JSC, Vietnam [Twenty-second guarantee issued]
  - Oct VND dual-tranche bonds issued by Hoan My Medical Corporation, Vietnam. This is also first healthcare bond in Vietnam [Twenty-third and twenty-fourth guarantee issued]
  - Nov PHP bonds issued by AEON Credit Service (Philippines) Inc., 1st debt issue under AMBIF program [Twenty-fifth and twenty-sixth guarantee issued]
  - Dec THB bonds issued by Siamgas Petrochemical, Thailand for second time [Twentyseventh guarantee issued]

THB bonds issued by Boonthavorn Ceramic 2000 Co. Ltd , Thailand. This CGIF's first coguaranteed transaction with a Thai Bank (KBANK) [Twenty-eight guarantee issued]



# **Guarantee Targets and Results**

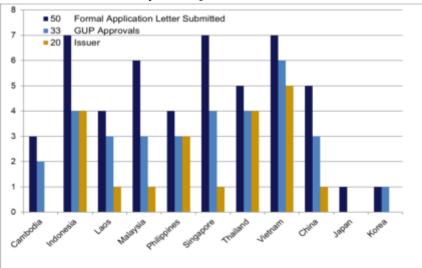
	Target	Result /	/ Status	
2013	5 approvals 3 issuances	5 approvals 2 issuances (Noble and BCAF)		
2014	6 approvals 6 issuances	3 approvals 4 issuances (Kolao, Protelindo, Masan, and ASF)		
2015	6 approvals 6 issuances	5 approvals 1 issuance (IVL)		
2016	6 approvals 9 issuances	5 approvals 5 Issuances (Vingroup, APRI, MPMF, FHC, and KNM)		
2017	7 approvals 7 issuances	5 approvals 2 issuances (ASA Philippines, and MWG)		
2018	14 CPs 7 approvals 10 issuances	15 concept papers (CPs) 9 approvals 6 issuances (SGP 1, Pan, HMC, Ac	eon, SGP 2, BTV)	
Guaran	tees issued (including	redeemed)*	1,415 mio	
Approved but not yet issued		435 mio		
Due Dil	igence for approval on	-going	747 mio	

<sup>\*</sup> USD Equivalent at Issuance Date



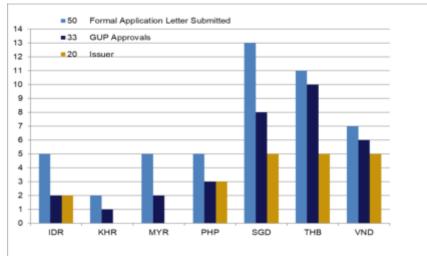
# **Geographical Distributions**

(May 2012 – Dec 2018)



#### By Prospective Issuers

#### **By Targeted Currency / Market**



- Nationality of issuers is well spread among 8 countries (Indonesia, Lao PDR, Malaysia, Philippines, Singapore, Thailand, Vietnam and China)
- CGIF guaranteed bonds have been issued in five out of six ASEAN LCY corporate bond markets currently functioning
- Continued efforts focused on kickstarting LCY corporate bond markets in new frontiers like Cambodia, Lao PDR and Myanmar.



	lssuer	Sector	CGIF Exposure in LCY/USD Eqv.	% G'tee by CGIF	Tenure	lssue Date	Coupon (spread over benchmark)
1	Noble Group (Hong Kong) <b>REDEEMED</b>	Commodity trading	THB 2,850 mio (USD 98 mio)	100%	Зу	26 Apr 2013	3.55% (+69bps)
2	PT BCA Finance	Consumer finance	IDR 300 bio (USD 25 mio)	100%	Зу	4 Dec 2013	8.20% (+20bps)
Z	(Indonesia) <b>REDEEMED</b>	(auto)	IDR 120 bio (USD 11 mio)	100%	Зу	18 Mar 2014	7.94% (+20bps)
3	Kolao Holdings (Lao PDR) <b>REDEEMED</b>	Automobile dealer	SGD 60 mio (USD 48 mio)	100%	Зу	21 Aug 2014	2.00% (+95bps)
4	PT Astra Sedaya Finance (Indonesia) <b>REDEEMED</b>	Consumer finance (auto)	SGD 100 mio (USD 76 mio)	100%	Зу	18 Dec 2014	2.115% (+86.5bps)
5	Protelindo Finance BV (Indonesia)*	Telecom tower leasing	SGD 180 mio (USD 138 mio)	100%	10y	27 Nov 2014	3.25% (+85bps)
6	MasanConsumerHoldings (Vietnam)	Food	VND 2,100 bio (USD 98 mio)	100%	10y	5 Dec 2014	8.00% (+96bps)

\* Change of issuer of the bonds from **Protelindo Finance B.V.** to **PT Professional Telekomunikasi Indonesia** effective 03 August 2016



	lssuer	Sector	CGIF Exposure in LCY/USD Eqv.	% G'tee by CGIF	Tenure	lssue Date	Coupon (spread over benchmark)
7	IVL Singapore PTE. LTD (Thailand)	Chemicals	SGD 195 mio (USD 137 mio)	100%	10y	7 Oct 2015	3.73% (+80bps)
0	Vingroup Joint	Real Estate Management & Development	VND 1,950 bio (USD 87 mio)	100%	5у	18 Feb 2016	7.75% (+129bps)
8	Stock Company (Vietnam)		VND 1,050 bio (USD 47 mio)	100%	10y	18 Feb 2016	8.50% (+138bps)
9	AP Renewables, Inc. (Philippines)*	Renewable Energy	PHP 4,687 mio (USD 100 mio)	-	10y	8 Mar 2016	Undisclosed
10	PT Mitra Pinasthika	ance finance	IDR 140 bio (USD 11 mio)	100%	Зу	11 Mar 2016	8.52% (+55bps)
10	Mustika Finance (Indonesia)		IDR 160 bio (USD 12 mio)	100%	Зу	28 Apr 2016	7.77% (+55bps)
11	Fullerton Healthcare	Fullerton Healthcare(USDCorporation LimitedHealthcare(Singapore)SGD	SGD 50 mio (USD 37 mio)	100%	5у	7 Jul 2016	2.45% (+72bps)
			SGD 50 mio (USD 37 mio)	100%	7у	7 Jul 2016	2.75% (+84bps)

<sup>\*</sup> Risk-participation with ADB as the fronting guarantor for a Total Issuance of PHP 10.7 billion (approx. USD 224 million eqv.)



# **GUARANTEE TRANSACTIONS (3)**

	lssuer	Sector	CGIF Exposure in LCY/USD Eqv.	% G'tee by CGIF	Tenure	lssue Date	Coupon (spread over benchmark)
12	KNM Group Berhad (Malaysia)	(Energy) Energy Equipment & Services	THB 2,780 mio (USD 78 mio)	100%	5у	18 Nov 2016	3.00% (+ 112 bps)
13		Consumer Finance	PHP 750 mio (USD 15 mio)	75%	5у	10 Feb 2017	5.07% (+87.5 bps)
	ASA Philippines Foundation, Inc. (Philippines)*		PHP 375 mio (USD 7.5 mio)	75%	5у	28 Jun 2017	5.17% (+87.5 bps)
			PHP 375 mio (USD 7.5 mio)	75%	5у	10 Jan 2018	5.90% (+87.5 bps)
14	Mobile World Investment Corporation	Specialty Retail	VND1,135 bio (USD 50 mio)	100%	5у	17 Nov 2017	6.55% (+ 197.2 bps)
15	Siamgas and Petrochemicals Public	icals Public OII, Gas &	THB 1,700 mio (USD 54 mio)**	85%	5у	28 Feb 2018	3.03% (+118 bps)
	Company Limited (Thailand)	Consumable Fuels	THB 1,400 mio (USD 43 mio)***	70%	5у	7 Dec 2018	3.85% (+150 bps)

\* 75% Partially Guaranteed Bonds for a total issuance of PHP 2.0 billion (USD 40 million (fx rate based on issuance date))

\*\* 85% Partially Guaranteed Bonds for a total issuance of THB 2.0 billion (USD 64 million (fx rate based on issuance date))

\*\*\*70% Partially Guaranteed Bonds for a total issuance of THB 2.0 billion (USD 61 million (fx rate based on issuance date))



# **GUARANTEE TRANSACTIONS (4)**

	lssuer	Sector	CGIF Exposure in LCY/USD Eqv.	% G'tee by CGIF	Tenure	lssue Date	Coupon (spread over benchmark)
16	The Pan Group JSC (Vietnam)	Consumer Staples	VND 1,135 bio (USD 50 mio)	100%	5у	10 Sep 2018	6.80% (+211.6bps)
17	Hoan My Medical	(Healthcare) Health Care	VND 930 bio (USD 40 mio)	100%	5у	Issue         (spread over benchmark)           10 Sep         6.80%           2018         (+211.6bps)           5 Oct         6.64%           2018         (+225 bps)           5 Oct         6.74%           2018         (+213 bps)           16 Nov         7.299%           2018         (+25bps)           16 Nov         7.695%           2018         (+25bps)           17 Dec         3.56%	
	Corporation (Vietnam)	Providers & Services	VND 1,400 bio (USD 60 mio)	100%	7у		
18	AEON Credit Services	Financials	PHP 900 mio (USD 17 mio)	100%	Зу		
	(Philippines) Inc.	ines) Inc. (Consumer Finance)	PHP 100 mio (USD 2 mio)	100%	5у		
19	Boonthavorn Ceramic 2000 Co., Ltd.'s	Consumer Discretionary (Specialty Retail)	THB 1,000 mio (USD 30 mio)*	50%	5у		3.56% (+130 bps)

\* 50:50 Co-guaranteed Bonds by CGIF and KBANK for a total issuance of THB 2.0 billion (USD 61 million (fx rate based on issuance date))



# **Current Business Plan**

# Business Focus

- Supporting first time issuers in the domestic bond markets
- Enabling matching funding for long-term investments by lengthening bond tenors
- Mobilizing intra-regional capital flows by supporting cross border bond transactions with special focus on supporting pilot AMBIF issues in new jurisdictions
- Introducing new debt instruments in the bond markets, such as project bonds, green bonds and securitization
- Broadening investor base in LCY bond markets by encouraging investment from offshore investors (in particular +3 investors)
- Helping to kick-start LCY bond markets in frontier markets (BCLM)



Secondary Focus

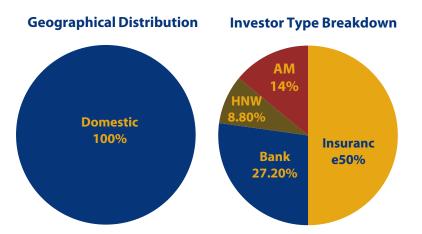
# Siamgas and Petrochemicals PCL's THB 2.00 Billion "Fixed Rate" Bonds



#### **Transaction Summary**

lssuer	Siamgas and Petrochemicals Public Company Limited
Issuer Rating	BBB (Tris Rating)
Guarantor	Credit Guarantee & Investment Facility
Issue Rating	A (Tris Rating)
Bond Type	Partial guarantee bond
Guarantee	85% Partial
Coupon Type / Payment	Quarterly
Distribution Method	Private placement
Issue Size	THB 2.0 billion (~USD 64 million equivalent)
Issue Price	100%
Tenor	5 years
Issue Date	28-Feb-2018
Maturity Date	28-Feb-2023
Government Benchmark	1.85%
Spread over Benchmark	118bps
Coupon to Investors (p.a.)	3.03%
Governing Law	Bonds – Thai Law Guarantee – UK Law
Placement Agent	United Overseas Bank (Thai) Public Company Limited and Krung Thai Bank Public Company Limited
Registrar, Paying and Transfer Agent	Bank of Ayudhya Public Company Limited
Bondholders' Agent	Bank of Ayudhya Public Company Limited

- CGIF's first guarantee for a Thai corporate in a Thai Baht bond issuance as well as the first partial guarantee for CGIF in the Thai bond market.
- Supported an issuer below the rating cliff to reach institutional investors in the THB market.
- This transaction marks CGIF's first guarantee to an LPG distributor. LPG is an environment friendly source of fuel to many low to middle income consumers.



# The PAN Group Joint Stock Company VND1,135 Billion Bonds

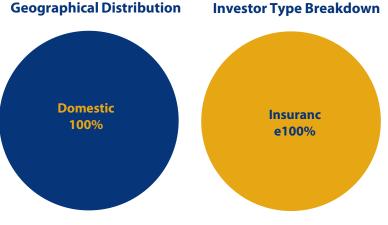


## THE PAN GROUP

### **Transaction Summary**

lssuer	The PAN Group Joint Stock Company ("PAN")
Issuer Rating	Unrated
Guarantor	Credit Guarantee & Investment Facility
Issue Rating	N/A
Bond Type	Plain vanilla
Guarantee	100%
Coupon Type / Payment	Semi-annual
Distribution Method	Private placement
Issue Size	VND 1,135 billion
Issue size	(~USD 50 million equivalent)
Issue Price	100%
Tenor	5 years
Issue Date	10-Sep-2018
Maturity Date	10-Sep-2023
Government Benchmark	4.6844%
Spread over Benchmark	211.6 bps
Coupon to Investors (p.a.)	6.80%
Governing Law	Bonds – Vietnam Law
-	Guarantee – UK Law
Placement Agent	Standard Chartered Bank
Registrar, Paying and Transfer Agent	Vietcombank Securities Company Limited
Bondholders' Agent	Vietcombank Securities Company Limited

- $\checkmark$  1<sup>st</sup> corporate bond issuance by PAN.
- Enabled PAN to diversify its funding sources and mitigate the limitation of traditional bank loan for M&A financing.
- ✓ Expanded PAN's investor bases.
- Mitigate PAN's interest rate risk and duration mismatches.
- ✓ The deal was oversubscribed from reputable multi-national insurance investors.
- Proceeds of the bond will be used to finance the food packaged business, which promote the food safety and hygiene to Vietnamese society



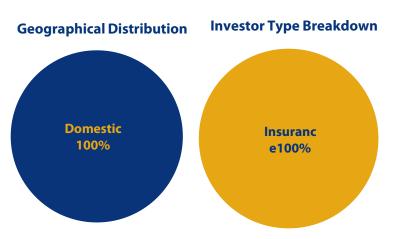
# Hoan My Medical Corporation's VND2,330 Billion Fixed Rate Bond



#### **Transaction Summary**

lssuer	Hoan My Medical Corp	Hoan My Medical Corporation ("HMC")			
Issuer Exchange (Ticker)	Unlisted				
Issuer Rating	Unrated				
Guarantor	Credit Guarantee & Inv	estment Facility			
Issue Rating	N/A				
Bond Type	Plain vanilla				
Guarantee	100%				
Coupon Type / Payment	Semi-annual				
Distribution Method	Private Placement				
	VND 930 billion	VND 1,400 billion			
Issue Size	(~USD 40 million	(~USD 60 million			
	equivalent)	equivalent)			
Issue Price	100%	100%			
Tenor	5 years	7 years			
Issue Date	5-Oct-2018	5-Oct-2018			
Maturity Date	5-Oct-2023	5-Oct-2025			
Government Benchmark	4.39%	4.61%			
Spread over Benchmark	2.25%	2.13%			
Coupon to Investors (p.a.)	6.64%	6.74%			
Governing Law	Bonds – Vietnam Law				
-	Guarantee – UK Law				
Placement Agent	Standard Chartered Ba	Standard Chartered Bank			
Registrar, Paying and Transfer Agent	Ho Chi Minh City Securities Corporation				
Bondholders' Agent	Ho Chi Minh City Secur	Ho Chi Minh City Securities Corporation			

- ✓ First issuer from the healthcare industry in Vietnam
- ✓ First issuer from a private and unlisted group
- ✓ 2.5x oversubscribed from institutional investors
- ✓ The deal execution was tailored to meet HMC's preference in terms of tranche sizes and achieve optimum pricing even below bank time deposit rates.
- ✓ Proceeds of the bond will be used to finance affordable and quality healthcare services in Vietnam.

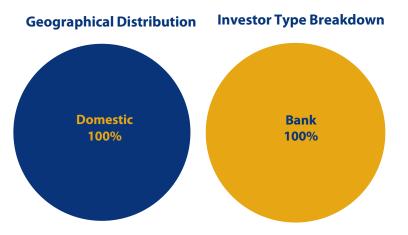


# AEON Credit Service (Philippines) Inc.'s PHP 1 Billion AMBIF bonds



#### **Transaction Summary** AEON CREDIT SERVICE (PHILIPPINES) INC. Issuer ("AEON") Information about the bonds is listed Issuer Exchange (Ticker) **Issuer Rating** Unrated Guarantor **Credit Guarantee & Investment Facility Issue Rating** N/A Plain vanilla Bond Type Guarantee 100% Coupon Type / Payment Semi-annual **Distribution Method Private Placement** PHP 900 million PHP 100 million Issue Size (~USD 17 million (~USD 2 million equivalent) equivalent) **Issue Price** 100% 100% Tenor 3 years 5 years 16-Nov-2018 Issue Date 16-Nov-2018 Maturity Date 16-Nov-2021 16-Nov-2023 **Government Benchmark** 7.05% 7.45% Spread over Benchmark 0.25% 0.25% Coupon to Investors (p.a.) 7.299% 7.695% Bonds – Philippine Law **Governing Law** Guarantee – UK Law First Metro Investment Corporation Arranger and underwriter **Financial Advisor** Mizuho Securities Asia Limited Registrar, Paying and Philippine Depository & Trust Corp. **Transfer Agent Facility Agent and** Metropolitan Bank & Trust Company – Trust noteholders' representative **Banking Group**

- ✓ First debt issue under the ASEAN+3 Multi-Currency Bond Issuance Framework ("AMBIF") guaranteed by CGIF and the first AMBIF issue in the Philippines
- ✓ 3.25x oversubscribed from institutional investors and achieved a very tight credit spread
- ✓ Contributed to diversify AEON's funding source
- Proceeds of the bond will be used primarily for AEON's financial inclusion business such as the Tricycle Loans



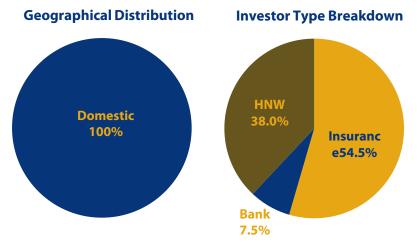
# Siamgas and Petrochemicals PCL's – 2<sup>nd</sup> Issue THB 2.00 Billion "Fixed Rate" Bonds



#### **Transaction Summary**

lssuer	Siamgas and Petrochemicals Public Company Limited
Issuer Rating	BBB+ (Tris Rating)
Guarantor	Credit Guarantee & Investment Facility
Issue Rating	A (Tris Rating)
Bond Type	Partial guarantee bond
Guarantee	70% Partial
Coupon Type / Payment	Quarterly
Distribution Method	Private placement
Issue Size	THB 2.00 billion (~USD 61 million equivalent)
Issue Price	100%
Tenor	5 years
Issue Date	07-Dec-2018
Maturity Date	07-Dec-2023
Government Benchmark	2.35%
Spread over Benchmark	150 bps
Coupon to Investors (p.a.)	3.85%
Governing Law	Bonds – Thai Law Guarantee – UK Law
Placement Agent	United Overseas Bank (Thai) Public Company Limited
Registrar, Paying and Transfer Agent	Bank of Ayudhya Public Company Limited
Bondholders' Agent	Bank of Ayudhya Public Company Limited

- This transaction gained market acceptance with a smaller guarantee coverage of 70% vs. 85% in the1st CGIF guaranteed bonds in February 2018
- This follow-on issuance from the same issuer is an excellent opportunity for CGIF to create different enhancement benchmarks
- This transaction is expected to attract more Thai corporates with different stand-alone ratings below A- to tap institutional investors' funds, thus enabling more efficient use of CGIF's guarantee support



# Boonthavorn Ceramic 2000 Co., Ltd.'s THB 2.00 Billion "Fixed Rate" Bonds



Transaction Summary	
lssuer	Boonthavorn Ceramic 2000 Co., Ltd.'s
Issuer Rating	N/A
Guarantors	Credit Guarantee & Investment Facility ("CGIF") and KASIKORNBANK Public Company Limited ("KBank")
Issue Rating	AA+ (Tris Rating)
Bond Type	Unsecured, Unsubordinated and Guaranteed Bonds
Guarantee	50:50 guarantees of CGIF and KBank
Coupon Type / Payment	Semi-annual
Distribution Method	Private Placement
Issue Size	THB 2.0 billion (~USD 61 million equivalent)
Issue Price	100%
Tenor	5 years
Issue Date	17-Dec-2018
Maturity Date	17-Dec-2023
Government Benchmark	2.26%
Spread over Benchmark	1.30%
Coupon to Investors (p.a.)	3.56%
Governing Law	Bonds – Thai Law Guarantees – Thai & UK Law
Placement Agent	KASIKORNBANK Public Company Limited
Registrar, Paying and Transfer Agent	Bank of Ayudhya Public Company Limited
Bondholders' Representative	Bank of Ayudhya Public Company Limited

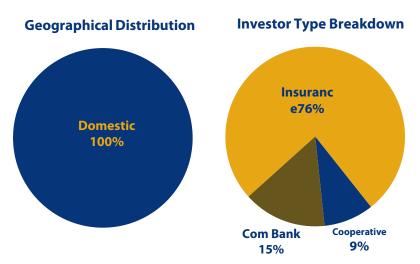
#### **Execution Highlights**

$\checkmark$	This is the	1 <sup>st</sup> co-guarantee transaction for CGIF.
--------------	-------------	--

With this new co-guarantee structure, CGIF paved a way to collaborate with Thai banks to support a wider range of issuers.

✓ This transaction is also expected to contribute to the expansion of the guarantee bond market in the region as the similar co-guarantee transactions are pursued in the future.

 ✓ Boonthavorn is the first time bond issuer which has relied on bank loans for its funding.





# **THANK YOU**

Asian Development Bank Building | 6 ADB Avenue, Mandaluyong City | 1550, Metro Manila, Philippines Tel +63 2 683 1341 | Fax +63 2 683 1377 www.cgif-abmi.org ASEAN+3 Bond Markets Initiative (ABMI) Japan - ASEAN Financial Technical Assistance Fund (JAFTA)



ASEAN Secretariat's Technical Assistance on Bond Market Development

# Corp. Bond Regulations in Cambodia, Indonesia, Lao PDR and Vietnam

**Country Update** 

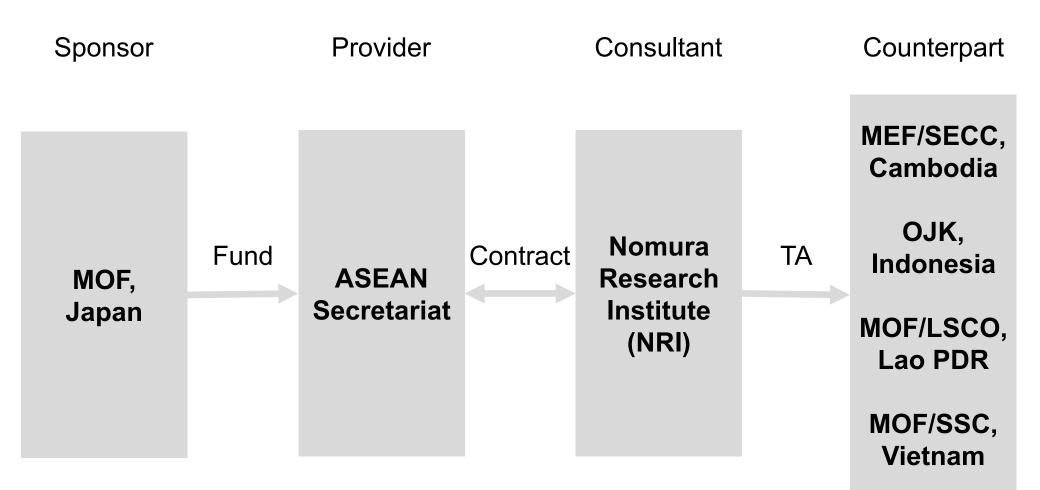


Jan 2019

Nomura Research Institute, Ltd.



## **TA Implementation Scheme**



## **1. Select ASEAN Overview**

# No professional placement scheme yet in CILV

## **"Professional Placement" in Select ASEAN**

	Private Placement (for anyone)	Professional Placement (for qualified investors)	Public Offering (PO)
Cambodia	< 30	(undefined)	≥ 30
Indonesia	≤ 100	(undefined)	> 100
Lao PDR	< 100	(undefined)	≥ 100
Malaysia	(disallowed)	Allowed, unlimited nos.	Anything others
Philippines	≤ 19	Allowed, unlimited nos.	Anything others
Singapore	≤ 50	Allowed, unlimited nos.	Anything others
Thailand	≤ 10	Allowed, unlimited nos.	Anything others
Vietnam	< 100, excluding professional investors	(undefined)	≥ 100, excluding professional investors

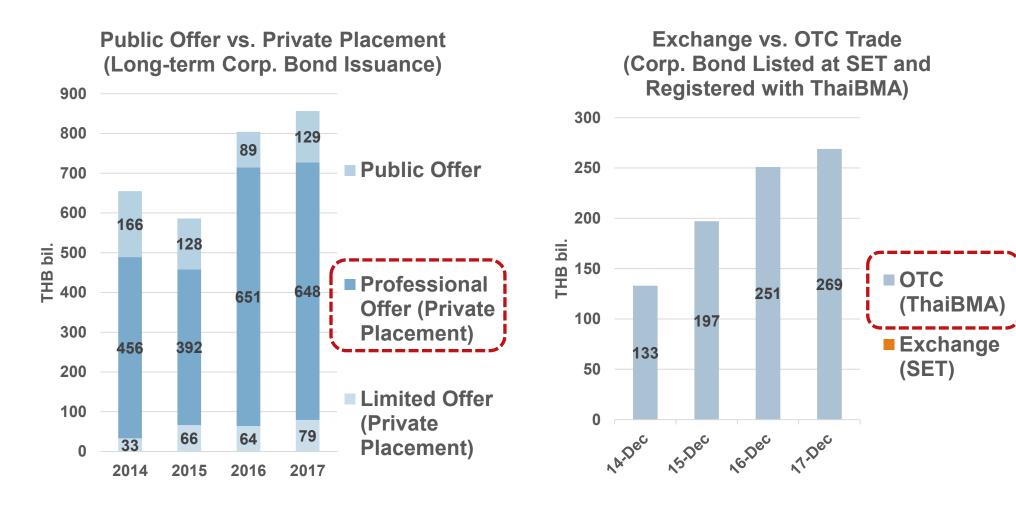
## Regional

# Mandatory listing for public offering in CLV

## Listing Requirement for "Public Offering" in Select ASEAN

	Listing on	Issuance/trade Repository			
	Stock Exchange	Requirement	Bond Info Center		
Cambodia	Mandatory	(fulfilled by mar	ndatory listing)		
Indonesia	Voluntary	Mandatory	IDX		
Lao PDR	Mandatory	(fulfilled by mandatory listing)			
Malaysia	Voluntary	Mandatory	Bond Info Hub		
Philippines	Voluntary	Mandatory	PDEx		
Singapore	Voluntary	Voluntary	SGX		
Thailand	Voluntary	Mandatory	TBMA		
Vietnam	Mandatory	(fulfilled by mandatory listing)			

# Professional placement mostly and OTC trade 100% in Thailand



## Regional

# No trade repository for private/professional placement in CILV

## Bond Info Center for "Private/Professional Placement" in Select ASEAN

	Listing on	Issuance/trade Repository		
	Stock Exchange	Requirement	Bond Info Center	
Cambodia	n.a.	None	None	
Indonesia	n.a.	None	None	
Lao PDR	n.a.	None	None	
Malaysia	Voluntary (exempt regime)	Mandatory	Bond Info Hub	
Philippines	n.a.	Mandatory	PDEx	
Singapore	n.a.	Voluntary	SGX	
Thailand	n.a.	Mandatory	TBMA	
Vietnam	n.a.	None*	None*	

# Banks cannot underwrite corp. bond in CILV

	Eligible u	Self-issuance by		
	Commercial bank	Securities company	underwriter (without third party underwriter)	
Cambodia		1		
Indonesia		1	$\checkmark$	
Lao PDR		✓		
Malaysia	$\checkmark$	$\checkmark$	$\checkmark$	
Philippines	$\checkmark$	✓	$\checkmark$	
Singapore	$\checkmark$	$\checkmark$	$\checkmark$	
Thailand	✓	$\checkmark$	$\checkmark$	
Vietnam	(✓*)	$\checkmark$	$\checkmark$	

\* Securities law allows, but banking law doesn't.

# Banks dominate underwriting and trading in Thailand

## Top 10 "Underwriters" of Corp. Bond (Primary Market, Q1-3 2018)

	Underwriter					
1	Kasikorn Bank	22.2%				
2	Bangkok Bank	14.8%				
3	Siam Commercial Bank	14.5%				
4	Krung Thai Bank	13.2%				
5	Bank of Ayudhya	11.6%				
6	CIMB Thai	4.5%				
7	Pattara Securities	3.7%)				
8	UOB Thai	2.7%				
9	Gov't Savings Bank	2.3%				
10	Asia Plus Securities	1.9%				

## Top 10 "Dealers" of Corp. Bond (Secondary Market, 2017)

	Dealer	Share
1	Tisco Bank	28.8%
2	Bangkok Bank	14.7%
3	CIMB Thai	13.7%
4	Kasikorn Bank	10.4%
5	KGI Securities	10.2%)
6	Krung Thai Bank	4.8%
7	Siam Commercial Bank	4.4%
8	Thanachart Bank	3.6%
9	Kiatnakin Bank	3.4%
10	CGS-CIMB Securities	2.1%)

# 2. Cambodia

## Cambodia

# Legal and Regulatory Framework

Law	<ul> <li>Law on Non-government Securities, 2007</li> </ul>
Regulation	<ul> <li>Sub-decree on Non-government Securities, 2009</li> <li>Circular on Public Offering of Debt Securities, 2017</li> <li>(no regulation on private/professional placement)</li> </ul>
Regulator	<ul> <li>Securities &amp; Exchange Commission of Cambodia (SECC)</li> </ul>

# First domestic corporate bond issued in 2018

#### Timing Maturity Market Amount Coupon lssuer Rating (% p.a.) (yr.) Naga Corp\* Dec 2016 HK USD 275 M Dec 2016 HK USD 94 M USD 3 May 2018 HK 300 M 9.375 B1/Moody's B/S&P 3 Hattha Nov 2018 KH KHR 120 B 8.50 **BBB+/TRIS** Kaksekar Limited

## **Corp. Bond Issuance by Cambodian Business Entities**

• Operator of Naga World, the only casino in Phnom Penh, incoporated in Cayman Islands, listed on HKEX. Issued two convertible bonds through private placement in Dec 2016.

Source: Naga Corp, SBI Royal Securities

# **Regulation necessitates review for amendment**

	Current Regulation	Challenge (hypothesis)	Suggestion (tentative)
Underwrite dealer	<ul> <li>/ Securities underwriters and dealers only</li> </ul>	Too small to underwrite and deal	Banks be allowed
Self issuance	Disallowed	Possibly cost burden to banks and MDIs	Self issuance by banks and MDIs be allowed
Profession placement	Unmentioned	Missing opportunity	Professional placement for qualified investors
Listing	Mandatory for public offer	Possibly impeding SOEs bond	Voluntary
Trade venu	e (OTC disallowed if listed?)		OTC allowed even listed
Trade repository	Unmentioned	Lack of market transparency	Compulsory (except for limited offer)
Securities depository	Unmentioned	Lack of central securities depository	Compulsory

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## Cambodia

# Suggested regulatory revision (preliminary idea)

		Private P	lacement	Public Offer	
			Limited Offer	Professional Offer	
Investor	Numb	er	Up to 10	Unlimited	Unlimited
Investor	Eligib	ility	Any	Qualified investors	Any
Underwri	ter / de	aler	Bank, securities co.	Bank, securities co.	Bank, securities co.
Self issua	ance by	v underwriter	Allowed	Allowed	Allowed
Issuance	effectu	ation	Filing to SECC	Filing to SECC	Approval by SECC
Listing of	Listing at CSX for trading		n.a.	n.a.	Voluntary
LISUNG a		for profiling	n.a.	Compulsory	Compulsory
Turda	if liste	ed for trading	n.a.	n.a.	Negotiated Trade Method (NTM)
Trade	if liste	ed for profiling	n.a.	OTC	OTC
	if unli	sted	OTC	n.a.	n.a.
Trade repository (CSX)		v (CSX)	n.a.	Compulsory	Compulsory
Rating	Rating		Voluntary	Voluntary	Voluntary
Continuo	us filin	g	Voluntary	Annually	Quarterly

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Remark: Applicable for plain bond. Different for equity-linked and structured bond. 13

# 3. Indonesia

## Indonesia

# Legal and Regulatory Framework

Law	<ul> <li>Law No.8 (1995) on Capital Market</li> </ul>
Regulation	<ul> <li>Decision of BAPEPAM, 2003</li> <li>POJK no. 11/POJK.04/2018 on professional investors</li> <li>(no regulation on private/professional placement)</li> </ul>
Regulator	<ul> <li>Otoritas Jasa Keuangan (OJK)</li> </ul>

# **Regulatory challenge and suggestion**

	Current Regulation	Challenge (hypothesis)	Suggestion (tentative)	
Private/ Professional placement	Unmentioned	Disadvantages for both issuers and professional investors	Develop professional placement scheme	
Underwriter/ Dealer	Only securities companies for underwriting	Securities companies are rather financially small-sized as underwriters	Develop risk management tools for dealers (to supplement roles of underwriters)	
SRO	IDX, KSEI, KPEI	SROs chiefly for equities market. Expertise on bond is fragmented	Appoint or reorganize to a single bond-specific SRO	
Trade repository	Mandatory	Lack of consolidated monitoring (Improper trading practice, etc.)	Develop fair conduct rules and enhance monitoring with more detailed data by SRO	

## 4. Lao PDR

# Legal and Regulatory Framework

Law	Law on Securities, 2012
Regulation	<ul> <li>Circular on Corporate Bond, 2014</li> <li>Circular on Issuance of Securities in Offshore, 2014</li> <li>(no regulation on professional placement)</li> </ul>
Regulator	<ul> <li>Lao Securities Commission Office (LSCO)</li> </ul>

# Offshore issuance active, while domestic issuance not yet

## **Corp. Bond Issuance by Lao Business Entities**

Issuer	Timing	Market		iount nil.)	Maturity (yr.)	Coupon (% p.a.)	Rating
EDL-Gen	Dec 2014	TH	THB	6,500	5-10	4.95-5.45	BBB+/TRIS
	Sep 2016	TH	USD	312	7-12	5.00-5.98	BBB+/TRIS
	Jul 2018	TH	THB	13,660	3-15	3.90-6.25	BBB+/TRIS
LVMC Holdings (Kolao)	Aug 2014	SG	SGD	60	3	2.00	AA/S&P (CGIF)
	Aug 2017	TH	USD	26	3	5.50	BBB-/TRIS
Nam Ngum 2 Hydropower	Oct 2017	TH	THB	6,000	3-10	2.59-3.69	A-/TRIS
	Mar 2018	TH	THB	3,000	12	3.98	A-/TRIS

Source: Thai BMA, Credit Guarantee & Investment Facility (CGIF)

# **Regulation necessitates review for amendment**

	Current Regulation	Challenge (hypothesis)	Suggestion (tentative)
Issuance decision	Shareholders' resolution	Impeding timely and flexible decision	Board resolution unless equity-linked
Underwriter / dealer	Securities company	Too small to underwrite and deal	Bank be allowed
Listing	Mandatory for public offer	Impeding SOE and private limited company	Voluntary
Rating	Investment grade or guaranteed	Too strict if Thai scale, nonexistent if Lao scale	Lao or Thai scale by accredited TRIS?
Guarantee	Mandatory if unrated or sub-investment grade	Little incentive for bank and issuer	Voluntary
Guarantor	Bank or financial institution	Impeding gov't guarantee	Any guarantor
Collateral	Prohibited	Impeding secured bond	Allowed but voluntary

# Suggested regulatory revision (preliminary idea)

			Private P	laceme	ent	Public Offer
			Limited Offer	Prof	fessional Offer	
Investor	Number		Up to 10	Unlimited		Unlimited
Investor	Elig	ibility	Any	Instit	utional investor	Any
_	Priv	ate limited co.	Board		Board	Board
Issuance decision	Pub	lic limited co.	Board		Board	Board
	SO	E	Board	Board		Board
Underwrite	r/de	ealer	Bank, securities co.	Bank, securities co.		Bank, securities co.
Issuance e	ffect	uation	Filing to LSCO	Filing to LSCO		Approval by LSCO
Listing			n.a.	n.a.		Voluntary
Trade			OTC	OTC		OTC
Trade repo	sitor	y (LSX)	n.a.	Compulsory		Compulsory
Rating	Rating		Voluntary	Voluntary		Voluntary
Credit Guarantee		Guarantee	Voluntary	Voluntary		Voluntary
enhanceme	ent	Collateral	Voluntary		Voluntary	Voluntary
Continuous filing		ng	Voluntary		Annually	Quarterly

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Remark: Applicable for plain bond. Different for equity-linked and structured bond. 21

## 5. Vietnam

# Legal and Regulatory Framework

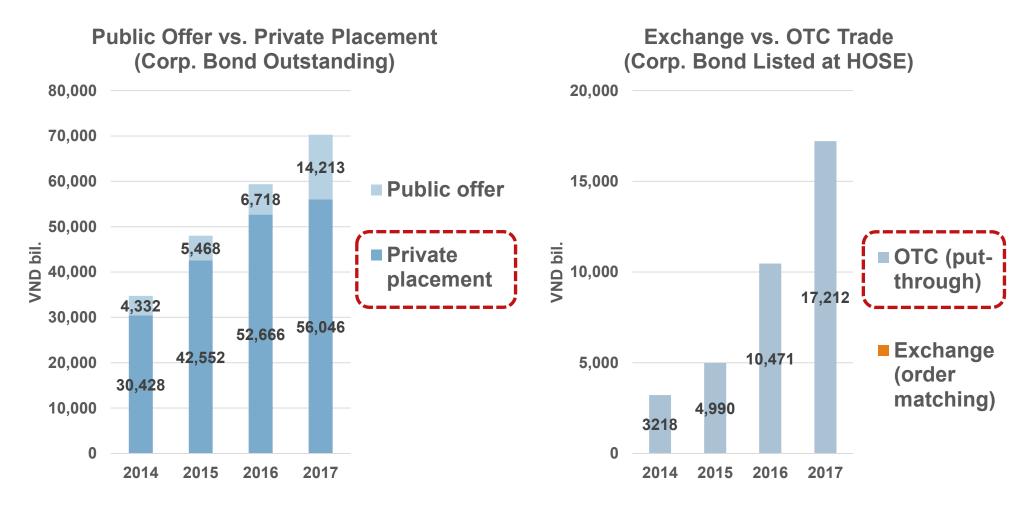
Law	<ul> <li>Law on Securities, 2010 (amendment expected in 2019- 20)</li> </ul>
Regulation	<ul> <li>Decree no. 58/2012/ND-CP on Implementation of law on Securities (for public offering of securities)</li> <li>Decree no. 163/2018/ND-CP on Corp. Bond (for private placement)</li> <li>(no regulation on professional placement)</li> </ul>
Regulator	<ul> <li>State Securities Commission (SSC) for public offering</li> <li>Ministry of Finance (MOF) for private placement</li> </ul>

# A few non-listed companies among top issuers

## Top 10 Corp. Bond Issuers in Vietnam (Sep 2018)

Issuer		Outstanding		State-	Listed	Business
		VND bil.	USD mil.	owned		
1	Masan Consumer Holdings	11,100	480	No	No	Retail
2	Vingroup	9,600	420	No	Yes	Real estate
3	Vietinbank	8,200	360	Yes	Yes	Bank
4	Asia Commercial Bank	4,600	200	No	Yes	Bank
5	Hoang Anh Gia Lai	4,000	170	No	Yes	Real estate
6	Nova Land Investment Group	3,800	170	No	Yes	Real estate
7	BIDV	3,050	130	Yes	Yes	Bank
8	Masan Group	3,000	130	No	Yes	Retail
9	Vietnam Prosperity Bank	3,000	130	No	Yes	Bank
10	Techcombank	3,000	130	No	Yes	Bank

#### Private placement in majority, and OTC trade only, even listed



Source: Asian Bonds Online and Hochimin Stock Exchange (HOSE)

Source: Hochimin Stock Exchange (HOSE)

#### **Bond Info Center by Stock Exchange from Feb 2019**

		Private Placement	Public Offer	
Investor	Number	< 100, excl. professional investor	100 or more	
Investor	Eligibility	Any, incl. professional investor	Any	
Underwrite	er / dealer	Securities co. (and bank)	Securities co. (and bank)	
Self issuar	nce by underwriter	Allowed	Disallowed	
Issuance effectuation		Filing to MOF (Stock Exchange from Feb 2019)	Approval by SEC	
Listing		None (Stock Exchange from Feb 2019)	Mandatory (HOSE or HNX)	
Trade		OTC	Exchange or OTC (put-through)	
Trade repo	sitory	None	Compulsory (HOSE or HNX)	
Rating		Voluntary	Voluntary	
Continuous filing		Semiannually (on repayment status only)	Quarterly	

#### Contact

Cambodia	Kengo Mizuno	<u>k-mizuno@nri.co.jp</u>
Indonesia	Manabu Tsurutani	<u>m-tsurutani@nri.co.jp</u>
■Lao PDR	Kengo Mizuno	<u>k-mizuno@nri.co.jp</u>
Vietnam	Kengo Mizuno	<u>k-mizuno@nri.co.jp</u>

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# Update on ASEAN+3 Bond Market Guides and Highlights from PR China Bond Market Guide Working Papers

Shigehito Inukai, ADB Consultant and CMAA

Matthias Schmidt, ADB Consultant

30<sup>th</sup> ABMF Meeting, ADB Headquarters, Manila, Philippines SFI Session, 28 January 2019

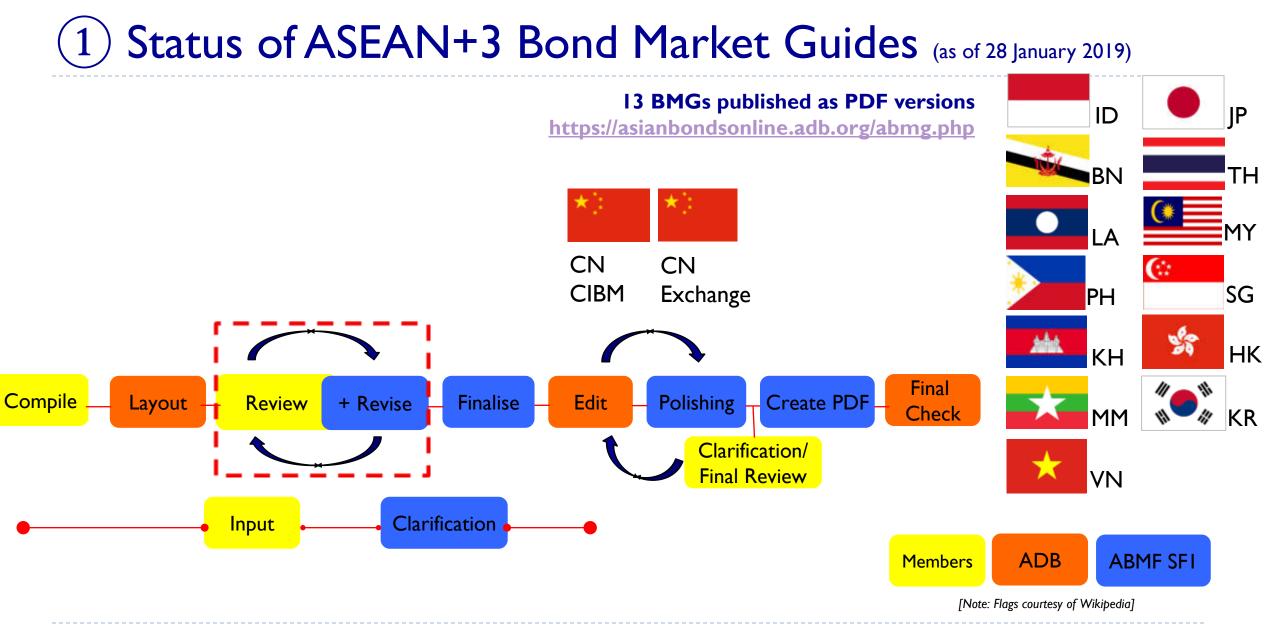
## Points to Cover

1 Status of ASEAN+3 Bond Market Guides

2 Next Steps for ASEAN+ Bond Market Guides

**3** Updates to Bond Market Guides Already Published

4 Highlights from PR China's Current Bond Market Draft Working Papers



# 2 Next Steps for ASEAN+ Bond Market Guides (BMG)

- Circulate, improve, finalize PR China by end of March 2019
  - Drafted 2 ABMF Working Papers on the exchange bond market and Inter-Bank Bond Market (CIBM); now being reviewed, revised by stakeholders
- Support for potential Mongolia BMG
- Integration with AsianBondsOnline
- Two-way synchronization with AMBIF Implementation Guidelines
- Creation of Comparative Analysis across body of 14 BMGs (2019)
  - > To review and revisit professional markets vs. Phase 2 Report
  - To create insight for members and experts
  - > To derive policy recommendations

# (3) Update to Bond Market Guides Already Published

- Due to major market changes, new market features, AMBIF lessons
- Potential candidates for 2019 could include;
  - Lao PDR (listing of government securities on exchange)
  - Philippines (NRoSS\*, PDEx changes, AMBIF pilot issues)
  - > Thailand (updated private placement regime: PP-AI to PP-II, and MTN)
  - Viet Nam (as new legal and regulatory framework takes effect)
- Update would include latest BMG template, ADB serial publication style
- Latest BMG template allows for quick turnaround

\* New Registry of Scripless Securities, Bureau of the Treasury

# (4) Highlights from PR China's Current Bond Market Draft Working Papers

#### Q: Why do ABMF SFI create two Working Papers / BMGs instead of one?

A: The two major segments\* of PR China's domestic bond market are complete and distinct markets in their own right, also by sheer size, have too many distinct features, a different development history and multiple regulators and regulations, as well as SROs. So, it might be quite reasonable for the benefit of readers to create two separate Working Papers / BMGs. \* "Inter-bank bond market (CIBM)" and "Exchange bond market"

Note: The information shown here is based on the draft working papers. Therefore, the contents is subject to changes based on the comments and discussions with the relevant parties in the future.

## I. Key Points from PR China's Bond Market Guide(s)

- The China bond market formally consists of 4 segments; however, the 2 major market segments are the China Inter-Bank Bond Market (or CIBM) and the exchange bond market. Hence, the focus on the 2 major market segments, and the creation of 2 working papers / BMGs.
  - The Bank Counter Market is more of a bank product and the more recent Free Trade Zone (FTZ) market represents a limited issuer segment.
- The CIBM and exchange market are accessible for foreign investors, and their further opening and the introduction of international best practices continue to be the focus of policymakers and regulatory authorities. Therefore, it is essential for, in particular, non-resident professional investors and potential issuers to understand the structure and characteristics of these bond market segments.
- Significantly, both CIBM and exchange bond markets have become institutionalized over recent years; they now offer professional-type market segments which could be considered for issuances under AMBIF.
  - CSRC introduced the Qualified Investors (QIs) (professional investors) system in the exchange bond market, and allowed a simplified issuance approval process of publicly offered corporate bonds targeted at Qis, in addition to the non-public placement to QIs.
  - > PBOC/NAFMII introduced concept of targeted investors (TIs) and specific issuances (targeted placements of debt financing instruments to TIs).
  - > These concepts are also available to non-resident issuers of Panda bonds, the issuance of which is being further encouraged.
- Due to the diverse nature of debt financing instruments in the CIBM, CCDC (public sector bonds) and SHCH (private sector market, of which 2/3 are money market instruments) focus on different instrument types.
- More than 90% of issuers in the exchange bond market are corporates. Both larger corporates and SMEs can list their corporate bonds on the SSE and/or the SZSE under the common measures and the similar rules in both exchanges.
   7

#### 2-1. Overview of the Two Major Bond Market Segments in PR China

	Inter-bank Bond Market (CIBM)	Exchange Bond Market
Market Regulator / SROs	PBOC / National Association of Financial Market Institutional Investors (NAFMII)	China Securities Regulatory Commission (CSRC) / Shanghai and Shenzhen Stock Exchanges, SAC
Trading/transactions	China Foreign Exchange Trade System (CFETS)	Shanghai and Shenzhen Stock Exchanges / National Equities Exchange And Quotations (NEEQ)
Central securities depository (CSD)	China Central Depository & Clearing (CCDC), Shanghai Clearing House (SCH)	China Securities Depository and Clearing Corporation (CSDC)
Available financing instruments	Government bonds (T-bonds), local government bonds, policy financial bonds, government-backed (agency) bonds, central bank bills. Enterprise bonds, financial bonds (commercial bank bonds, non-bank enterprise bonds), MTN, CP, SCP, private placement notes, small and medium-sized enterprise (SME) collective notes, asset-backed securities (ABS). Repo, bond lending. (Negotiable certificates of deposit (NCD))	Government bonds (T-bonds), local government bonds, policy financial bonds. Enterprise bonds, Securities company bonds, corporate bonds (publicly offered (including targeted at Qualified Investors), non-publicly placed), convertible bonds, exchangeable bonds, (non-publicly placed) SME private placement corporate bonds, asset-backed securities (ABS). Repo.
Key investors	Institutional investors (banks, funds, insurance companies, rural credit cooperatives, securities companies, financial companies, enterprises, overseas institutions, etc.)	(Small and medium-sized) institutional investors (securities companies, insurance companies, funds, financial companies, qualified individual investors, enterprises, QFII), and individuals (very limited)

## 2-2. CIBM Debt Financing Instrument Issuance (in 14 Categories)

	(CNY billion)	2017	2017 (%)
	Government bonds (e.g. book-entry T-bonds)	3,866.20	21.9%
	Local government bonds	4,358.10	24.6%
	Policy financial bonds	3,201.50	18.1%
Market	Government-backed (agency) bonds	246.00	1.4%
Mai	Commercial bank bonds	381.70	2.2%
Bond	Tier-2 capital Instruments	482.40	2.7%
Bo	Financial bonds (issued by non-bank financial institutions)	73.40	0.4%
	Commercial paper issued by securities companies	31.20	0.2%
	Enterprise bonds	373.10	2.1%
	Asset-backed securities	597.20	3.4%
(et	Medium-term notes	1,030.00	5.8%
Market	Super short-term commercial paper and commercial paper	2,475.24	14.0%
	Non-financial enterprise debt financing instruments, incl. private placement notes, SME collective		
oney	notes, asset-backed notes	462.52	2.6%
Š	Non-policy financial bonds or notes	101.75	0.6%
	Total issuance in CIBM (CCDC+SHCH*)	17,680.32	100.0%
	Sources: CCDC Annual Review 2013 (English p.13-14), CCDC Bond Market Statistical Analysis Report 2014-2017; CCDC Annual Report 2014-2017; CCDC 2017 Bond Market Operation Analysis; SHCH Yearbook 2016.	20,187.24	
	*Note: Statistics in SHCH do not include negotiable certificates of deposit (NCD).		2017 (%)

Public sector

66.0%

## 2-3. Bond Issuance by Category in the Exchange Bond Market

(CNY billion)	2017	2017 (%)
Government bonds (T-bonds)	62.70	2.3%
Local government bonds	13.31	0.5%
Policy financial bonds	28.62	1.0%
Enterprise bonds	70.41	2.6%
Corporate bonds	1,620.81	59.1%
(Non-publicly placed) SME private placement bonds	325.94	11.9%
Convertible bonds + exchangeable bonds	61.92	2.3%
Asset-backed securities	557.36	20.3%
Total issuance in exchange bond market (CSDC)	2,741.06	100.0%

Source: CSDC Statistical Yearbook 2013-2017.

Slide 2-2 and 2-3 indicate magnitude of the public versus private sector debt instruments and show diversity of instruments.

	2017 (%)
Public sector	3.8%

## 3. Opening of the Domestic Bond Market

- The exchange market has been open for QFII since 2003.
- CIBM became accessible for foreign investors (Pilot scheme, QFII, RQFII) through a host of regulatory measures in 2010/2011.
- From 2015 in particular, further policy and regulatory measures to open the China bond market – as part of the broader liberalization of the capital market – have shifted from a framework with inherent limitations to a framework with a focus on enabling investment at the discretion of foreign investors.
- In 2016, overseas financial institutions became able to invest in the CIBM by only a notification to PBOC.
- CIBM Direct, since 2016, has emerged as a highly flexible framework without a need for approval, no investment limit or repatriation restrictions.
- Bond Connect, introduced in 2017, takes a further step towards the opening of the China bond market, allowing nonresident investors with established accounts in Hong Kong, China, to access the CIBM with a streamlined approval and onboarding process.

## 4-1. Corporate Bond Issuance in the CIBM

Public offers

- Two types of non-public targeted placement of corporate bonds:
  - **1. Non-public placement to Specified Institutional Investors** (Institutional Investors who are designated by the issuer and the lead underwriter)
  - 2. Non-public placement to Specialized Institutional Investors (Institutional Investors selected by NAFMII; a list of 120 institutions, to be reviewed periodically)
- Both types of non-public placement are targeted to only professional investors, who are thus referred to as targeted investors.
- The above mentioned concepts also allow for the non-public placement of Panda bonds (issued by non-residents) to Specified or Specialized Institutional Investors.
- > Focusing on professional investors would make the issuance of AMBIF bonds possible.
- The non-public placements are similar to the concept of qualified institutional investors in the exchange bond market. Both only involve the issuance to professional investors.

## 4-2. Corporate Bond Issuance in the Exchange Bond Market

- Public offers (to general public investors, including individuals)
- Two types of corporate bond issuance to Qualified Investors (QIs):
  - I. Public offering to Qualified Investors only
  - 2. Non-public placement to Qualified Investors (up to 200 bondholders).

Notes: Regulations issued in 2015 refer to **Qualified Investors**, while regulations issued in 2017 use the term **Professional Investors**. It might be no problem to regard these two descriptions as virtually the same. The 2017 regulations do not limit eligible products to corporate bonds.

"Non-public placement" of bonds refers to a private placement to Qis, and to transfer between QIs only. SME private placement bonds have the same restriction. The number of bondholders cannot exceed 200.

- Regulations prescribe underwriters' responsibility for compliance with sales and transfer restrictions to general and retail investors, to (i) ensure transfers only to qualified investors, and (ii) limit the number of bondholders to 200.
- The above mentioned concepts also make possible the non-public placement of Panda bonds to Qualified Investors.

Focusing on professional investors would make the issuance of AMBIF bonds possible.
 13

#### 5. PANDA Bond in CIBM & Exchange Bond Market

- In 2014, Daimler AG issued the first Panda bond in the CIBM, as a private placement note, with a maturity of 1 year. In 2015, PBOC eased restrictions on issuers of Panda bonds, permitting that proceeds raised from the issuance of Panda bonds could be used outside PR China.
- In 2018, PBOC and MOF jointly issued statements to further clarify the qualifications and registration procedures for foreign institutions to issue Panda bonds in the CIBM, using two methods of issuances, (1) public offering, and (2) non-public placement to Specified or Specialized Institutional Investors.
- Focus is now on facilitating regular issuances by nonresidents across many issuer categories, the flexible use of proceeds, and the availability of FX, swap and other hedging mechanisms.
- To enable comparable Panda bond issuance in the exchange bond market, in 2018, SSE and SZSE released the Notice on Launching the Pilot Program of "Belt and Road" Bonds, stipulating the requirements of issuance, listing, trading and information disclosure on exchanges for Panda bonds by enterprises and financial institutions along the "Belt and Road" countries and regions.
- As of the end of 2018, CSRC had drafted interim regulations for the issuance of Panda bonds on exchanges, and is consulting with the MOF for the release of regulations in 2019.
- For the time being, English usage for disclosure documents may be difficult.
- > ABMF SFI would like to promote AMBIF Panda bond issuance in due course.

## 6. Conclusion:

#### AMBIF Elements against relevant PR China Bond Market Features

	AMBIF Elements	<b>Brief Description</b>	CIBM	Exchange Market	
١.	Domestic Settlement	Bonds and notes are <b>settled at a national CSD</b> in ASEAN+3 markets.	✓ CSDC or SHCH	✓ CSDC	
2.	Harmonized Documents for Submission (Single Submission Form: SSF)	A common approach is of submitting information as input for <b>regulatory process(es)</b> where approval or consent is required. <b>Appropriate</b> <b>disclosure information</b> along with an <b>ADRB</b> recommendation needs to be included.	Submit SSF to NAFMII (Need further discussion)	Submit SSF to SSE or SZSE (Need further discussion)	
3.	Registration or profile listing at ASEAN+3 (Place of continuous disclosure)	Information on bonds, notes, and issuers needs to be disclosed continuously in ASEAN+3 markets. <b>Registration or a listing authority function</b> is required to ensure continuous and quality disclosure.	✓ Registration with NAFMII	✓ Listing on SSE or SZSE	
4.	Currency	The denomination of an issue is generally expected to be in the domestic currency of each ASEAN+3 market.	✓ CNY		
5.	Scope of Issuer	Resident of ASEAN+3	<ul> <li>Panda bond eligible ASEAN+3 resident issuers</li> </ul>		
6.	Scope of Investors	Professional investors defined in accordance with applicable laws and regulations, or market practice, in each ASEAN+3 market	<ul> <li>✓ Targeted Investors</li> <li>(Specified / Specialized Institutional Investors)</li> </ul>	<ul> <li>✓ Qualified (Institutional) Investors</li> </ul>	

#### 7. Working Papers Circulated to ABMF Members

1

The Inter-Bank Bond Market in the People's Republic of China

ABMF Working Paper November 2018 [DRAFT v4.0, 06 December 2018] The Exchange Bond Market in the People's Republic of China

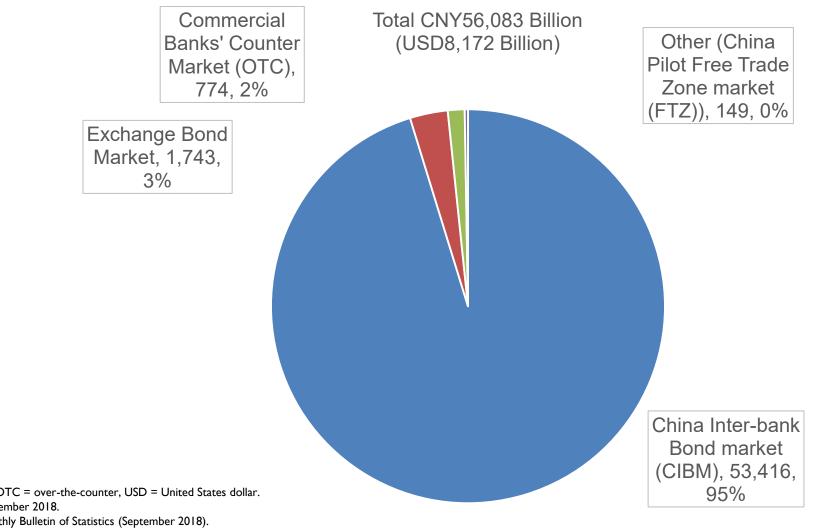
ABMF Working Paper January 2019 [DRAFT v4.0, 09 January 2019] (Draft Vestors v4.9 CMC (and other related parties) connects reflected vestors)

167 Pages

158 Pages

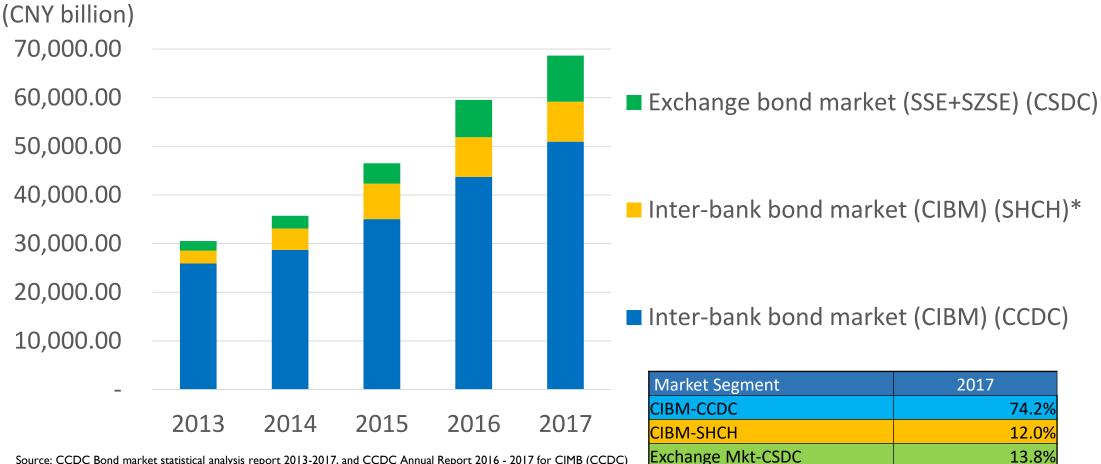
- A-I. Deposited Bonds or Debt Financing Instruments by Market Segment (as of 30 September 2018)
- A-2. Bonds Market Outstanding Balance by Main Market Segment
- A-3. Bonds in Deposit with CSDC (at Market Value)
- A-4. Bond Issuance in China by Main Market Segment
- A-5. Bond Issuance in the CIBM and deposited with CCDC by Instrument Type
- A-6. Debt Financing Instrument Issued in the CIBM and deposited with SHCH by Instrument Type
- A-7. Breakdown of Debt Financing Instruments Issued in 2016 (with SHCH)
- A-8. Bond Issuance (Par Value) in the Exchange Bond Market with CSDC by Instrument Type
- A-9. Debt Financing Instrument Trading Volume by Main Market Segment (including NCD Issuances)
- A-10. Repo and Bond lending Transaction Volume by Major Bond Market Segment
- B-I. Outline of Investment Access Methods into the China Bond Market Segments
- B-2. Changes in the QFII and RQFII Schemes
- B-3. Further liberalization of the QFII and RQFII concept

#### A-I: Deposited Bonds or Debt Financing Instruments by Market Segment (as of 30 September 2018)



FTZ = free trade zone, OTC = over-the-counter, USD = United States dollar. Note: data as of 30 September 2018. Source: Chinabond Monthly Bulletin of Statistics (September 2018).

#### A-2. Bonds Market Outstanding Balance by Main Market Segment



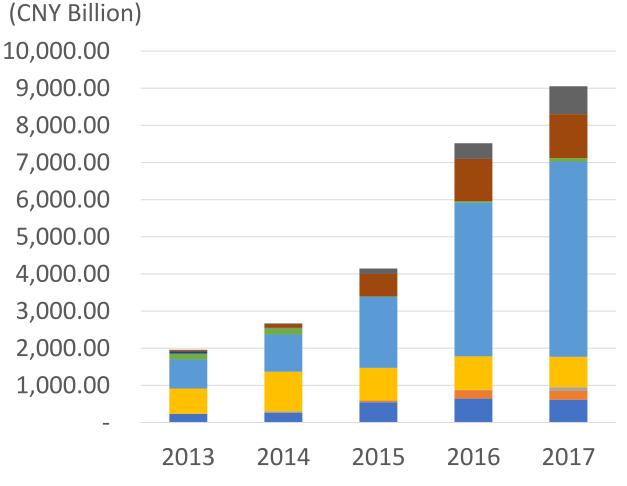
Total

100.0%

Source: CCDC Bond market statistical analysis report 2013-2017, and CCDC Annual Report 2016 - 2017 for CIMB (CCDC) Source: CSDC Statistical Yearbook 2013-2017 for Exchange market

Source: SHCH Yearbook 2013-2017 \*Note: Statistics in SHCH do not include Negotiable Certificates of Deposit (NCD).

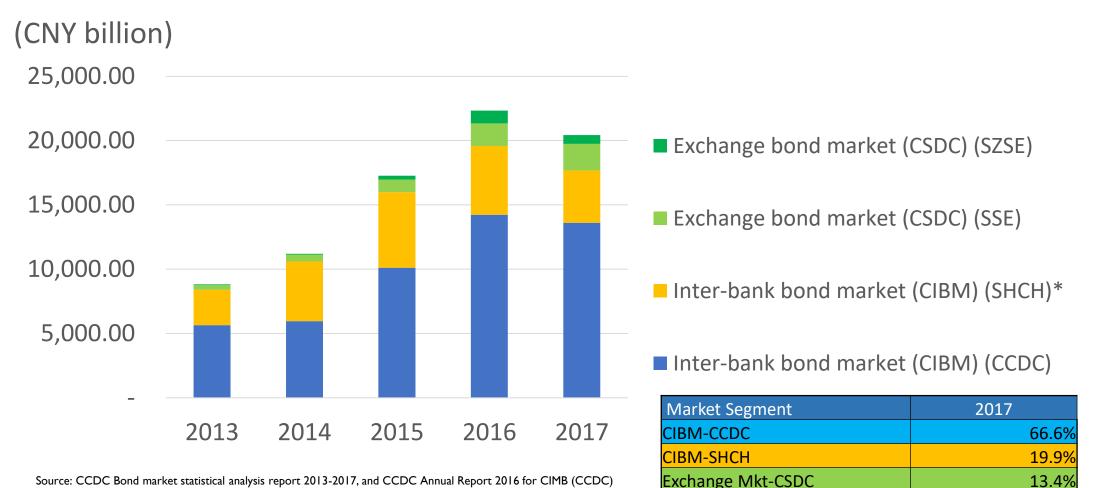
#### A-3. Bonds in Deposit with CSDC (at Market Value)



Source: CSDC Statistical Yearbook 2013-2017 Securities in Deposit (登记结算公司证券存管情况 - CSDC)

Asset-backed Securities SME private placement bonds Detachable convertible bonds Convertible bonds Corporate bonds Enterprise bonds Policy financial bonds Local government bonds Government Bonds (T-bonds)

#### A-4. Bond Issuance in China by Main Market Segment



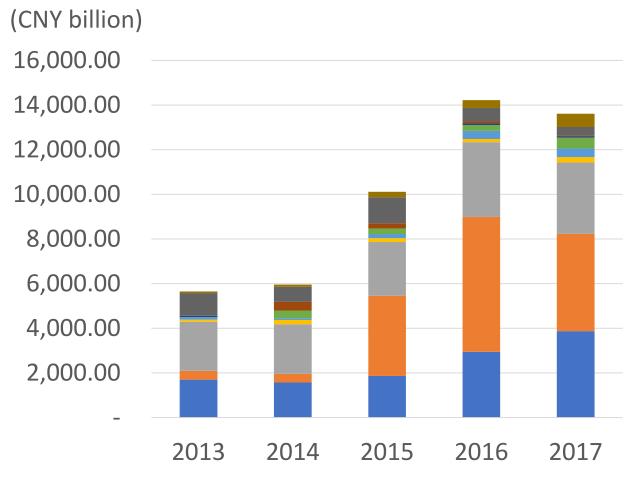
Total

100.0%

Source: CCDC Bond market statistical analysis report 2013-2017, and CCDC Annual Report 2016 for CIMB (CCDC) Source: CSDC Statistical Yearbook 2013-2017 for Exchange market Source: SHCH Yearbook 2013-2017 \*Note: Statistics in SHCH do not include Negotiable Certificates of Deposit (NCD)

Source: SSE Fact Book 2013-2017 (2016)

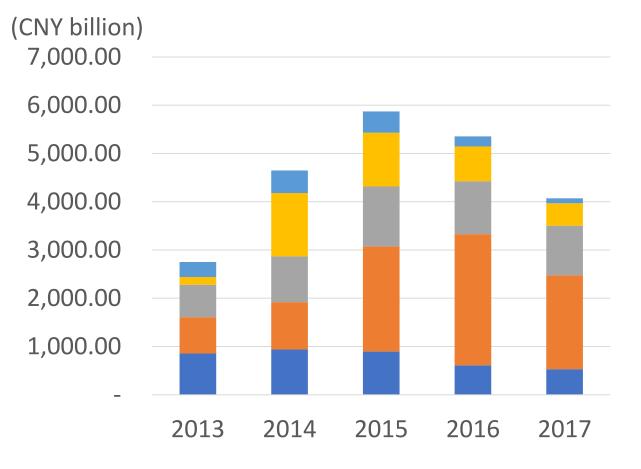
# A-5. Bond Issuance in the CIBM and Deposited with CCDC by Instrument Type



Source: CCDC Annual Review 2013 (English p.13-14), CCDC Bond market statistical analysis report 2014-2017 Source: CCDC Annual Report 2016-2017, CCDC 2017 Bond market operation analysis. Source: SHCH Yearbook 2016. \*Note: Statistics in SHCH do not include Negotiable Certificates of Deposit Asset-backed securities, etc. Enterprise bonds / MTN (2013) CP issued by Securities companies Financial Bonds (Non-bank FI) Tier 2 Capital Instrument Commercial bank bonds/notes Government-Backed (Agency) bonds Policy financial bonds Local government bonds Government Bonds (T-bonds)

	2017
Public sector	85.8%

#### A-6. Debt Financing Instrument Issued in the CIBM and Deposited with SHCH by Instrument Type



- Non-policy financial bonds/notes
- Non-financial enterprise debt financing instruments - PPN, ABN, ABS, etc.
   Madium term potes (MTN)
- Medium-term notes (MTN)
- Super Short-term Commercial Papers (SCP)

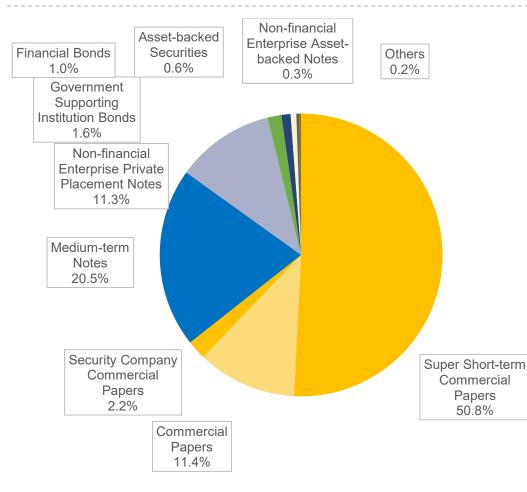
#### Commerciaql Papers (CP)

	2017
Private sector	100.0%

Source: CCDC Bond market statistical analysis report 2013-2017, CCDC 中国债券市场概览2015, CCDC 2014年债券市场统计分析报告 Source: CCDC Annual Report 2016-2017, CCDC 2017 Bond market operation analysis. Source: SHCH Yearbook 2013-2017

\*Note: Statistics in SHCH do not include Negotiable Certificates of Deposit (NCD).

#### A-7. Breakdown of Debt Financing Instruments Issued in 2016 (with SHCH)



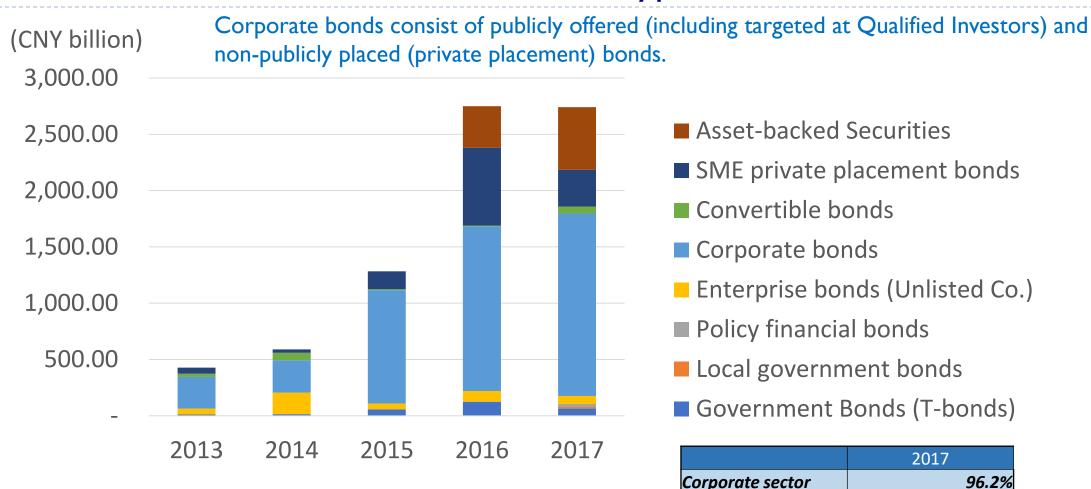
(CNY billion)	2016	(%)
Super Short-term Commercial Papers (SCP)	2,719.49	50.8%
Commercial Papers (CP)	608.30	11.4%
Securities Company Commercial Papers	117.86	2.2%
Medium-term Notes (MTN)	1,099.71	20.5%
Non-financial Enterprise Private Placement Notes (PPN)	602.89	11.3%
Government Supporting Institution Bonds	85.00	1.6%
Non-policy Financial Bonds	56.00	1.0%
Asset-backed Securities (ABS)	34.71	0.6%
Non-financial Enterprise Asset-backed Notes (ABN)	16.66	0.3%
Others (Green Notes 8.00 , Project Revenue Notes 3.85, etc.)	12.44	0.2%
RMB denominated Bonds, Notes and CPs, etc. in SHCH* Total	5,353.06	100.0%

		2016
CPs (money market instruments)		64.4%
202	16	
Negotiable Certificates of Deposit (NCD) 12,9	93.10	
	5 50	
Foreign Currency Bonds	5.58	

Source: Monthly Bulletin on Shanghai Clearing House Bond Market (End of 2016) Source: SHCH Yearbook 2016

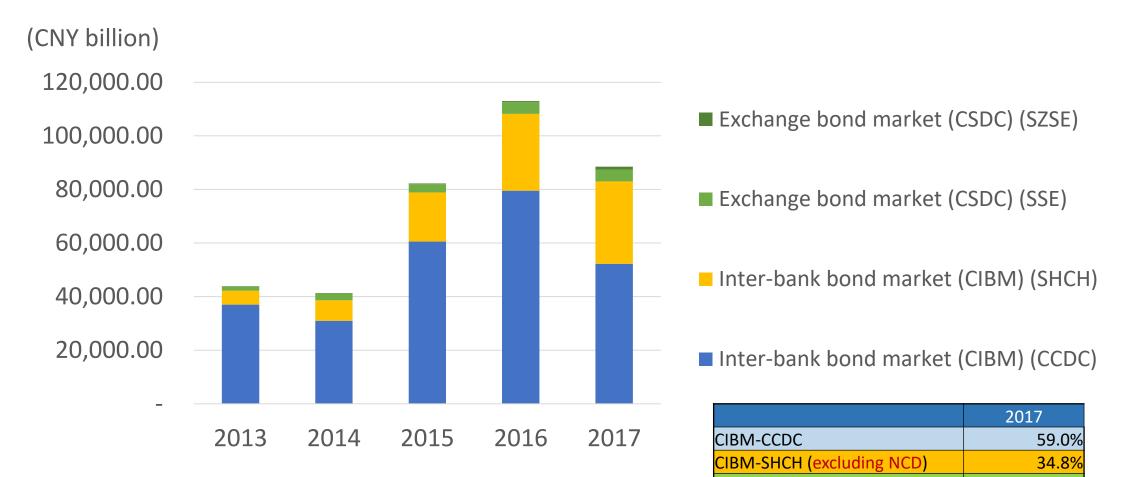
(\*) Note: Statistics in SHCH do not include Negotiable Certificates of Deposit

#### A-8. Bond Issuance (Par Value) in the Exchange Bond Market with CSDC by Instrument Type



Source: CSDC Statistical Yearbook 2013-2017

#### A-9. Debt Financing Instrument Trading Volume by Main Market Segment (including NCD Issuances)



Exchange Mkt-CSDC

6.2%

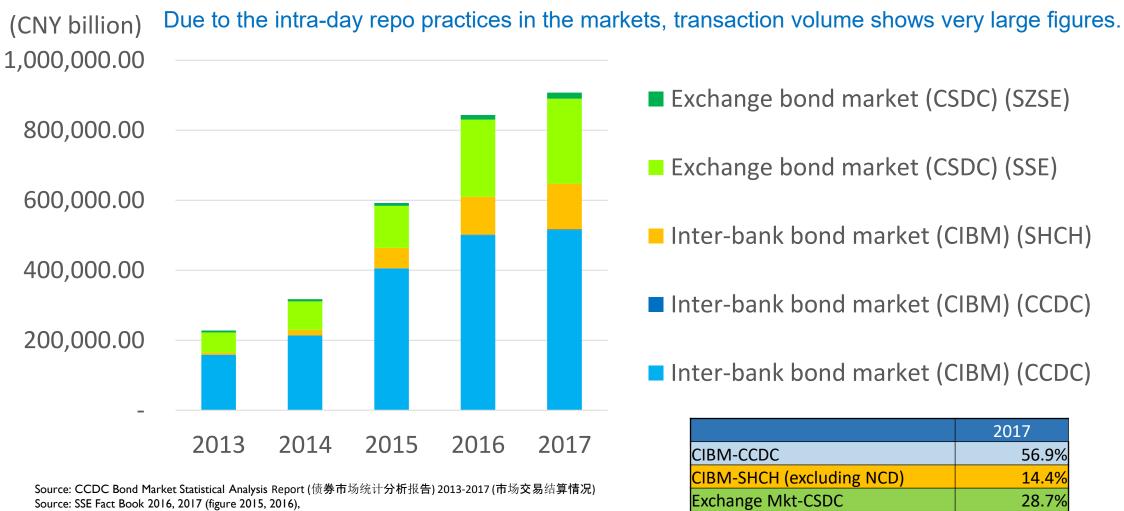
100.0%

Total

Source: CCDC Bond Market Statistical Analysis Report (债券市场统计分析报告) 2013-2017 (市场交易结算情况) Source: SSE Fact Book 2016, 2017 (figure 2015, 2016),

Source: SSE website 年度债券概况 http://www.sse.com.cn/market/bonddata/overview/yearly/ (figure 2013, 2014, 2017) Source: SZSE Fact Book 2013-2017 \*Note: Statistics in SHCH do not include Negotiable Certificates of Deposit (NCD).

#### A-10. Repo and Bond Lending Transaction Volume by Major Bond Market Segment



Total

100.0%

Source: SSE website 年度债券概况 http://www.sse.com.cn/market/bonddata/overview/yearly/ (figure 2013, 2014, 2017) Source: SZSE Fact Book 2013-2017

#### B-I. Outline of Investment Access Methods into the China Bond Market Segments

ltems	QFII	Pilot Scheme for Three Types of Institutions	RQFII	CIBM Direct Scheme	Bond Connect (Northbound)
Market	<ul><li>(1) Exchange Market</li><li>(2) CIBM</li></ul>	CIBM	<ul><li>(I) Exchange Market</li><li>(2) CIBM</li></ul>	CIBM	CIBM
Commenced	(1) 2002 (2) 2011	2010	2011	2016	Late 2017
Currency	FCY	CNY (CNH)	CNY (CNH)	CNY (CNH), FCY	CNY (CNH)
Approving Authorities	<ul><li>(1) CSRC, SAFE</li><li>(2) CSRC, SAFE, PBOC</li></ul>	РВОС	<ul><li>(1) CSRC, SAFE</li><li>(2) CSRC, SAFE, PBOC</li></ul>	PBOC, SAFE	N/A
Original Scheme	Allowed foreign institutional investors who meet certain qualifications to invest in equities and bonds in domestic markets within an approved quota through CNY raised in the People's Republic of China in exchange for foreign currency to be remitted inbound.	Allowed three specific types of institutions to participate in the CIBM: (i) foreign central banks or monetary authorities, (ii) CNH settlement banks in Hong Kong, China and Macau, China; and (iii) cross-border CNH settlement participating banks in Hong Kong, China and Macau, China.	Allowed foreign institutional investors who meet certain qualifications to invest in equities and bonds in domestic markets within an approved quota allocated to eligible jurisdictions through CNH raised outside of the People's Republic of China.	Allowed foreign investors (QOII) to access the CIBM. Foreign institutions can trade bonds directly through banks holding a Type A license.	Allowed CMU account holders (including foreign investors) to access CIBM via a HKMA / CMU link to CCDC. No quota requirement or need for investors to identify the intended investment amount.
Original Restrictions	Investment quota (USD), regulations on remittance of principal injection period, asset allocation, and repatriation, including a lock-up period and outward remittance	Limitation of participating institutions; investment limit remained within the range of CNH holdings of each institution.	Investment quota (CNY) by countries and regions, and allocated quota by entities; other original restrictions were the same as for QFII.	Investors must invest (within a 9-month period) at least 50% of the investment amount mentioned in their filing form.	Each institution is required to submit an application to PBOC and CFETS via BCCL, a joint venture of HKEX and CFETS.
Size of the Scheme	Total allocated quota: USD100.46 billion, 287 approved QFIIs.		Total allocated quota: CNY640.17 billion, 206 entities; 20 approved jurisdictions. Total approved quota: CNY2,040 billion.	Total foreign investors in CIBM: 373. Total foreign holdings in the CIBM: USD216.8 billion.	Total foreign investors registered through Bond Connect: 450.

#### B-2. Changes in the QFII and RQFII Schemes

- The QFII scheme was introduced in 2002, allowing foreign investor's direct access to PR China's domestic securities market. At the time, the investment opportunities were limited to the exchange market.
- The RQFII scheme was initiated in late 2011 and allowed the use of offshore renminbi (CNH) raised by the subsidiaries of Chinese domestic fund management companies and securities companies in Hong Kong, China to invest in the China domestic securities market.
- Since their inception, the QFII and RQFII schemes have evolved significantly from the point of market accessibility, regulatory reforms, and capital mobility, particularly from 2016 to 2018.

#### B-3. Further Liberalization of the QFII and RQFII Concept

- In September 2016, SAFE's RQFII rules were relaxed regarding quota application and control, including simplifying the quota application process, easing the inward and outward remittance, and shortening the lock-up period. In the same month, CSRC removed asset allocation restrictions on QFIIs and RQFIIs.
- In order to increase the convenience of investment operation and introduce more long-term overseas funds, in principle, government/CSRC will no longer limit the allocation of QFII and RQFII assets, and at its own discretion, strengthen the continuous supervision of its investment activities.
- In July 2017, the overall RQFII quota was increased to CNY1,740 billion.
- On 12 June 2018, to further ease restrictions on foreign institutional investors' access to China's financial markets, PBOC and SAFE issued two new the Regulations to facilitate the repatriation of capital and the management of foreign exchange risks in association with securities investments by QFIIs and RQFIIs.
- The new regulations removed a 20 percent cap on the amount of capital that QFII could remit out of the country and the 3-month lock-up period for redeeming investment principal.
- In addition, QFII and RQFII were allowed to place foreign exchange hedges on their domestic investments.
- At the end of July 2018, the total QFII investment quota had reached USD100.46 billion, allocated among 287 license holders.
- At the end of September 2018, the total RQFII investment quota had reached CNY1,940 billion among 20 countries and regions, with the actual allocated quota reaching CNY640 billion, invested by 203entities.

## Feedback & Thank You

We welcome any questions or feedback, even if today there may not be enough time.

Thank you in advance!

Shigehito Inukai shige.inukai@me.com Matthias Schmidt macschmidt@me.com



ASEAN+3 BOND MARKET FORUM Developments in Emerging East Asia Bond Markets AsianBondsOnline (ABO) Website Updates

Donghyun Park, Principal Economist Shu Tian, Economist

Economic Research and Regional Cooperation Department Asian Development Bank





# Overview

- Both the US and the EU tightened monetary in the last quarter of 2018. However, the US Fed signaled that it will reduce the pace of interes rate hikes in 2019.
  - Economic growth in the US remains strong, with US GDP growing at an annual rate of 3.4% in the third quarter. Going forward, however, growth is expected to moderate.
  - At its most recent meeting on 19 December, the US Federal Reserve raised its key policy rate target range by 25 bps.
  - The European Central Bank on 12 December confirmed that its asset purchase program will end after December 2018.
- In emerging East Asia, bond yields largely fell as a result of expectations that the US Federal Reserve will only have two rate hikes in 2019. Foreign bond inflows also rose in October relative to September.







## **Overview of Financial Conditions**

### **Changes in Global Financial Conditions**

	2-year Government Bond	10-Year Government Bond	5-Year Credit Default Swap		
	(bps)	(bps)	Spreads (bps)	Equity Index (%)	FX Rate (%)
Major Advanced Economies					
United States	(25)	(28)	—	(5.4)	
United Kingdom	3	(11)	5	(1.2)	0.9
Japan	(2)	(8)	6	(6.7)	4.5
Germany	(2)	(11)	1	(3.2)	0.8
Emerging East Asia					
People's Republic of China	(19)	(22)	(7)	(0.7)	3.0
Hong Kong, China	(44)	(31)	—	1.2	(0.2)
Indonesia	4	17	(14)	5.8	1.5
Republic of Korea	(9)	(15)	(4)	0.0	(0.0)
Malaysia	(4)	(8)	(16)	(0.0)	1.9
Philippines	(32)	(48)	(11)	8.8	0.8
Singapore	(12)	(18)	—	3.0	1.2
Thailand	(10)	(22)	0.3	(3.9)	3.2
Viet Nam	(65)	(5)	5	(1.8)	0.6
Select European Markets					
Greece	(0.7)	(10)	(2)	(1.2)	0.8
Ireland	(0.8)	(7)	2	(3.1)	0.8
Italy	(42)	(35)	(22)	(0.1)	0.8
Portugal	(1)	(15)	(3)	1.8	0.8
Spain	(2)	(9)	(6)	(2.5)	0.8

Note. Data reflect changes between 30 November 2018 and 15 January 2019.

Source: AsianBondsOnline calculations based on Bloomberg LP data.

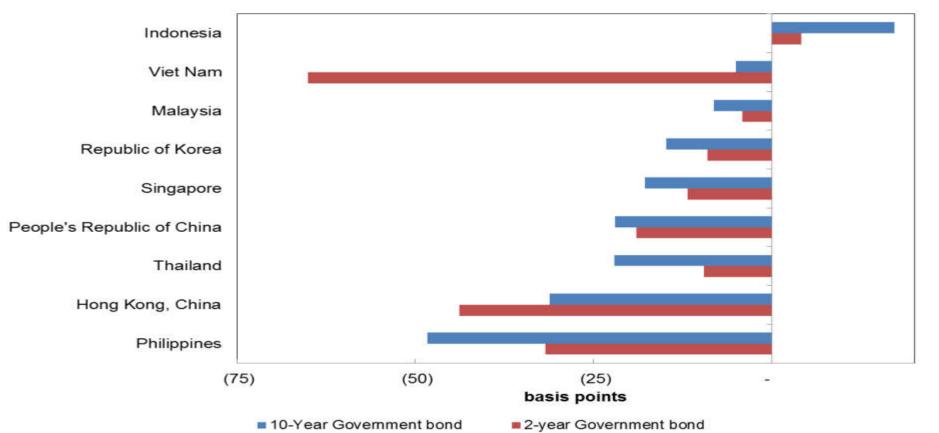






## Government Bond Yields Fell in Most Emerging East Asian Markets

**Changes in LCY Government Bond Yields** 



Note. Data reflect changes between 30 November 2018 and 15 January 2019. Source: AsianBondsOnline calculations based on Bloomberg LP data.







#### Thailand Philippines People's Republic of China Indonesia Malaysia Singapore Hong Kong, China Indonesia Republic of Korea Singapore Malaysia Philippines People's Republic of China Viet Nam Viet Nam Republic of Korea Thailand Hong Kong, China 5 (5) 0 10 (1)2 2 3 3 1 1 4 in % in %

**Changes in Equity Indexes (%)** 

### Changes in FX Rates (%)

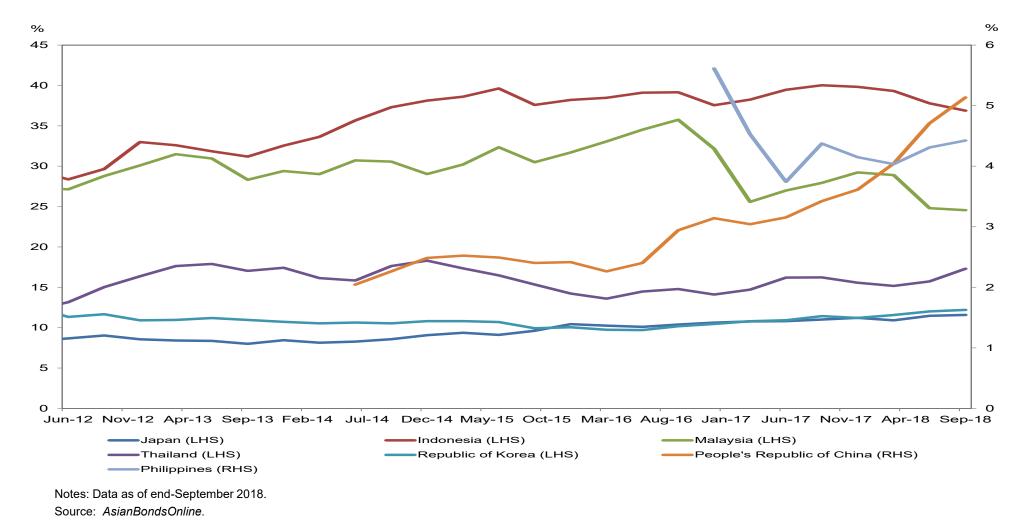
Note. Data reflect changes between 30 November 2018 and 15 January 2019 Source: AsianBondsOnline calculations based on Bloomberg LP data.







## Foreign Holdings of Government Bonds Rose in Most Markets









## **Bond Market Developments**

- Emerging East Asia's LCY bond market continued to grow in the third quarter of 2018, by 3.3% q-o-q to reach a size of <u>USD12.8 trillion</u> at the end of September.
  - ➢ Growth inched up from the 3.2% q-o-q increase posted in Q2 2018.
  - Government bonds continued to dominate the region's bond market accounting for a 67.3% share of total bonds at the end of September.
  - > The People's Republic of China remained the largest bond market in the region
  - The Republic of Korea had the highest bonds to GDP share.
- LCY bond issuance grew 13.6% q-o-q to USD1.4 trillion, led by higher debt sales from large bond-issuing economies particularly the PRC which accounts for 63.6% of the regional issuance total.

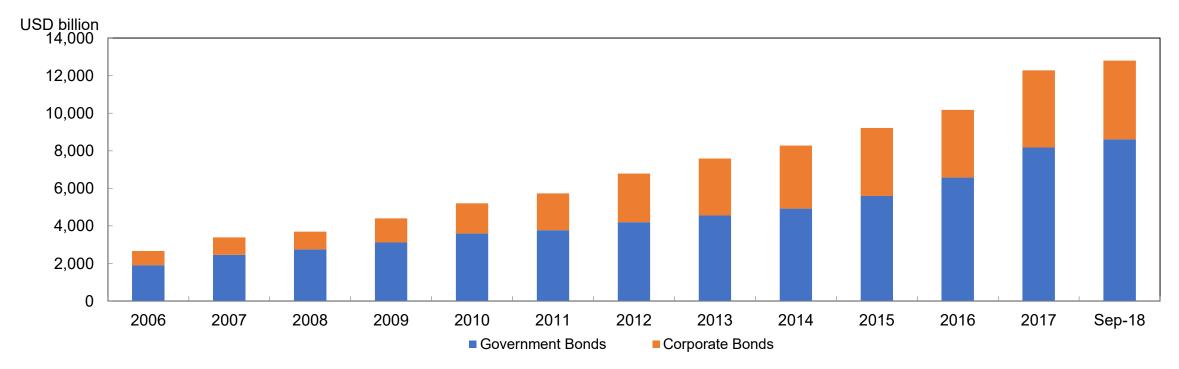






### LCY Bond Markets Continue to Grow

### Size of Emerging East Asia's LCY Bond Market



Note: Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

Source: AsianBondsOnline.

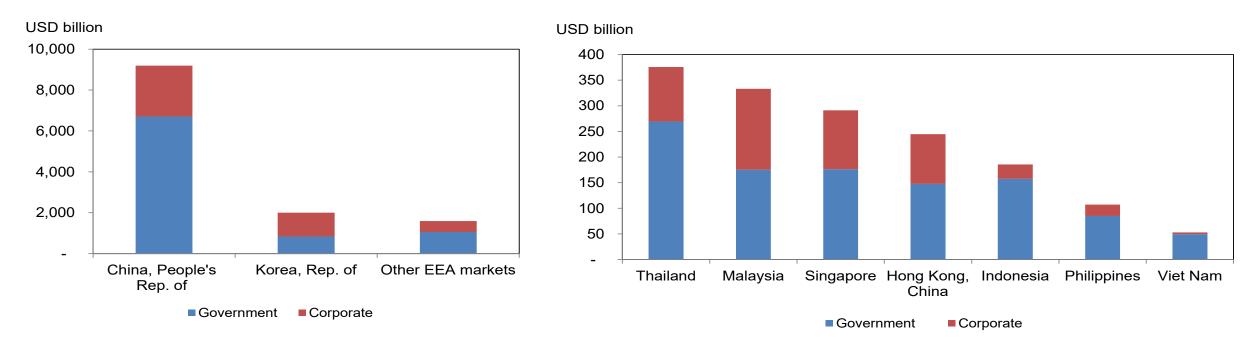






## PRC Remains the Largest Bond Market in the Region

### LCY Bonds Outstanding



Notes: Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam. Data as of end-September 2018

Source: AsianBondsOnline.

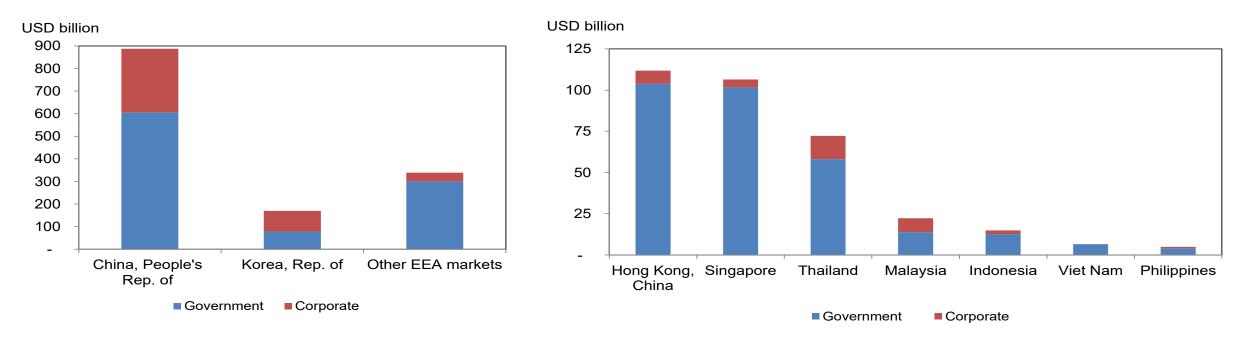






# .....as well as the Largest Issuer in the Region

### LCY Bonds Issuance



Notes: Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam. Data as of Q3 2018

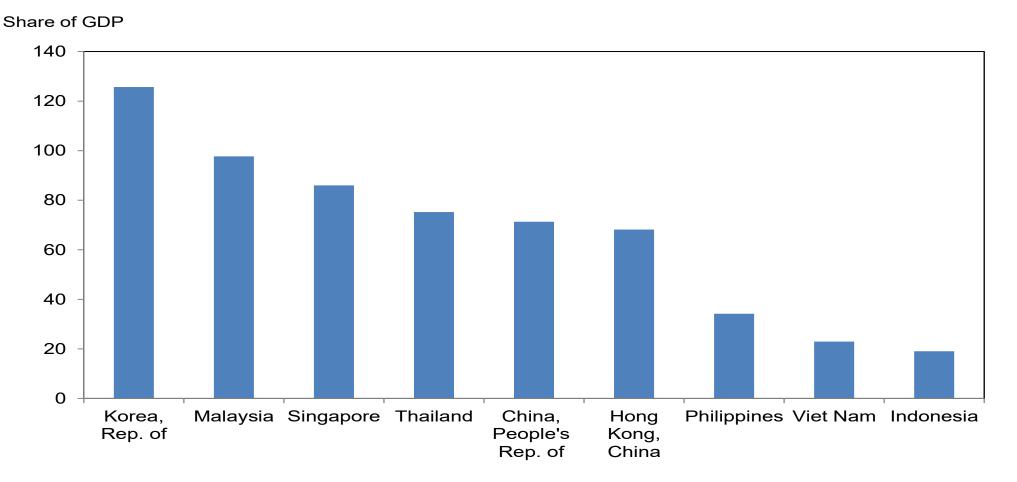
Source: AsianBondsOnline.





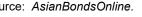


## Share of LCY Bonds to GDP is the Highest in the Republic of Korea



Notes: Data as of end-September 2018. Source: AsianBondsOnline.







## Bond Market Risks

- There is a major upside risk to the region's financial markets.
  - The expectation of a fewer number of rate hikes by the Federal Reserve has led to gains in emerging East Asia
- But a number of downside risks remain:
  - Effect of global trade tension on Asian financial markets
  - Contagion from non-regional emerging-market turmoil on Asia
  - Risk of a sharper than anticipated slowdown of global growth







## ABO Website Portal and Knowledge Product Updates

- Starting October 2018, AsianbondsOnline released a new knowledge product: the Monthly Debt Roundup.
- The product was launched to provide regular updates on key financial data including foreign bond flows in ASEAN+3 markets.

#### Monthly Debt Roundup

asianbondsonline.adb.org



December 2018

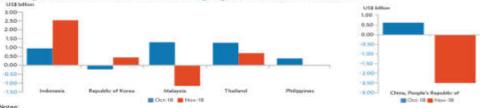
#### Changes in Financial Conditions (30 November - 21 December 2018)

Economias	2-Year Government Bond (bps)	10-Year Government Bond (bps)	S-Year Credit Default Swap Spreads (bps)	Equity Index (%)	Rate (%)	
Major Advanced Economies						
United States	(15)	(2:0)	_	(12.4)		
United Kingdom	101	6.40	5	(3.7)	10.85	
Japian	(1)	(20)	-6	(93)	21	
Germany	(13)	(10)	(1)	(5.5)	0.5	
Emerging East Asia						
People's Republic of China	(8)	(7)	1	(2.8)	0.8	
Hong Kong, China	(25)	(2.4)	0	12.83	(12.10)	
Indonesia	(3)	11	001	1.8	(1.7)	
Republic of Korea	(3)	6190	0	(2.7)	10.25	
Malaysia	(3)	(75)	100	(0.0)	0.1	
Philippines.	10	3	(3)	1.5	(8.0)	
Singapore	(3)	(23)	0	(2.3)	(0.1)	
Thailand	051	(2m)	1	(2.63)	0.9	
Vist Nam	(14)	455	7	11.55	0.2	

- = not available, { } = negative, bps = basis points, FX = foreign exchange.
 Data reflect changes between 30 November and 21 December 2018.

Data resets changes between 30 November and 21 December 2018.
 A positive (negative) value for the FX rate indicates the appreciation (depreciation) of the local currency against the United States dollar Source: Bioontherg LP.

#### Foreign Bond Flows in Select Emerging East Asian Economies



 The Republic of Korea and Thaliand provided data on bond flows. For the People's Republic of China, Indonesia, Malaysia, and the Philippines, month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows.

 Figures were computed based on 30 November 2018 exchange rates to avoid currency effects.
 Emerging East Asia comprises the People's Republic of China: Hong Kong, China: Indonesia: the Republic of Korea; Malaysia; the Philippines; Singapore, Thailand; and Viet Nam.

Data for Philippines not yet available for the month of November.

Sources: People's Republic of Chna (Wind Intomation); Indonesia (Directorate General of Budget Financing and Risk Management Ministry of Finance); Republic of Korea (Financial Supervisory Service); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury); and Thailand (Thail Bond Market Nasociation).

#### Policy Rate Adjustments, Select Economies (1 January - 21 December 2018)

Economias	Policy Rate (as of 21 December 2018)	Policy Rate (as of 1 January 2018)	Most Recent Policy Rate Change in 2018 (in basis points)	Date of Last 2018 Policy Rate Change
People's Rep. of Citina	4.35	4.35		CARL CONTACT
Hong Kong, China	2.75	1.75	25	20-Dec-18
India	6.50	6.00	25	1-Aug-18
Indonesia	6.00	4.25	25	15-Nov-18
Japan	(0.10)	(0.10)		
Rep. of Korea	1.75	1.50	25	30-Nov-18
Malaysia	3.25	3.00	25	25-Jan-18
Philippines	4.75	3.00	25	15-Nov-18
Thailand	1.75	1.50	25	19-Dec-18
VietNam	6.25	6.25	2.2	



## ABO Website Portal and Knowledge Product Updates

- Asia Bond Monitor November issue was launched during the 13th Asian Bond Markets Summit in Singapore.
- A user survey for the new website is currently available in the ABO portal and will run until end of February.
- An updated ASEAN+3 Bond Market Guide for Viet Nam was also recently published in our Publications and Events section







## **Future Plans**

- To provide further enhancements in the ABO data portal
  - frequency option which will allow users to select their desired frequency for the data they need
  - date period which will allow users to indicate their desired date option
- To enhance the ABO database by providing more granular information for some indicators
  - provide the following categories: Government bonds and other government agencies, Central Bank, and Corporate bonds
- To publish new indicators
  - foreign bond flows







## **Future Plans**

- Include other types of data:
  - Macroeconomic data (inflation, etc.)
  - Other types of bond data (foreign currency bond issuance)
  - Add data not available for existing markets (e.g.Trading volume for Philippines)
- Collaborate with government agencies to access official information and improve data sharing to increase transparency
- Also work with government agencies to help refine and improve existing data (more granularity)
- ABO is working to become the ABMI information platform and provide information and updates on ABMI as well as other Task forces.



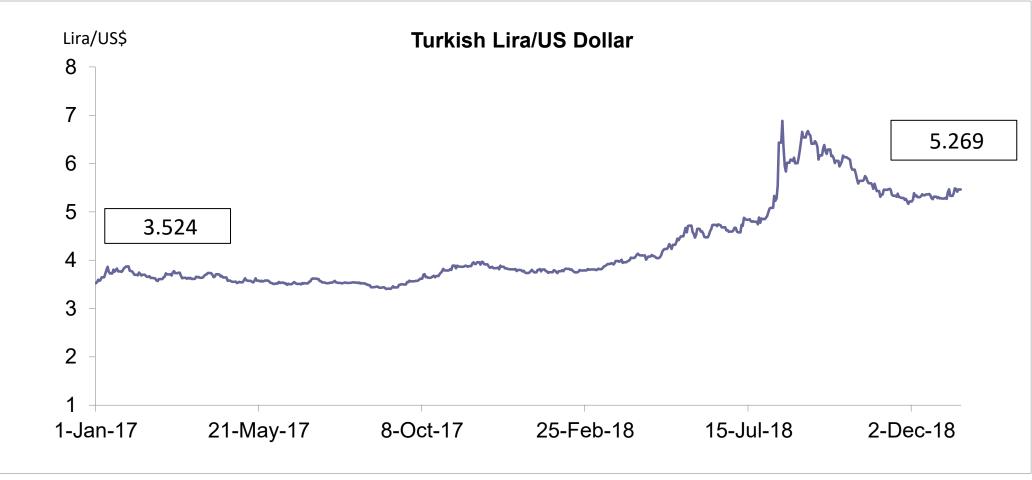


# Topical financial market issue: less turbulence in emerging-market financial markets

- In the second and third quarters of 2018, emerging-market foreign exchange markets experienced a lot of instability.
  - e.g. Turkish lira and Argentine peso depreciated sharply.
- However, since fourth quarter of 2018, the currencies of emerging markets have stabilized and some even appreciated.
- This is true for both vulnerable economies as well as emerging markets as a whole.
- Country-specific policies contributed to the stabilization, as has the projected slowdown of US interest rate hikes in 2019
- Going forward, the outlook for emerging markets has improved but still remains fragile.



## Turkish lira is rebounding.....



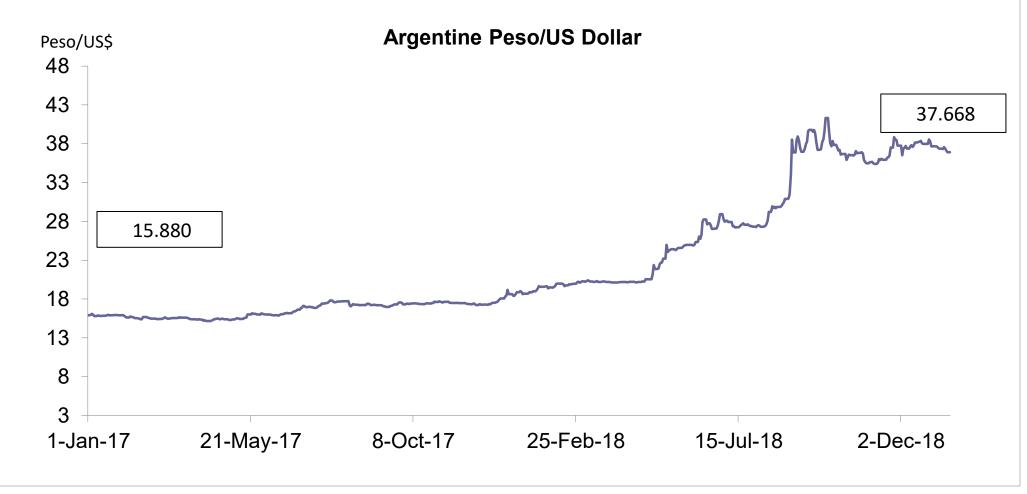
US\$ = United States dollars.

Notes: Local currency unit relative to the US dollar. Data are from 1 January 2017 to 13 January 2019. Source: Bloomberg LP.





## .....and the Argentine peso has stabilized



US\$ = United States dollars.

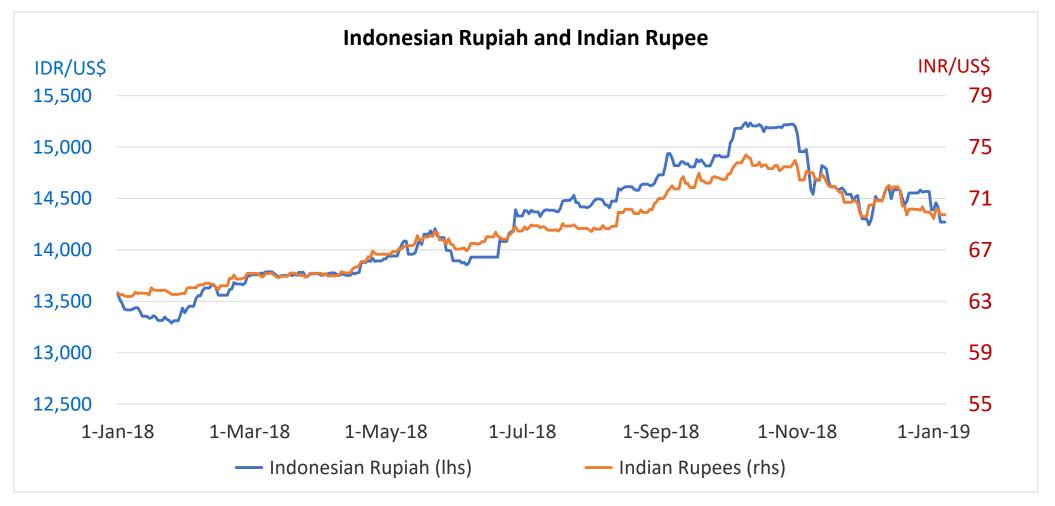
Notes: Local currency unit relative to the US dollar. Data are from 1 January 2017 to 13 January 2019.

Source: Bloomberg LP.





## Rupia and rupee are also on the mend.....



Ihs= left-hand side, rhs = right-hand side, US\$ = United States dollars.

Notes: Notes: Local currency unit relative to the US dollar. Data are from 1 January 2017 to 13 January 2019.

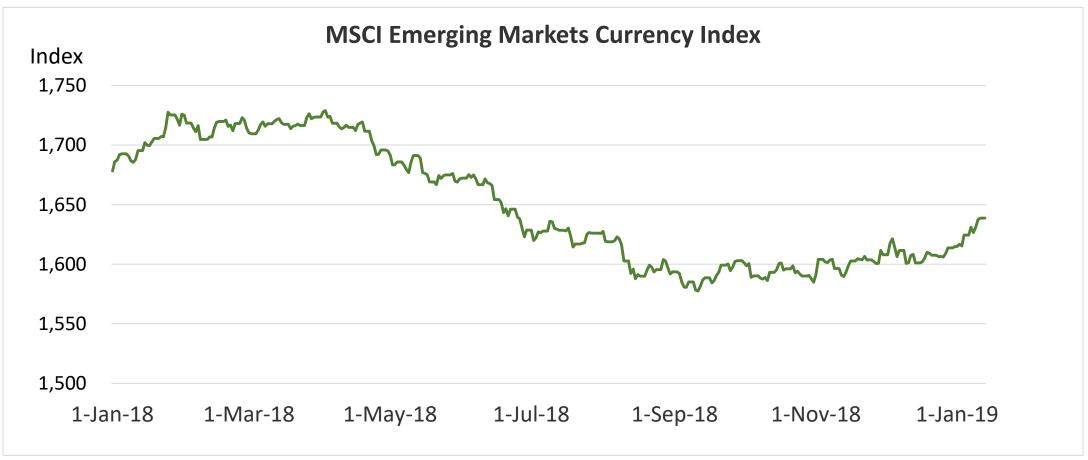
Source: Bloomberg LP.

An ASEAN+3 Initiative





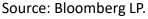
# .....reflecting broader stabilization of emerging-market currencies



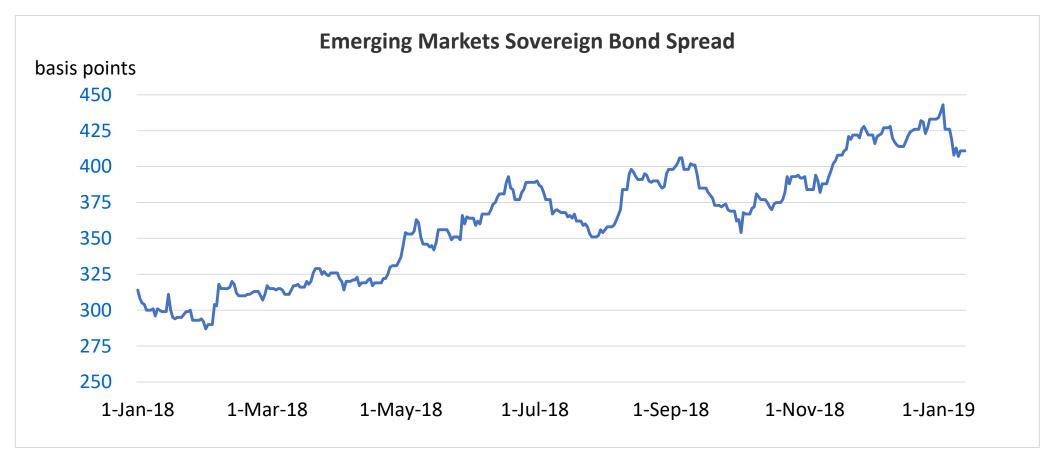
MSCI = Morgan Stanley Capital International

Notes: MSCI Emerging Market Currency Index measures the total return of 25 emerging market currencies relative to the US dollar where the weight of each currency is equal to its country weight in the MSCI Emerging Markets Index. Data are from 1 January 2018 to 13 January 2019.

AsianBondsOnline



# But emerging markets are not yet completely out of the woods yet



EMBIG= Emerging Markets Bond Index Global.

Notes: EMBIG is JP Morgan's index of dollar-denominated sovereign bonds which tracks total returns for traded external debt instruments issued by sovereign and quasi-sovereign entities in emerging markets. A widening of spreads mean investors are shying away from riskier investments in emerging markets, and vice-versa. Data are from 1 January 2018 to 13 January 2019.



Source: Bloomberg LP.



## Thank you

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AsianBondsOnline is a one-stop source of information on bond markets in emerging East Asia



 $\times$ 

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### Session 6 – Recap of account structure study and taxation Jan 28, 2019

Shinya Kim, Naotaka Shibasaki, Daisuke Yachi

### NTT DATA SYSTEM TECHNOLOGIES Inc. NTT DATA

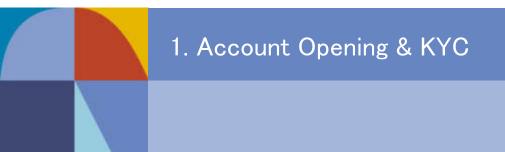
### Purpose

To improve and expand the bond market in Asian countries, the necessary process has to be simplified and the cost of account maintenance and transactions has to be reduced when resident and nonresident investors enter the bond market of those countries.

To achieve the goal, the process should be unified as much as it can. Therefore, we visited the 3 countries bond markets to get the information below.

The point of the investigation is;





### How Investors Can Open Their Accounts in The Bond Market of Each Country

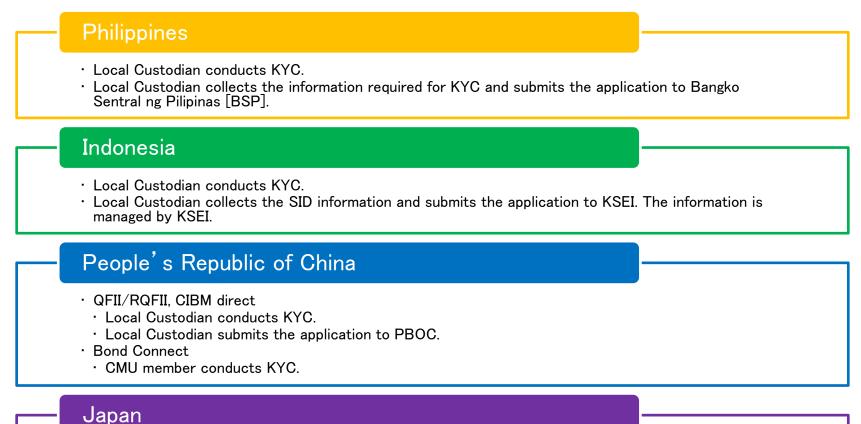
### Comparison of the characteristics of account opening in each country

	Philippines	Indonesia	People	People's Republic of China				
			QFII⁄ RQFII	CIBM direct	Bond Connect			
CSD (Open Securities Account)	Bureau of Treasury⁄ PDTC	Bank Indonesia.∕ KSEI	CCDC/ SHCH/ CSDC	CCDC/ SHCH	CCDC/ SHCH	BOJ/ JASDEC		
Approver	PDTC	KSEI	PBOC/ CSRC/ SAFE	PBOC	PBOC	BOJ/ JASDEC		
Application Document Type*	Electronic (Paper as Market Practice)	(Nonresident) Paper (Resident) Electronic	Electronic	Electronic	Electronic	Paper		
SID Issuance	No	Yes	No	Νο	Νο	No		

\* "Electronic" means that investors can submit an application through the internet including email.

Basically, KYC process is conducted by local custodian, but by CMU member in Bond Connect. In Bond Connect, BCCL helps collate account opening information and facilitates the documentation process with Mainland of China.

KYC Process for foreign investors



· Local Custodian conducts KYC.



### Comparison with Each Country's Account Structure

				Segme	nt		
		Philippines	Indonesia	People	People's Republic of China		
CSD	Government	Bureau of Treasury	Bank Indonesia (KSEI)		CCDC/	CCDC/ CSDC	
030	Corporate	PDTC	KSEI		SHCH	0000	JASDEC
	Resident		Omnibus		Segregate	Segregate	
	Omnibus (Custodian's customer account separated into the tax rate			QFII/ RQFII	Segregate	Segregate	Omnibus
Investor		account and sub- account are	CIBM direct	Segregate	-	(Custodian' s account)	
	categories)		recorded in KSEI.)	Bond Connect	Omnibus (CMU's account)	_	



<Points>

✓ How resident and nonresident investors can receive their interest corresponding to their bond holdings.

- ✓ Interest Payment Flow for resident and nonresident investors
  - ✓ Government Bonds
  - ✓ Corporate Bonds

✓ Who is responsible for recording legally owned amount of investors' bond to calculate the interest

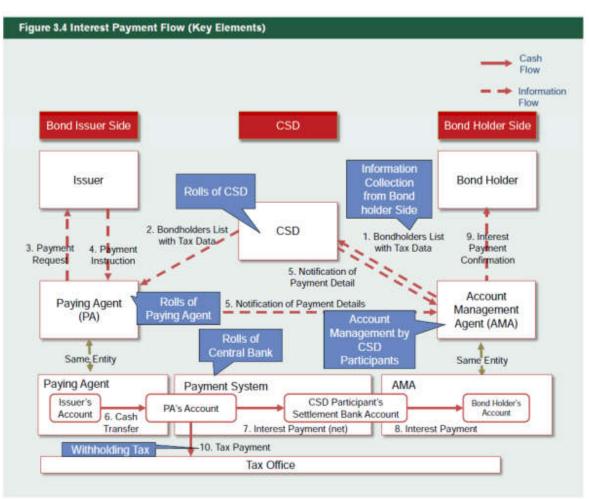
✓ The processes and requirements of nonresident investors to receive the benefit from double tax treaty.

Compare the points of Philippines, Indonesia and Japan among themselves.

In China, investors are not now required to pay tax for the interest.

### Interest and Tax Payment

### Figure 1: Interest and Tax Payment Flow

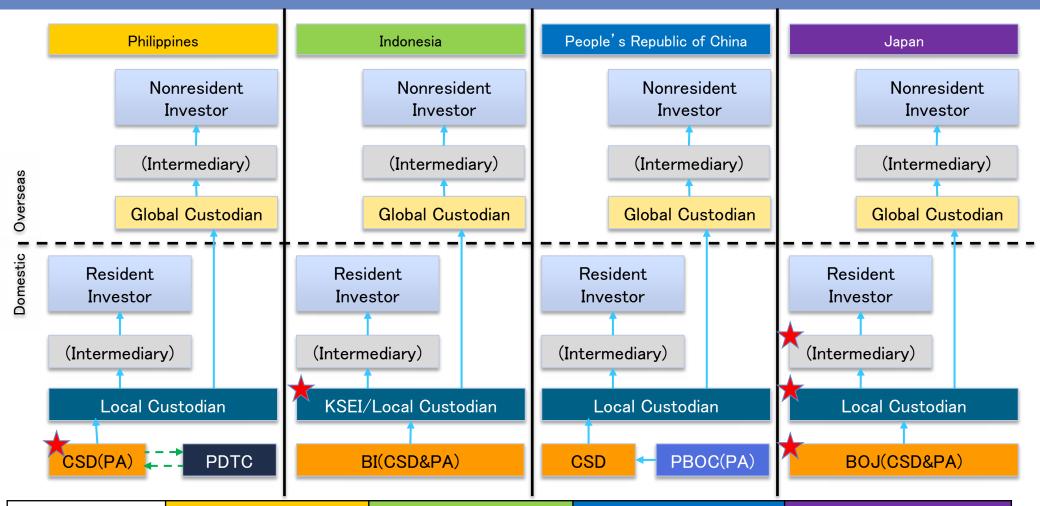


A. Payment Flow of the interest for resident and nonresident investors

B. Who is responsible for identifying the beneficial owner.

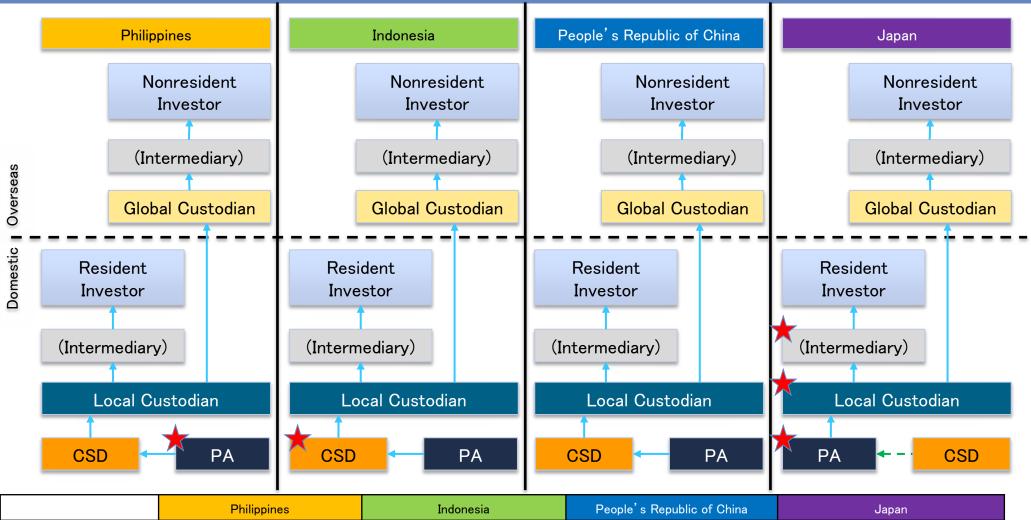
C. The requirements and processes of the nonresident investors to receive the benefit from Double Tax Treaty.

### Flow of Interest and Tax Payment on Government Bonds



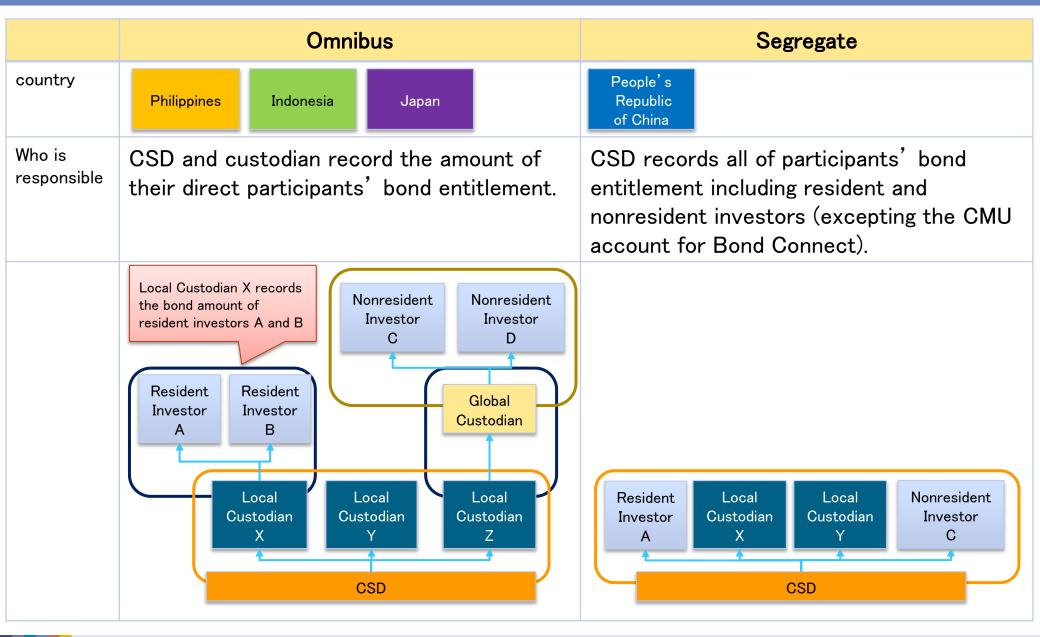
	Philippines	Indonesia	People's Republic of China	Japan
PA (Paying Agent)	Bureau of Treasury	Bank Indonesia	PBOC	Bank of Japan
CSD	Bureau of Treasury	Bank Indonesia	CCDC / SHCH / CSDC	Bank of Japan
Withholding Agent ★	Bureau of Treasury (calculating tax amount by PDTC)	KSEI / Local Custodian	-	Custodian with which taxable client holds accounts
Interest Payment by PA	Net (Tax deducted)	Gross (Tax inclusive)	Only Interest (No Tax)	Gross / Net
Converight @ 2018 NTT	DATA Ormanation			

### Flow of Interest and Tax Payment on Corporate Bonds



	Philippines	Indonesia	People's Republic of China	Japan				
PA (Paying Agent)	Issuer's Bank	Issuer' s Bank	Issuer' s Bank	Issuer' s Bank				
CSD	PDTC	KSEI	CCDC / SHCH / CSDC	JASDEC				
Withholding Agent ★	Issuer's Bank (calculating tax amount by PDTC)	KSEI	-	Local custodian with which taxable client holds accounts				
Interest Payment by PA	Net (Tax deducted)	Gross (Tax inclusive)	Only Interest (No Tax)	Gross (Tax inclusive)				
Copyright © 2018 NTT	Copyright © 2018 NTT DATA Corporation							

## Who is responsible for recording legally owned amount of investors' bond to calculate the interest



### The Requirements to Receive The Benefit from Double Tax Treaty

	Philippines	Indonesia	People's Republic of China	Japan
Requirements	<ul> <li>Submitting tax form to be eligible for preferential rate including COR (Certificate of Residency) via custodian</li> <li>However, the tax return procedures is uncertain</li> </ul>	<ul> <li>✓ Holding SID (Single Investor Identification)</li> <li>✓ Submitting DGT (Directorate General of Taxation) via custodian, which is in effect up to one year.</li> </ul>		<ul> <li>Submitting Application/Ame ndment Form to NTA (National Tax Agency)</li> <li>Certification must have been issued within one year prior to showing.</li> </ul>

In order to compare the requirements for account opening and KYC, We would like to ask the international experts (custodians) to show us the list of the items about the investor's information!!

No.	Item	*	No.	Item	*	No.		nple
1	Investor Type	М	36	1 Number of NPWP	С	71	4 Expiry Date of KTP	
2	Investor Category	М	37	1 Registration Date of NPWP	0	72	4 Number of NPWP	n.
3	Member Code	М	38	1 Passport Number	0	73	4 Registration Date of NPWP	'P/0
4	Client/Securities Sub-account Code	М	39	1 Expiry Date of Passport	С	74	4 Passport Number	
5	Company Name	М	40	1 Number of KITAS (Residence Permit)/SKD	С	75	4 Expiry Date of Passport	С
6	BIC Code	0		1 Expiry Date of KITAS/SKD	С	76	4 Number of KITAS/SKD	0
7	Tax ID	М	42	2 First Name	0	77		С
8	Legal Domicile	М	43	2 Middle Name	0	78	Latest Year Financial Information on Assets	С
9	Number of NPWP (Tax Payer Identification)	С	44	2 Last Name	0	79	Last 2 Year Financial Information on Assets	0
10	Registration Date of NPWP	0	45	2 Position	0	80	Last 3 Year Financial Information on Assets	0
11	Number of SKD (Certificate of Domicile)	0	46	2 Number of KTP	0	81	Latest Year Financial Information - Operating Profit	С
12	Expiry Date of SKD	0	47	2 Expiry Date of KTP	С	82	Last 2 Year Financial Information - Operating Profit	0
13	Place of Company Establishment/Incorporation	nC	48	2 Number of NPWP	0	83	Last 3 Year Financial Information - Operating Profit	0
14	Date of Company Establishment/Incorporation	м	49	2 Registration Date of NPWP	0	84	Description (Additional Information)	0
15	1 Address/Company Address	М	50	2 Passport Number	0	85	1 Bank Name	0
16	1 City	С	51	2 Expiry Date of Passport	С	86	1 Bank Account Number	0
17	1 Province	С	52	2 Numbeer of KITAS/SKD	0	87	1 BIC Code	0
18	1 Postal Code	0	53	2 Expiry Date of KITAS/SKD	С	88	1 Accountholder Name	0
19	1 Country	М	54	3 First Name	0	89	1 Account Currency	0
20	1 Phone/Business Phone	М	55	3 Middle Name	0	90	2 Bank Name	0
21	1 Mobile Phone	0	56	3 Last Name	0	91	2 Bank Account Number	0
22	1 Email Address	0	57	3 Position	0	92	2 BIC Code	0
23	1 Fax Number	0	58	3 Number of KTP	0	93	2 Accountholder Name	0
24	1 Other Address/Other Company Address	0	59	3 Expiry Date of KTP	0	94	2 Account Currency	0
25	Type of Business	М	60	3 Number of NPWP	0	95	3 Bank Name	0
26	Company Characteristic	С	61	3 Registration Date of NPWP	0	96	3 Bank Account Number	0
27	Source of Funds	М	62	3 Passport Number	0	97	3 BIC Code	0
28	Articles of Association	С	63	3 Expiry Date of Passport	С	98	3 Accountholder Name	0
29	Business Registration Certification Number	С	64	3 Number of KITAS/SKD	0	99	3 Account Currency	0
30	1 First Name	С	65	3 Expiry Date of KITAS/SKD	С	100	Investment Objectives	С
31	1 Middle Name	0	66	4 First Name	0	101	Direct Investor SID	С
32	1 Last Name	0	67	4 Middle Name	0	102	Asset Owner	М
33	1 Position	С	68	4 Last Name	0	103	Type of Supplementary Documents	С
34	1 Number of KTP (Resident Identity Card)	С	69	4 Position	0	104	Expiry Date of Supplementary Documents	С
35	1 Expiry Date of KTP	С	70	4 Number of KTP	0	_	* M: Mandatory/O: Optional/C: Conditional	

# Thank you for listening!!

#### REPUBLIC OF THE PHILIPPINES

#### DEPARTMENT OF FINANCE BUREAU OF THE TREASURY

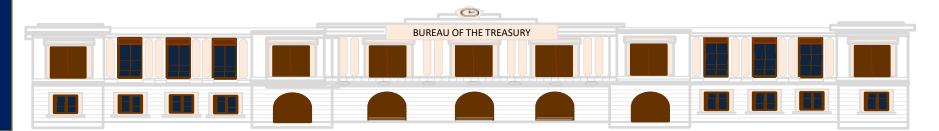


# **Update on the National Registry of Scripless Securities (NRoSS)**

28 January 2019

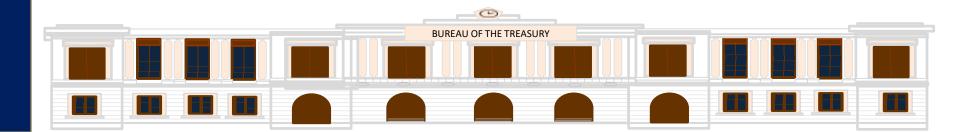
# Background

- The Bureau previously used two systems for the issuance of Government Securities (GS)
   Automated Debt Auction Processing System (ADAPS)
   Registry of Scripless Securities (RoSS)
- Both systems have been in operation for 20 years. These systems lack the robustness and functionality to address current and foreseen business requirements to support the expanding capital market.

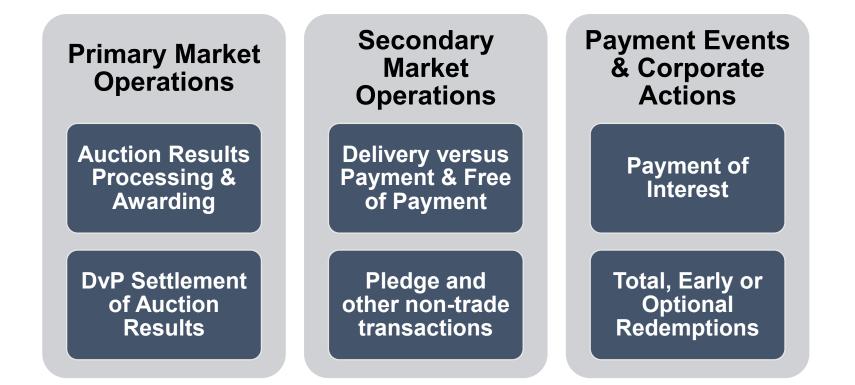


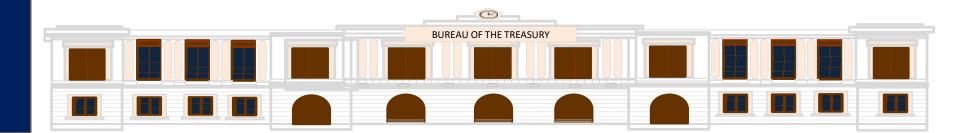
# Objectives

- Modernize the auction platform and registry of securities eradicating possible operational and reputation risks.
- Meet existing and future liability management programs and capital market development initiatives of the Bureau.
- Conform to industry best practices and international standards:
  - Bank for International Settlements (BIS)
  - Committee on Payment and Settlement Systems- International Organization Commissions (CPSS-IOSCO)
  - ISO20022
- Consolidate auction and registry information for data mining and analytics to support policy-making.

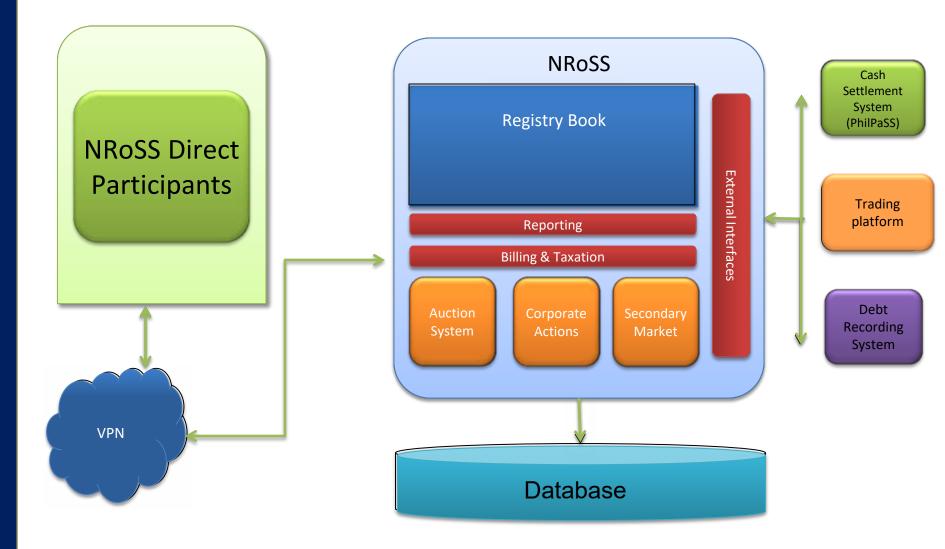


# **Core Operations**





# NRoSS: The Big Picture



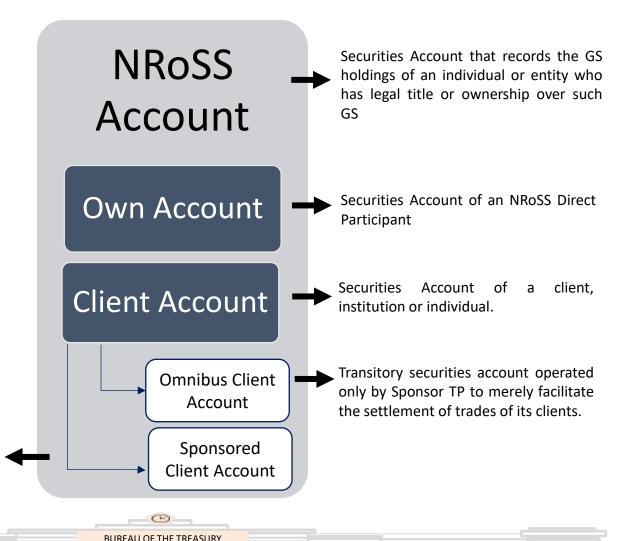
#### Changes | Secondary Market Operations

<b>Business Process</b>	Previous	NRoSS	
1. Registry Account Record	1 Registry System with 2 Registry Books (Sub-registry and RoSS)	NRoSS	
2. Tax calculation	via PDS CAAC	NRoSS tax module	
3. Security	Login authentication	Login authentication with security token	
4. Account Setup	RoSS Principal Securities Account; SATT(BPID)/PIC	NRoSS account number	
5. Reports	BTr-generated	Participant-generated via NRoSS frontend access	
6. Portfolio access	Not available	On-line query facility	
7. Payment event	Requires manual process	Automated	
8. Settlement	DvP done via RoSS-Philpass or through PDS DvP facility	DvP done via nRoSS- Philpass	
	BUREAU OF THE TREASURY		

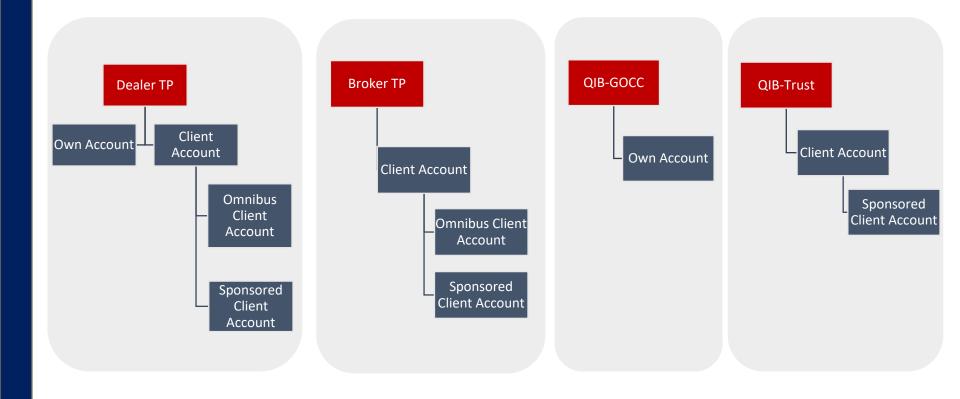
# **NRoSS Account Structure**

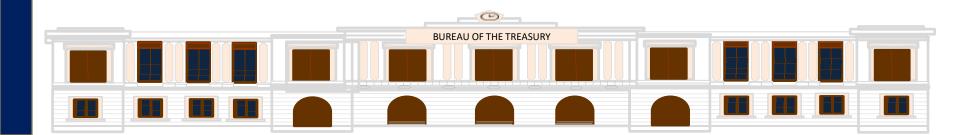
Securities account under the name of an Institution or individual client and in the case of a Trust Entity, Custodian and Depository in the name of the managed fund.

It can be created by a Sponsor TP for its clients by virtue of an authorization, SPA or other types of agreement such as but not limited to Trust or Custodianship Agreement



# Account Structure per Participant





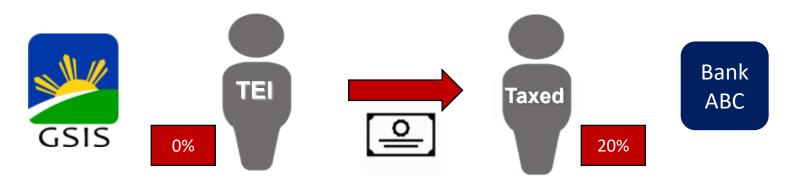
# Non-restricted Trading and Settlement

#### **Salient Features:**

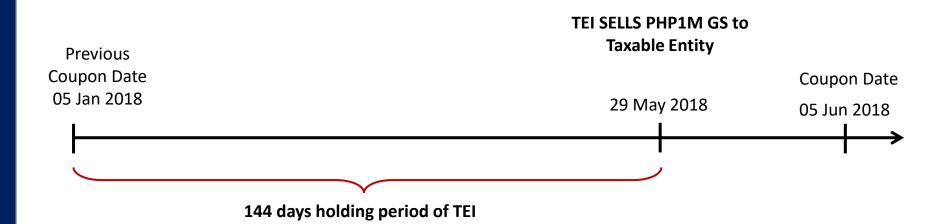
- Department Order No. 068-2014 allowed for the transfer of GS holdings across different tax categories i.e., taxable and tax-exempt institutions (TEIs).
- TEIs are considered taxable when they trade. Reimbursement of taxes withheld from the TEI is made on coupon payment date.
- For the reimbursement mechanism to work, a tax tracking facility is in place to determine the actual holding period of the TEI and calculate the amount for reimbursement.

# **Tax-Tracking Mechanism**

# NRoSS is capable of performing tax-tracking for transfers across different tax categories.

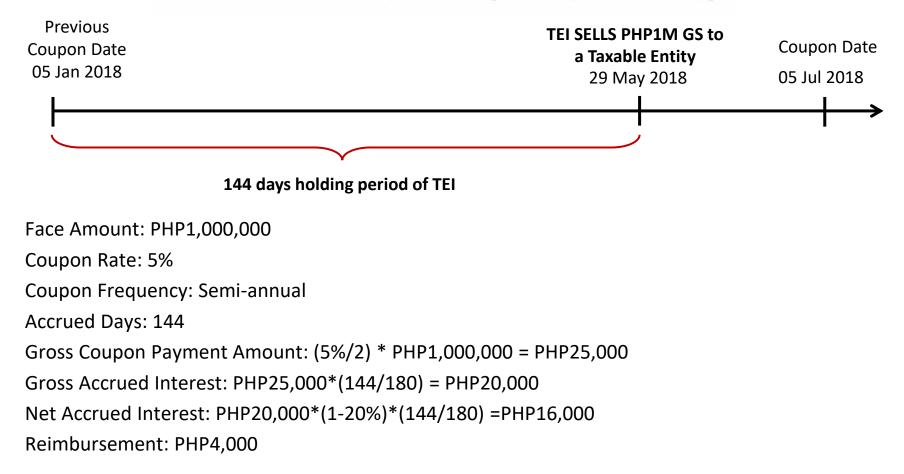


#### Scenario: TEI Sells a Security to a Taxable Entity



# **Tax-Tracking Mechanism**

#### Scenario: TEI Sells a Security to a Taxable Entity



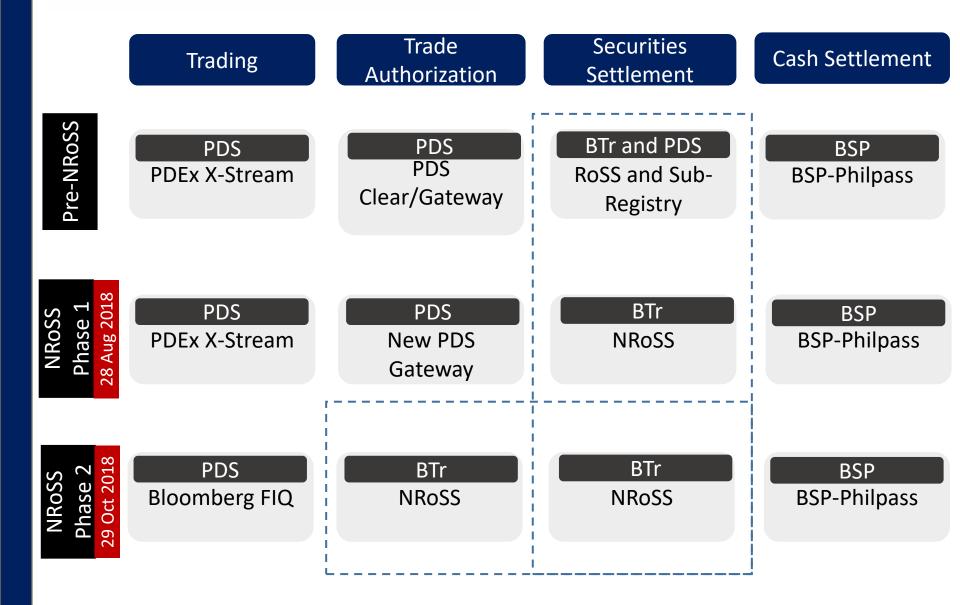
The Registry records the difference of gross and net accrued interest, PHP20,000-PHP16,000=PHP4,000 as coupon interest receivable. The TEI is treated as taxable upon purchase of GS, and on coupon date, the system pays this PHP4,000 to the TEI.

# **Opening a TEI Account**

#### **Requirements to be submitted to BTr:**

- 1. Latest BIR Ruling confirming tax exempt status
  - Issued not more than one year from time of application
- 2. Investor's Undertaking
- 3. Special Power Attorney

# **GS Settlement Flow**



#### REPUBLIC OF THE PHILIPPINES

#### DEPARTMENT OF FINANCE BUREAU OF THE TREASURY



# THANK YOU.

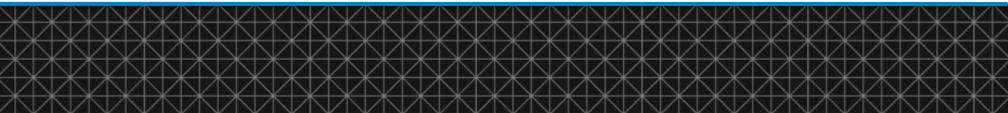


# Philippine National Market Practice Group (PH-NMPG)

Co-chairs:

Nellie Dagdag, MD, Head of Industry Relations, DTCC Roel Refran, COO, Philippine Stock Exchange

28 January 2019, Philippines



#### **PH-NMPG Structure**

Philippine National Market Practice Group (PH-NMPG)

- Organized last November 2016
- Main objective is to facilitate global harmonization of market practices

Currently has 3 Working Groups (task forces) to handle the identified list of priority matters

#### **Clearing and Settlement WG**

**Leads:** Deutsche Bank, Citibank, Securities Clearing Corp. of the Philippines and Philippine Stock Exchange& Trust Corp.

#### **Corporate Action WG**

**Leads:** HSBC, Standard Chartered Bank and Philippine Depository & Trust Corp.

#### **Open Connectivity WG**

**Leads:** Philippine Stock Exchange and Bank of the Philippine Islands

## **Meetings and Key Topics**

- November 2016 Organizational Meeting
- January 2017 Strategic Direction Setting
  - Review of draft TOR, identification and prioritization of topics and organization of the working groups
- June 2017 Progress and Industry Updates
  - Discussion of the draft TOR and progress updates by the Working Group Leads
- October 2017
  - Final discussion and approval of the TOR and progress updates by the Working Group Leads
- March 2018
  - Dialogue with the Securities and Exchange Commission (SEC) discussing fixed income infrastructures, security identifiers and regulations
  - ADB shared about the T+2 settlement updates and progress updates by the Working Group Leads
- August 2018
  - Bangko Sentral ng Pilipinas (BSP) communicated about the need to adopt the ISO 20022 and its action plans
  - Progress updates by the Working Group Leads

### **Working Group Updates**

#### **Corporate Action Working Group**

- Reviewed the local practices against the SWIFT global grid and reported that Cash Dividends, Stock Dividends and Interest Payment have no deviations from Global Standards
- Outlined priority initiatives, dependencies, proposed actions, responsibilities and target timelines

#### **Clearing & Settlement Working Group**

- Discussed the clearing and settlement processes in the Philippines and identified areas for improvement
- Reviewed considerations for shortening the settlement cycle

#### **Member Institutions**

## Regular Members, Philippine banks & supporting organizations

- PSE
- PDS
- DTCC
- HSBC
- Citibank
- Deutsche Bank
- SCB
- Land Bank

- AUB
- BDO
- BPI
- China Bank
- ING
- JP Morgan
- Maybank
- Metrobank

- Security Bank
- Unionbank
- SEC
- BSP
- ADB
- SWIFT



#### Creation of the Task Force on the Adoption of ISO 20022 For Philippine Payments

• TF Duties and Responsibilities

a) Implement ISO 20022 Road Map - modernization of the Philippine payments (High-value and Retail Payments under the NRPS framework)
b) Establish ISO 20022 Payments Market Practice Guidelines (ISO 20022) Rulebook (monitor compliance of financial community)
c) Liaise with SWIFT - Standard Setting Body
d) Perform necessary activities and provide medium to engage/inform stakeholders

 Representatives from BSP, BAP, CTB, RBAP and Third Party Payment System Providers



#### ISO 20022 Task Force

#### Agreements in Meeting 2019-01

- Gather/Identify all payment message schema used by the industry; analyzed for inclusion in the list of Philippine ISO 20022-compliant messages.
- Issuance/release of a BSP Memo to All Banks announcing BSP's adoption of ISO 20022 standards in preparation for the (new) RTGS system (soon – Jan 2019)
- 3) ISO20022 standards for securities Updates by NMPG



#### Target Timelines

New RTGS SYSTEM - PhilPaSS <sup>plus</sup>	ISO 20022 Migration Project
Procurement/Bidding Process 1Q- Q2 2019	January 2019
A	
Project Award Q2-Q3 2019	May – Dec 2019 Environmental scanning
Development, testing, implementation – 18 mos. Q3-Q4 2020	<ul> <li>Q1- Q4 2020 Design,</li> <li>Testing, Implementation</li> </ul>
	J

Target ImplementationQ4 2020 - Q1 2021



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BANGKO SENTRAL NG PILIPINAS

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BANGKO SENTRAL NG PILIPINAS



# Progress and update on standardisation in the region

Cindy Foo, SWIFT Standards, APAC ABMF Meeting Manila, Philippines 28 January 2019

# ISO 20022 Migration: ISO 20022 For Cross-Border Traffic



#### ISO 20022 migration: board decision (September 2018)

Payments	Securities	FX/ Treasury, Trade Finance
SWIFT will facilitate industry	ISO 20022 capability for	Responses to the
migration of cross-border	cross-border securities flows	consultation indicated little
payments and cash.	to use on an opt-in basis	appetite to stop using MT
Start date November 2021	Decision not to set an end	messages at this time
(aligned with the adoption	date for the use of ISO 15022	No plans to migrate to ISO
plans of High Value	(MT category 5 messages)	20022 have been made
Payments Systems in the	proposed	
Eurozone)	proposed	
,		
4 years coexistence		
SWIFT will provide a shared		
service to translate between		
ISO 20022 and MT		
Migration will include all user	s of payments and cash management	messages (MT cat, 1, 2, and 9)



#### **Coexistence and translation**

- During coexistence phase, all messages will be transmitted using the SWIFT network service native to the standard (FIN for MT and InterAct for ISO 20022)
- Use of ISO 20022 for cross-border payments and cash management on the SWIFT network will be governed by market practice guidelines (newly established working group Cross-Border Payments and Reporting Plus CBPR+)
- SWIFT will provide central translation service:
  - SWIFT will implement and publish the rules formulated by the CBPR+ group
  - Receiver will be responsible for triggering translation; users that translate ISO 20022 to MT will be required to manage risk of data truncation and to ensure that the original message is stored and screened
  - All SWIFT users will be automatically enrolled to service, translation of received ISO 20022 to MT will be enabled by default
  - Use of the service will not be chargeable at the outset, but will incur a charge as migration proceeds to incentivize native adoption of ISO 20022.



#### gpi and ISO 20022

 All MT and ISO 20022 payment messages will include mandatory, validated UETR and will be tracked by the gpi tracker. During the coexistence phase an end-to-end payments transaction may use any combination of the two standards.

#### Shared services and ISO 20022

- Financial Crime Compliance (FCC) and Business Intelligence shared services products will be adapted to work with InterAct and ISO 20022 in time for the start of coexistence in 2021.
- FCC Sanctions Screening for ISO 20022 will be offered to users with MT-based back-office systems to ensure that received messages can be fully screened before processing.



# ASEAN ISO 20022 Baseline Development for HVP



#### **ASEAN ISO 20022 HVP Harmonization**

**WHY:** Supporting the ASEAN Economic Community 2025 Vision of harmonizing messaging standards in the ASEAN region through adoption of ISO 20022 in payment market infrastructures

**HOW:** Leverage the ISO 20022 Global Market Practice, High Value Payments Plus, "HVPS+" for consistent and interoperable ISO 20022 standards implementation within the ASEAN financial community

HVP	S+ 6 Core Message Implementation Guidelines	ISO 20022 adoption HVP in ASEAN	status for
1	pacs.008 FI To FI Customer Credit Transfer	TH VN PH	
2	pacs.009 Financial Institution Credit Transfer	КН	
3	pacs.002 FI To FI Payment Status Report		
4	pacs.004 Payment Return	MY SG	
5	camt.056 FI To FI Payment Cancellation Request	En the first the	
6	camt.029 Resolution Of Investigation		Rin
	·	4 12	" # .

#### WHAT:

- 1. SWIFT experts analyse gaps between ASEAN market practices and HVPS+: Q4/ 2018
- 2. Meetings facilitated by SWIFT to reach a common framework, harmonize market practices & build ASEAN ISO 20022 baseline : 1Q/ 2019

Exection and

3. Publish the ASEAN ISO 20022 baseline on MyStandards for ASEAN : 2Q/ 2019

BENEFITS: Simpler and faster ISO 20022 adoption for the ASEAN Economic Community – towards achieving the 2025 vision 7

#### **Preliminary Results: ASEAN Field Level Gap Analysis**

#### Compare HVPS+ pacs.008/009 usage guidelines with ASEAN market practices

- High Level Gap Analysis performed for 6 countries (SG, MY, TH, PH, VN and BN)
- AML/CFT regulations in PH, MY, TH, SG, ID require complete customer info incl. name, add, a/c no. whereas HVPS+ is flexible (a/c number optional)
- IDR and VND as high denominated ccy amount does not fit to the HVPS+ recommendation to limit to 14d (updated in Oct in HVPS+)
- Purpose mandated in PH, MY and ID but optional in HVPS+ and ISO code preferred
- Local language used in H/LVPS in TH and VN bilaterally determined in HVPS+



#### **Proposed Next Steps**

- Complete the high level gap analysis for the rest of the countries
- Upload the draft ASEAN Baseline (pacs.008/009) on MyStandards
- Standards harmonization meetings with ASEAN Central Banks and PMIs (Q1 Q2 2019)
- Other standards alignment discussion and review if necessary (e.g., CSIF)
- Publish the ASEAN Baseline (pacs.008/009) on MyStandards (end 2Q 2019)
- Standards harmonization meetings may continue for non-core messages
- Agree amongst the ASEAN Central Banks to adopt the ASEAN baseline for future alignment





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