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Domestic Bond Markets in the ASEAN Region

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＜Outline＞

➢ Why do bond markets need to be nurtured?

One of the common causes behind the Asian financial crisis in the latter half of the 1990s was double mismatches—in financial sector currencies and maturity structures—in the countries that fell into crisis. In other words, countries raised short-term foreign funds, then used these funds domestically for long-term purposes. In order to address such mismatches, the local currency bond markets must be nurtured in an effort to direct the Asia region's abundant savings toward investing in the region.

➢ Nurturing bond markets: The international framework

The Asian Bond Market Initiative (ABMI) was launched in 2003 among the ASEAN + 3 countries (Japan, China, and South Korea) as an international framework to nurture Asian bond markets. The Asian Bond Fund Initiative is another effort by the Executives Meeting of East Asia-Pacific Central Banks (EMEAP). Further, the G20 Action Plan was formulated in October 2011 as a more global framework in the wake of the recent global financial crisis. The ASEAN + 3 Bond Market Guide was released in April as part of the ABMI effort.

➢ Current conditions and outlook

Bolstered by policy support measures like those noted above, Asian bond markets are steadily developing in terms of size. Corporate bonds have still not developed sufficiently, as corporate funding demand itself has declined. However, demand for funds for infrastructure investment and other objectives is deep-rooted within Asia, and there is ample room for bond issuance demand to expand. Further, with western advanced countries struggling amidst deteriorating fiscal conditions and weakening currencies, Asia is regarded as an investment destination, and expectations are high for the Asian bond markets both as a receiver and supplier of funds.

＜Full text＞

１． Why do bond markets need to be nurtured?

One of the causes behind the Asian currency crisis was mismatches in currency and maturity structure for overall financial markets across Asia. Eliminating these mismatches and stabilizing the region financially was one of the original motives for nurturing Asian bond markets. [1]

However, it has been noted that, through the recent global financial crisis, there were global imbalances in terms of surplus savings in Asia and surplus investment and consumption by the US. Figure 1 below shows that saving rates in the region are high. Although there are some instances of excess investment (eg., Vietnam and Indonesia), a considerable surplus of savings prevails for the region as a whole. Nurturing the region’s bond markets—which increase investment opportunities appropriate for Asia and directly link Asia’s savings to the growth of Asian companies and infrastructure investment—is critical to help eliminate these imbalances.

[1] Nurturing bond markets does not necessarily result in financial stabilization. Not only do intra-region savings circulate with more developed bond markets, foreign capital portfolio investment inflows and outflows also increase. Therefore, the financial system could be more sensitive to further foreign capital flows. In terms of forestalling crises and financial stability, prudential regulations in both macro and micro terms as well as monitoring and stabilizing macro-economic policy management are critical. Emerging economies in Asia have responded in these ways after the crisis, and financial stability appears to have increased. The impact of the global financial crisis has so far been largely limited.

Figure1: Saving and Investment in East and South East Asia (2010 USD bn)

	GDP	Saving	Investment	Net saving	As percentage of GDP Saving	Investment	Net saving
China	5,879	2,999	2,654	345	51%	45%	6%
Hong Kong	224	67	53	14	30%	24%	6%
S.Korea	1,014	251	216	36	25%	21%	3%
Malaysia	238	60	28	32	25%	12%	13%
Thailand	319	98	83	15	31%	26%	5%
Singapore	223	103	53	50	46%	24%	22%
Indonesia	707	226	230	-4	32%	33%	-1%
Philippines	200	54	41	13	27%	21%	7%
Vietnam	104	29	39	-10	28%	38%	-10%
ASEAN6	1,791	570	474	96	32%	26%	5%
Japan	5,498	1,173	1,032	141	21%	19%	3%

(note) Japan, South Korea, and Malaysia data are 2009 data. (Source) ADB data

Even an Asian Development Bank (ADB) report[2] notes that demand for funds is not being generated due to an undeveloped financial legal framework and infrastructure. This is a bigger cause of Asia's surplus of savings than weak fund demand on the corporate side. The report notes the following specific issues in regard to Asia's financial sector:

① Financial sector growth has not caught up to growth by real sectors, and as a result, financial intermediary functions are not being adequately performed.

② Capital markets are not sufficiently developed, and dependence on the banking system is high.

③ Financial infrastructure regulations and legal frameworks have not been established.

④ The financial sector is separated by country, and this is preventing the development and deepening of the region's financial markets.

Nurturing the bond market would not only address these issues, but at the same time contribute to economic development by improving the market's function in forming interest rates and thus realizing efficient resource allocation, while also improving the spillover mechanisms of monetary policy.

2. Nurturing bond markets: The international framework

(1) The Asian Bond Market Initiative

The Asian Bond Market Initiative (ABMI) was launched among ASEAN + 3 (Japan, China, South Korea) countries in 2003 as an international framework to nurture bond markets in Asia. The effort initially began with six working groups, which have achieved a number of results so far: 1) issuing international collateralized bond obligations (CBO); 2) eliminating the

[2] Cyn-Young Park, "Asian Financial System: Development and Challenges" ADB WP, Nov.2011.

withholding tax for bond investments held by foreign investors (Malaysia and Thailand[3]); 3) disseminating information using the ADB's AsianBondsOnline; 4) issuing bonds denominated in local Asian currencies by international organization (the ADB, World Bank, and International Finance Corporation); and 5) establishing standards for consistency among the region's rating agencies.

In 2008, a new roadmap was laid out. Under this roadmap, the ABMI has been implemented by four Task Forces (TFs, see below) and a Steering Group that monitors the technical support teams and their activities and comprehensively manages the task forces.

① TF1：Promoting Issuance of Local Currency-Denominated Bonds

- Established a credit guarantee investment facility (CGIF, November 2010): A body providing guarantees for local currency-denominated corporate bonds issued by companies within the ASEAN + 3 region. Japan, China, South Korea, ASEAN, and the ADB have each contributed USD700 million. An actual guarantee business is expected to be launched in 2012. [4]
- Promoting bond issuances for infrastructure finance.

② TF2：Facilitating the Demand of Local Currency-Denominated Bonds

- Disseminating data related to the region's markets and ABMI progress through Asian Bonds Online.
- Holding seminars for institutional investors.

③ TF3：Improving Regulatory Framework

- Established the ASEAN + 3 Bond Market Forum (ABMF) as a public-private forum (September 2010) in order to standardize market practices related to cross-border trades and harmonize regulations with the goal of promoting regional cross-border bond trading. The ABMF has issued the ASEAN + 3 Bond Market Guide (see below for details).

④ TF4：Improving Related Infrastructure for the Bond Market

- Examined the possibility of creating a regional settlement body: Report by private sector specialists (April 2010).

(2) The Asian Bond Fund Initiative (ABFI)

The ABFI, like AMBI, is an effort by the Executives Meeting of East Asia-Pacific Central Banks (EMEAP) to promote the development of Asian bond markets. [5]

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[3] Thailand decided to tax foreign investors' holdings of Thai sovereign bonds and other investments at the source in October 2010 due to instability in foreign capital flows in the wake of the global financial crisis.

[4] ASEAN Finance Ministers' Joint Statement, March 30, 2012.

[5] Eleven central banks and monetary authorities are members: the Reserve Bank of Australia (RBA), the People's Bank of China, the Hong Kong Monetary Authority, the Bank of Indonesia, the Bank of Korea, Central Bank of Malaysia, Reserve Bank of New Zealand, Bangko Sentral ng Pilipinas, Monetary Authority of Singapore, Bank of

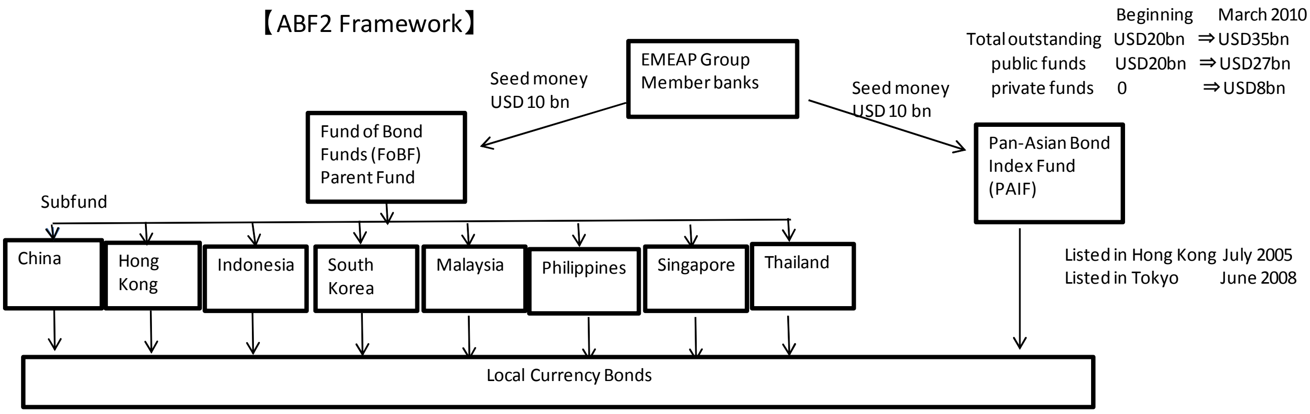
In 2003, the members of EMEAP invested a total of USD1.0 billion and created a fund ABF to purchase USD-denominated sovereign and government entity bonds of eight economies—China, Hong Kong, Indonesia, South Korea, Malaysia, the Philippines, Singapore, and Thailand. Only EMEAP member central banks and monetary authorities could invest in the ABF. Following the success of ABF, ABF2 was launched in 2005 as a second step.

ABF2 is a fund to invest in bonds denominated in the currencies of each country. ABF2 is comprised of the Pan-Asian Bond Index Fund (PAIF) and Fund of Bond Funds (FoBF). Cross border investments in government bonds and government entity bonds of eight economies are made under the PAIF. Under FoBF, a parent fund invests in the sub-funds of the eight economies. The 11 central banks and monetary authorities in EMEAP contribute a total of USD2.0 billion in seed money and invest equally in PAIF and FoBF.

ABF2 was initially limited to investment by EMEAP member central banks and monetary authorities, but was then opened to outside investment after preparations were made. The PAIF was registered in Singapore, then listed on the Hong Kong Stock Exchange in July 2005 and on the Tokyo Stock Exchange in June 2009, opening up to a broad range of investors. Further, the China sub-fund was opened to outside investors in May 2011, and all eight sub-funds are now open to outside public and private investors.

ABF2 is intended to both have a pump-priming effect for both domestic and external investors for local currency-denominated bond markets and accelerate market and regulatory reform through investments in funds by central banks and monetary authorities. ABF2 expanded from USD2.0bn when it was created in 2005 to USD3.5bn in March 2010, and of this the central bank and monetary authority share grew from USD2.0bn to USD2.7bn. Private funds rose to USD800mn. The bulk of these private funds are invested in PAIF.

【ABF2 Framework】



(Source) EMEAP press release, BIS data.

Thailand, and the Bank of Japan.

The ABFI has so far helped in implementing regulatory reform and market infrastructure, promoting market trading practices, and standardizing both market trading systems and documents internationally (BIS assessment report) [6].

(3) The G20 Action Plan

In order to prepare for an international financial crisis, developing a market for local currency-denominated bonds that is big, effective, and properly regulated is critical for both the domestic and global economies. Toward that end, the finance ministers and central bank governors of G20 nations adopted the G20 Action Plan to Support the Development of Local Currency Bond Markets in October 2011 in order to help develop domestic bond markets in individual countries. The communiqué following the G20 summit in Cannes in November also mentioned the Action Plan in the final declaration.

The main points of the plan are 1) scaling up technical assistance from various international organizations; 2) improving the database; and 3) submitting joint annual progress reports to the G20. The plan specifically states: '*We call on the World Bank, Regional Development Banks, IMF, UNCTAD, OECD, BIS and FSB to work together to support the delivery of this plan and to report back by the time of our next meeting about progress made.'* (From the G20 Cannes Summit Final Declaration)

(4) Asia-Pacific Economic Cooperation

The APEC Business Advisory Council (ABAC), an advisory body comprised of business leaders, has held discussions regarding establishing a regional financial system at its Advisory Group on APEC Financial System Capacity Building meetings. Under the framework of strengthening financial systems and financial integration and Asia-Pacific collaboration, the Advisory Group examined plans to develop a regional bond and capital market in 2011.

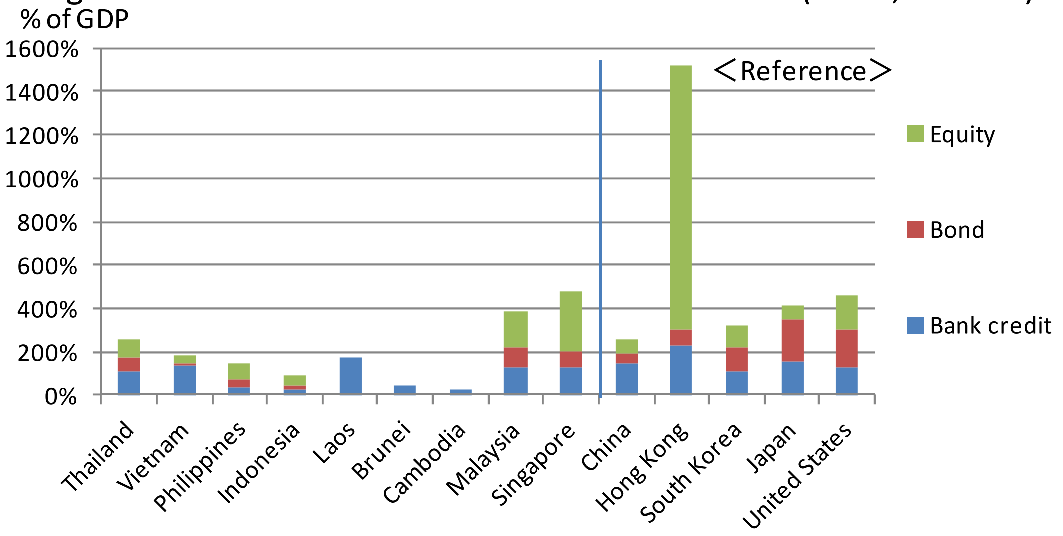
３． An ASEAN Regional Bond Market – Current Conditions

Figure 2 compares the scale of bond and equity markets and bank credits in various ASEAN countries in order to assess the stage of their bond market development. Global financial centers such as Hong Kong and Singapore are on a different scale, and aside from these two centers, the degree of bond market development in the ASEAN countries is inadequate vis-à-vis the size of the countries' economies compared to advanced countries Japan, the US and even South Korea. For Indonesia, not only the bond market, but the scale of the financial markets overall is small

[6] Eric Chan, Michael Chui, Frank Packer and Eli Remolona, "Local currency bond markets and the Asian Bond Fund 2 Initiative", BIS Nov. 2011.

compared to the scale of the economy. Although Brunei, Cambodia, and Laos issue sovereign and central bank bonds, bond market data is unavailable.

Figure 2: Size of the Financial Markets in East Asia (2010, vs. GDP)

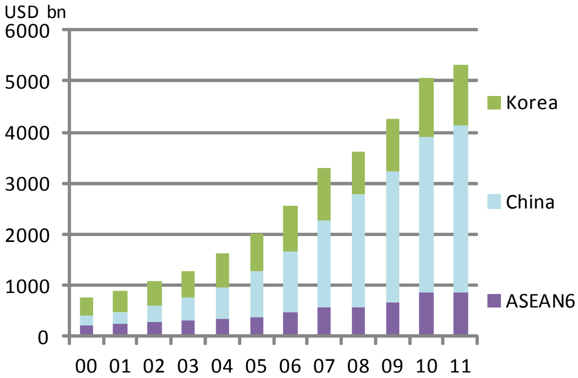


（Note）Equity=market capitalization. Bonds and equity data for Brunei, Cambodia, and Laos not available. (Source) IMF, WEF, AsianBondsOnline

ASEAN countries are commonly characterized by high ratios of bank lending and strong reliance on indirect financing. Strong reliance on indirect financing in itself is not necessarily a problem, but there is a risk of corporate financing being impacted should a shock in the banking sector occur. Because of this, countries are rapidly nurturing their bond markets.

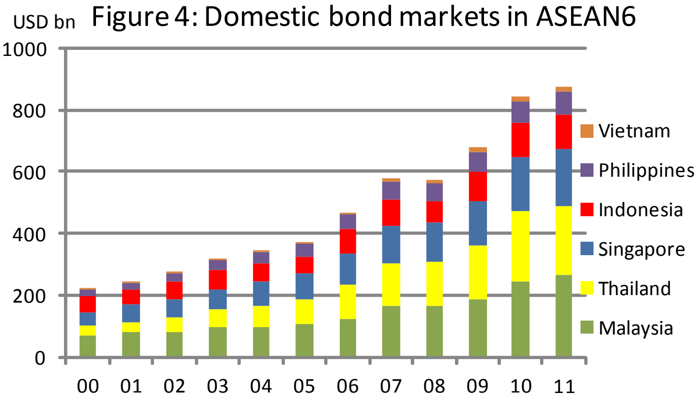
Bond markets in East Asia as a whole, excluding Japan, grew from USD775.0bn in 2000 to USD 5.3trn as of end-September 2011, a 6.8-fold increase (Figure 3). Over the same period, of these, the bond markets of the ASEAN6 countries quadrupled in size from USD218.0bn to USD875.0bn. East Asian bond markets (excluding Japan) account for an 8% share of the world's bond markets, while ASEAN6 markets account for 1.3%. The US bond market, the world's largest, comprises 38.8% of the world's bond markets, or USD25.5trn, while the Japanese market is valuated at USD11.5trn, or 17% of the world total (as of March 2011).

Figure 3: Domestic bond markets in East Asia



(note) As of year-end. End-September for 2011
(Source)ADB,Asian Bonds Online

Figure 4: Domestic bond markets in ASEAN6



（note）As of year-end. End-September for2011
(Source)ADB AsianBondsOnline

With the support of ABMI and ABFI, ASEAN bond markets have continued to develop and expand, but the rates of development have varied considerably among countries. Global financial center Singapore is a class apart, but ASEAN member countries Malaysia, Thailand, Indonesia, and the Philippines offer data on their bond markets, which are all of considerable size (Figure 4). Malaysia is already becoming positioned as an Islamic financing center. The Thai bond market is developing into a large market, along with Malaysia and Singapore. On the other hand, Vietnam has only recently begun to provide bond market data. In Cambodia, Brunei, and Laos, issuing markets, secondary markets, and investors are all still in the early development stages.

The bond markets in Indonesia, the Philippines, and Thailand appear to have all shrunk somewhat in 2008 as a result of the global financial crisis, but the impact was slight and thereafter the markets have continued to expand.

Data available from AsianBondsOnline shows that the bond markets in all region countries except for Malaysia and Singapore remain undeveloped, and issuance amounts are small. Sovereign bonds comprise the bulk of bonds issued (Figure 5). A number of countries face two problems: 1) the companies that could issue bonds are undeveloped; and 2) the financial infrastructure, including credit rating agencies and trading exchanges, is inadequate. In the wake of the Asian currency crisis in particular, a number of local companies have tried to reduce their investing rates and liabilities in reaction to having caused the crisis. Therefore, local companies' demand for funds itself has weakened, and this has adversely affected the corporate bond issuing market.

Figure 5: Domestic Bond Market Size in East Asia (USD bn)

	Government Bonds		Corporate Bonds		Total of Domestic Bond Market			
	2000	2011*	2000	2011*	2000		2011*	
China	198.8	2474.2	3.5	772.9	202.3	(16.9)	3247.1	(46.1)
Hong Kong	13.9	89.6	46.6	80.0	60.5	(35.8)	169.6	(70.9)
S.Korea	122.4	501.2	232.6	677.9	355.0	(74.5)	1179.1	(104.2)
Malaysia	35.7	158.4	33.0	105.0	68.7	(73.2)	263.4	(100.7)
Thailand	25.9	182.7	5.2	42.5	31.1	(27.3)	225.2	(64.5)
Singapore	24.9	103.7	19.6	82.2	44.5	(47.5)	185.8	(75.7)
Indonesia	50.8	94.7	2.0	15.0	52.8	(36.8)	109.8	(13.8)
Philippines	20.8	65.5	0.2	9.4	21.0	(31.3)	74.8	(34.3)
Vietnam	0.1	15.4	0.0	1.6	0.1	(0.3)	17.0	(15.2)
ASEAN6	158.3	620.3	59.9	255.7	218.1		876.0	
Japan	3499.4	10887.3	1053.1	1104.0	4552.5	(103.6)	11991.3	(215.7)

(note) *As of end-September 2011. Numbers in parentheses are ratio of GDP.
(Source) ADB AsianBondsOnline

Figure 6: East Asia Bond Bid-Ask Spreads (BPS)

Figure6: Bid-Ask Spread

	Government Bonds		Corporate Bonds	
	2000	2011	2000	2011
China	15.0	4.0	n.a.	6.9
Hong Kong	3.5	4.7	8.0	28.1
S.Korea	1.8	0.7	5.0	1.7
Malaysia	4.9	3.3	15.0	8.2
Thailand	2.8	3.3	10.0	9.9
Singapore	1.6	3.8	10.5	19.0
Indonesia	100.0	32.9	100.0	70.0
Philippines	47.5	5.3	40.0	52.9
Vietnam	n.a.	33.5	n.a.	103.1

(Source) ADB, Asia Bond Monitor Nov.2011,Nov.2006

Bond bid-ask spreads, the typical indicator of bond market liquidity, are especially wide in the bond markets of Indonesia and the Philippines (Figure 6).

The bid-ask spreads of corporate bonds are even wider than for sovereign bonds in the ASEAN region overall, a sign that trading is not active. Rating and other information on corporate bonds is insufficient, and bonds are frequently held until maturity. Thus, trading on the secondary markets is undeveloped. The bid-ask spreads in most Asian countries widened from the year before as the global economic outlook darkened in 2011 and concerns about Asia's economies overall arose.

４． ASEAN + 3 Bond Market Guide

The ASEAN + 3 Bond Market Guide was released in April 2012, the result of the ASEAN + 3 Bond Market Forum (ABMF). The main points of the guide are outlined below. The report outlines wide-ranging yet detailed information on market infrastructure, regulatory frameworks, and market trading practices for bond markets in the economies of the region. Ten economies are covered: Japan, China, South Korea, Hong Kong, and the ASEAN 6 countries (Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam). Laos also voluntarily provided data for reference, but was not among the countries covered.

(1) Comprehensiveness

The bond markets of the ten economies covered all have legal infrastructures and trading and settlement systems on par with those of advanced economies. However, some unclarities in the legal system and regulations must still be improved. Although there has been some progress with disclosure in default procedures, there are still some unclarities in default certifications and procedures which must be improved. A number of countries are still developing their bankruptcy laws. The importance of implementing bankruptcy laws and procedures spanning the region must be recognized, and such steps must be considered.

(2) Countries and regions compared, by item

See following page.

Figure 7: Countries and Regions Comared, by Item

		Overview	Case of ASEAN countries
1.	Over-the-counter (OTC) Market	Bonds could be listed on the stock exchange in many markets, but most of the instruments are traded on the OTC market. The OTC market remains the main trading place for the bond markets, but selected exchanges have begun to establish new market segments.	Exchange market trading is possible but not observed in Indonesia. Government bonds can be traded on exchange markets since July 2011 in Singapore. Bonds cannot be traded on exchange markets in other ASEAN countries.
2.	Regulation in Private Placement	Regulatory vacuums in private placements leave room for improvement in the securities law. Private placement issuance schemes may be an opportunity for creating a common self-regulatory system for professionals within the region.	In Indonesia and Viet Nam private placement (to less than 100) is not regulated.
3.	Bondholder Representative and Trustee	The concepts of bondholder representative, commissioned bank, and trustee are gaining popularity and evolving.	In Viet Nam, there is no official concept of bondholder meetings yet.
4.	Identifying Investors and Beneficial Owners	Requirements for identifying investors and beneficial owners are different in several countries. For instance, the PRC does not allow onmibus accounts under the International Central Securities Depository (ICSD), while South Korea recently revised its regulation to allow omnibus accounts for ICSDs only. This, on the other hand, is allowed in Japan and ASEAN. However, there is a growing tendency or desire among regional regulators to increase monitoring.	No ASEAN countries have regulations to identify investors and beneficial owners.
5.	Public Offering	Two general approaches are observed in the markets for public offerings: (1) Full disclosure with specific exemptions, and (2) a clearly- defined disclosure regime. Markets united in those public offerings intend specific disclosure to all potential investors, whereas private placement or private offerings limit disclosure to only specific investor groups. However, a private offer does not mean no disclosure or no underlying regulations. In the near future, a specific offering within professional markets could cover elements of both concepts of public and private offering. Hong Kong and Singapore are closer to international markets while many of the ASEAN+3 markets are still developing. Generally speaking, creating a common platform for issuance and investment of bonds among ASEAN+3 countries may not be so difficult since the necessary underlying concepts are already in place.	In Indonesia, there is a private placement market for MTNs and corporate bonds which could be listed by Indonesian Central Securities Depository. In Malaysia, there are 'exempt regimes' that reduce onerous listing requirements. In addition to AAA (local rating) exemptions, an international rating BBB+ or better may qualify the issuer for disclosure exemption. In the Philippines, fewer than 19 investors would be considered private. In Thailand, SEC approval is required for public offer sale. In Viet Nam, offering securities to 100 investors or more is considered as Public Offering.
6.	Definition of Professional Investors	Defining professional investors is critically important in view of the next phase of ABMF discussions. Currently, definitions of professional investors vary. Indonesia acknowledges the concept but does not define it by law. In the case of Japan, the concept is clearly defined in recent legislation to create the TOKYO PRO-Bond Market.	Professional investor-only markets do not exist in Indonesia or Viet Nam. In Malaysia (exempt regime), Philippines (particular securities and transactions), Singapore, and Thailand (private placement) professional investor-only market exists.
7.	Common Law Tradition and Civil Law Tradition	Although market regulations in the region vary in many ways, this does not mean that harmonization is impossible. Markets can be categorized into different groups. Markets with common law tradition such as Singapore, Malaysia, and Hong Kong share the same trustee concept. Markets with civil law tradition like PRC, Indonesia, Japan, South Korea, Thailand, and Viet Nam, while they may not have the concept of trustee, support the concept of an entity acting for bondholders; names, roles, fiduciary duties, and type of institutions, though, may differ. Generally, if the details are looked into, the differences may not be as significant as they appear.	Malaysia (English law, Common law, Islamic law), Singapore (English law, Common law), Indonesia (Islamic law, Dutch law, Civil law),Thailand and Viet Nam (Civil law), Philippines (Spanish law)
8.	Documentational Language	Some jurisdictions have added other languages for documentation. One such case in Hong Kong, where Chinese is now an acceptable documentation language in the Hong Kong market.	In Indonesia and Thailand, main languages are Bahasa Indonesia and Thai, but English is an alternative. In Viet Nam, Vietnamese only is allowed. In Malaysia, Philippines, and Singapore, English is the only documentation language.
9.	Self-Regulartory Organizations	Definitions of self-regulatory organizations may differ by market but their functions may still be comparable.	
10.	Islamic Bond (Sukuk)	A growing number of jurisdictions now allow or promote the use of Islamic structure in the issuance of bonds in the region. In addition to Malaysia, which has the largest Islamic bond market, Indonesia, Thailand, Singapore, Hong Kong, and Japan will also launch their own regulatory framework for the issuance of Islamic bonds or Sukuk in their respective bond markets. In general, an issuer's obligations under a Sukuk issue and the risk exposure of investors are not materially different from a conventional bond issue. If such material difference exists at all, it is usually well disclosed in the offering documents.	Islamic finance market exists in Indonesia, Malaysia, Singapore, and Thailand. No Islamic finance market exists in Philippines, Viet Nam.

(Source) ASEAN+3 Bond Market Guide April.2012

The foreign exchange regulations that have been cited as obstructive factors to cross-border bond investing are outlined below.

Figure 8: Foreign Exchange and Currency related restrictions in ASEAN Countries

	Foreign exchange rate regime	Restrictions on Foreign Remittance 1. Own currency, 2. Investment principal, 3. Coupons or dividends	Currencies eligible for CLS settlement
Indonesia	Floating	1.Retricted (Rupiah foreign exchange trades must be executed by Indonesian domestic banks; rupiah remittance between foreign banks is prohibited). 2. No reporting required for repatriation of benefits. 3. Reporting reuired. Real-demand principle applies to inbound foreign exchange or buying Indonesian rupiah only.	——
Malaysia	Managed float against a basket of currencies	1.Restricted (All remittances out fo the country must be made in foreign currency). Real-demand principle appplies to inbound FX only. 2. No restriction for non-resident investors to repatriate in foreign currency. 3. No restriction for non-resident investors to repatriate in foreign currency.	——
Philippines	Floating	1. Resricted. Registration with the Bangko Sentral ng Pilipinas (BSP) for issuance of Bangko Sentral Registration Document (BSRD) on per transaction basis is required to qualify for automatic conversion of peso sale or interest into foreign exchange for outward repatriation. 2. Registration with BSP for issuance of BSRD on per transaction basis is required to qualify for automatic conversion of peso sale or interest into foreign exchange for outward repatriation. 3. Interest automatically qualifies for outward repatriation if principal investment has BSRD.	——
Singapore	Floating against basket of currencies	1. No restricion (investor can hold Singapore dollar in Tokyo, for example). 2. No restriction. 3. No restriction.	Yes
Thailand	Managed floating	1. Restricted. 2. Reporting is required. 3. Repoting is required.	——
Viet Nam	Controlled floating	1. Restricted. 2. Restricted for certain period of time after investment. 3. No restriction. (Viet Nam issue is based on availability of foreign currency.)	——

(Source) ASEAN+3 Bond Market Guide, April 2012

(3) Expectations for the Next Phase of ABMF

In the future, a common framework –like the Eurobond market—is expected to be considered for the ASEAN + 3 region. However, EU rules are by no means appropriate for ASEAN + 3. ‘Asia version’ rules must be considered.

The goal of Phase 2 of ABMF is to promote cross-regional bond issuance and investing. Two approaches have been addressed: bottom-up from ASEAN and top-down from the private sector. The first approach should promote development of a market for private offering bonds and designated investors. This would thus likely result in establishing a professional market for more limited, select investors.

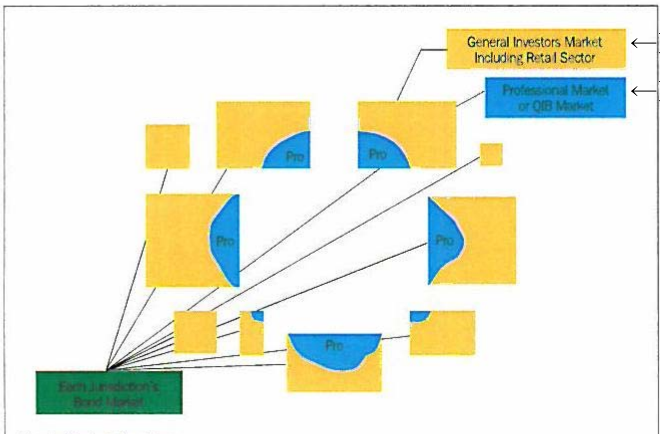
This is an issue to be considered in terms of creating an offshore market and regulations. Promoting cross-border investing for domestic bond markets and standardizing related trading and procedures are recent objectives.

Because access to many domestic markets is limited for select issuers and investors, rational efforts could probably result in common rules. Specifically, a region-wide medium-term note (MTN) program could be created. In order to achieve this, rulemaking by regulatory authorities in individual countries must be commonly understood. Such rule-making should be based upon the experiences of international capital market industry groups and voluntary regulatory bodies in Europe and elsewhere. Member authorities must collaborate with investment banks, institutional investors, and lawyers in each market.

Outline of Professional Regional Bond Market Nurturing
Asian Multi-Currency Bond Issuance Program (AMBIP)

○Current: Status quo of bond markets

Figure 2.5 Status Quo of Asean+3 Bond Markets

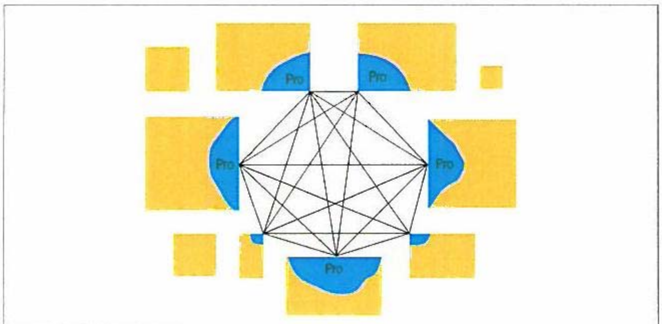


QIB = Qualified Institutional Buyer
Source: ADB Consultant.

←For general investors
←For professional market

○Mutual linkages among regional markets

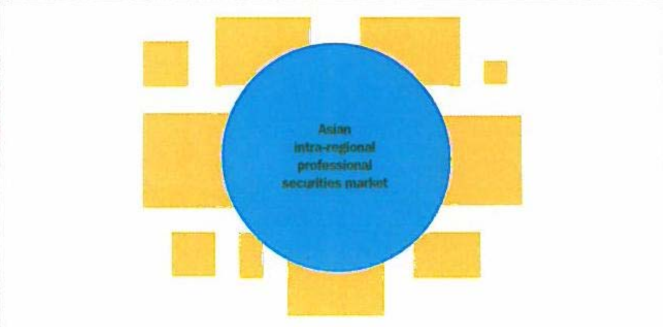
Figure 2.6 Connecting the Professional Market Elements in the Region



QIB = Qualified Institutional Buyer
Source: ADB Consultant.

○Creating a cross- regional professional market

Figure 2.7 Creation of an Intra-Regional Bond Market



Source: ADB Consultant.

５． Outlook and Issues

While ASEAN region bond markets have continued to expand, expansion is still inadequate. International support measures like ABMI and ABFI are still needed.

(1) The Need for a Regional Bond Market

Technical assistance under ABMI has been yielding steady results for individual needs, in line with individual countries' degree of financial development. Technical assistance should be provided that not only nurtures the bond markets in each country while keeping in mind the development of a greater Asian regional bond market.

For countries with less-developed bond markets, it is important to implement measures from nurturing markets and introducing systems in order to link with other markets within the region.

Of the foreign securities investment flows in Asia, less than 10% of investment is from within the region. Most investment is from advanced economies. Strengthening the linkages among bond markets within the region stimulates intra-regional capital flows, and directing Asia's ample savings to intra-region investing would likely limit any impact should tensions in global financial capital markets heighten.

(2) Expectations of Asian Bond Markets as an Investment Destination

On the other hand, as economies of advanced countries weaken as a result of the impact of the global financial crisis and the subsequent European sovereign debt crisis, the position of emerging countries within the global economy is ameliorating. In particular, emerging economies in Asia are expected to act as a growth center and lead the global economy. As such, Asian bond markets are increasingly regarded as investment destinations and securities investment inflows are increasing. Although some countries have tightened their capital inflow regulations in response to the sudden surge in capital inflows, interest in Asian bond markets as an investment destination is expected to grow further.

Demand for capital in the ASEAN region is expected to continue to grow, particularly for infrastructure investment. The ADB estimates that the ASEAN region will need USD60.0bn each year for infrastructure investing over the next 10 years. Meanwhile, with inflows of foreign funds into ASEAN bond markets projected to increase, the region's bond markets are expected to grow in scale.

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