

Achievements of Asian Bond Markets Initiative (ABMI)
in the last decade and Future Challenges

for OECD-ADBI 12th Roundtable on Capital Market Reform in Asia
February 7, 2012 in Tokyo

Takeshi Kurihara, Director, Regional Financial Cooperation Division,
International Bureau, Ministry of Finance, Japan

1

<Contents>

1. Asian Bond Markets Initiative (ABMI) in the last decade
2. Overview of the current financial markets
3. Recent Outcomes under the ABMI
4. Credit Guarantee and Investment Facility (CGIF)
5. ASEAN+3 Bond Market Forum (ABMF)
6. Step forward
7. Challenges and potential roles of the Bonds markets

(Note) The opinions expressed in this presentation are those of the author, and do not represent those of the Ministry of Finance, Japan.

2

1. Asian Bond Markets Initiative (ABMI) in the last decade

(1) Background

- Up around the time of the Asian currency crisis, the Asian countries depended on short-term foreign currency-denominated financing and engaged in long-term domestic currency-denominated investment at home. This is recognized as one of the causes of the Asian currency crisis.

- At the ASEAN+3 Finance Ministers Meeting on August 7, 2003, the Finance Ministers agreed to promote the Asian Bond Markets Initiative (ABMI) to develop the bond market in the region. The objective of the ABMI was to develop efficient and liquid bond markets in the region so that savings in the region can be better utilized to the investment in the region. The ABMI would also contribute to reduce the risk of maturity and currency mismatches ("double mismatch") in financing.

(Reference) Chairman's Press Release on the Asian Bond Markets Initiative (August 7, 2003) (Excerpt)

"The Asian Bond Markets Initiative (ABMI) aims to develop efficient and liquid bond markets in Asia, which would enable better utilization of Asian savings for Asian investments. The initiative would also contribute to the mitigation of currency and maturity mismatches in financing. It is a key step forward in ASEAN+3 finance cooperation."

3

(2) Concrete topics under the ABMI from Phase 1 to Phase 3

#1 Phase 1 (2003 ~ 2005)

- Creating new securitized debt instruments
- Credit guarantee mechanism
- Foreign exchange transactions and settlement issues
- Issuance of bonds in local currency by MDBs, foreign government agencies and Asian multinational corporations
- Local and regional rating agencies
- Technical Assistance Coordination

#2 Phase 2 (2005 ~ 2008)

- Creating new securitized debt instruments
- Credit guarantee and investment mechanisms
- Foreign exchange transactions and settlement issues
- Rating system
- Technical assistance coordination

#3 Phase 3 (2008~) "New ABMI Roadmap 2008"

- Promoting issuance of local currency-denominated bonds (e.g. infrastructure financing)
- Facilitating the demand of local currency-denominated bonds (e.g. developments of the investment environment for institutional investors)
- Improving regulatory framework (e.g. regulatory harmonization by applying best practices)
- Improving related infrastructure for the bond markets (e.g. infrastructure for securities settlement)

4

(Reference) Main Issues for Taskforces under New Roadmap 2008

【TF1】
Promoting issuance of local currency-denominated bonds

- Credit guarantee and investment mechanism
- Promotion of Medium-term Note Programme
- Debt instruments for infrastructure financing
- Development of derivatives and swap markets

【TF2】
Facilitating the demand of local currency-denominated bonds

- Development of an investment environment for institutional investors
- Development of repo markets
- Enhancing cross-border transactions (Regulations on capital movement, Taxation system for nonresidents)
- Disseminating the efforts under the ABMI to institutional investors in the ASEAN+3 countries

【TF3】
Improving regulatory framework

- Strengthening the regulatory and supervisory framework
- Facilitating collaboration among securities dealers associations
- Promoting application of accounting and auditing standards broadly consistent with international standards

【TF4】
Improving related infrastructure for the bond markets

- Facilitating discussion by private sector participants on desirable regional settlement systems
- Increasing liquidity of bond markets (Developing and maintaining a benchmark yield curve)
- Fostering credit culture (Development of a credit risk database)

5

2. Overview of the current financial markets

(1) Balance of savings and investment in ASEAN main countries

(Year)	00	01	02	03	04	05	06	07	08	09	10	
Indonesia	Savings (%)	27.1	26.8	25.4	29.1	24.7	25.2	28.4	27.3	27.8	33.6	33.3
	Investment (%)	22.2	22.5	21.4	25.6	24.1	25.1	25.4	24.9	27.8	31.0	32.5
	Balance of saving and investment (%)	4.8	4.3	4.0	3.5	0.6	0.1	3.0	2.4	0.0	2.6	0.8
Philippines	Savings (%)	15.6	19.9	24.1	23.3	23.4	23.5	22.4	22.1	21.4	22.1	24.8
	Investment (%)	17.8	21.6	24.0	22.5	21.1	21.1	17.6	16.9	18.9	16.6	20.5
	Balance of saving and investment (%)	-2.2	-1.8	0.2	0.8	2.3	2.4	4.8	5.2	2.4	5.6	4.2
Thailand	Savings (%)	30.4	28.5	27.5	28.3	28.5	27.1	29.4	32.8	29.9	29.5	30.6
	Investment (%)	22.8	24.1	23.8	25.0	26.8	31.4	28.3	26.4	29.1	21.2	25.9
	Balance of saving and investment (%)	7.6	4.4	3.7	3.4	1.7	-4.3	1.1	6.3	0.8	8.3	4.6
Malaysia	Savings (%)	35.9	32.3	32.7	34.7	35.1	35.0	37.0	37.5	37.0	30.9	32.9
	Investment (%)	26.9	24.4	24.8	22.8	23.1	20.0	20.5	21.6	19.3	14.4	21.4
	Balance of saving and investment (%)	9.0	7.9	8.0	12.0	12.1	15.1	16.6	15.9	17.7	16.5	11.5
Singapore	Savings (%)	44.0	39.6	36.7	38.8	38.7	41.1	45.9	48.4	44.8	45.4	46.0
	Investment (%)	33.2	26.8	23.8	16.1	21.7	20.0	21.0	21.1	30.2	26.4	23.8
	Balance of saving and investment (%)	10.9	12.9	12.9	22.7	17.0	21.1	24.8	27.3	14.6	19.0	22.2

(Source) IMF WEO September 2011

6

(2) Market capitalization and bonds outstandings

- Stock markets in the region are almost as large as those of advanced economies.
- Development of the corporate bond markets is relatively slow compared with that of the government bond markets. The sizes are still small in most of the countries in the region.

Market capitalization and bonds outstanding (% of GDP)

	Market Capitalization	Bonds outstanding	
		Government	Corporate
Indonesia	45.9	13.9	1.9
Malaysia	137.6	100.7	40.2
Philippines	70.8	34.6	4.3
Singapore	218.9	75.7	33.5
Thailand	69.6	64.5	12.2
United Kingdom	127.0	70.1	13.5
United States	92.5	167.9	91.4
Germany	31.6	78.3	25.7

(Note) United Kingdom, United States and Germany's bonds outstanding is as of June 2011.

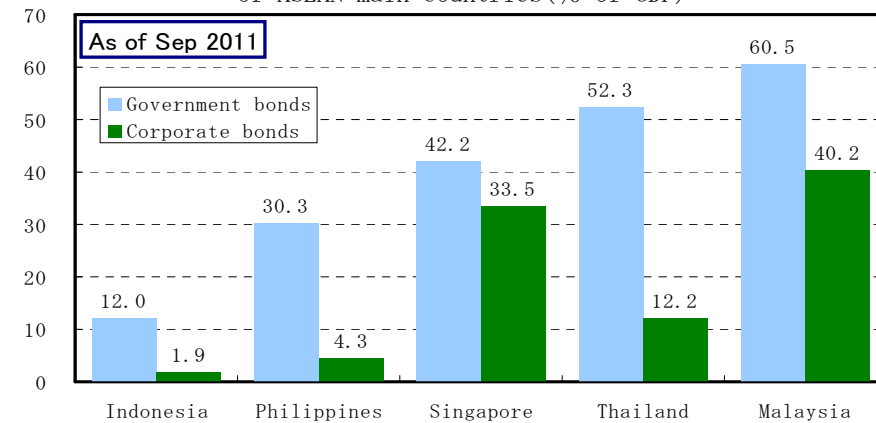
The rest is as of Sep 2011.

(Source) ADB "Asian Bonds Online", World Federation of Exchanges, BIS, Each countries statistics

7

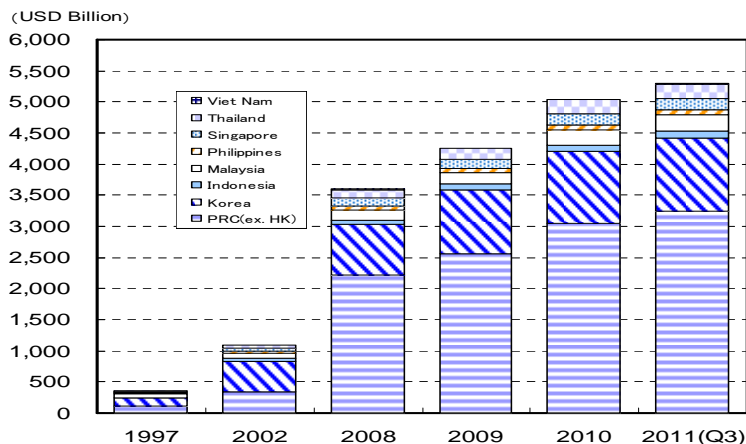
(3) Government and corporate bonds outstandings

Government and corporate bonds outstanding of ASEAN main countries (% of GDP)



8

(4) Outstanding ASEAN+3 LCY-denominated Bond (ex. Japan)



(Note) This figures are sums of government bonds and corporate bonds
(Source) Asian Development Bank "Asian Bonds Online"

9

3. Recent Outcomes under the ABMI

(1) Asian Bond Online (ABO)

- established in 2004 in cooperation with ADB, which provides latest information about bond markets in the region.
- "The Asia Bond Monitor" is also published, which reviews recent developments in East Asian local currency bond markets.

(2) The Credit Guarantee and Investment Facility (CGIF)

- established in November 2010, in order to support the issuance of local currency denominated corporate bonds in the region by providing credit enhancement, and thus contribute to the development of regional bond markets.

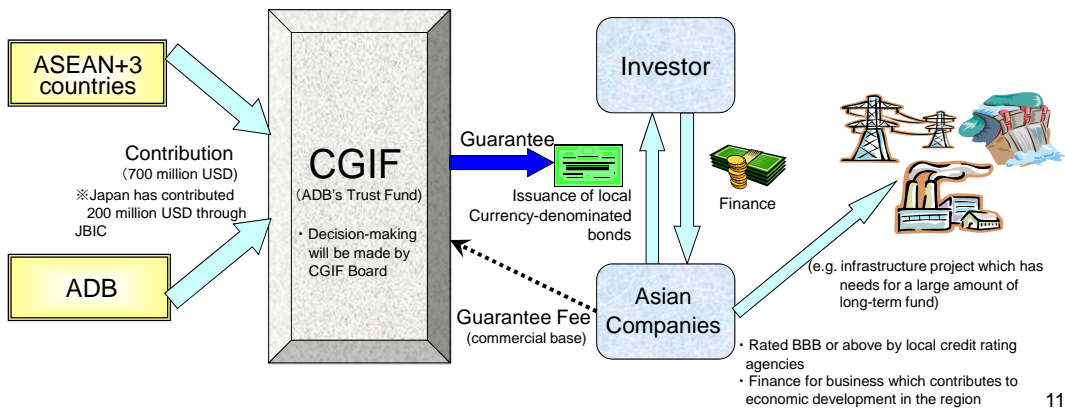
(3) ASEAN+3 Bond Market Forum (ABMF)

- established in September 2010, as a common platform to foster standardization of market practices and harmonization of regulations relating to cross-border bond transactions in the region.
- Stock-taking report on the ASEAN+3 bond markets is compiled and released soon as the first outcome from ABMF.

10

4. Credit Guarantee and Investment Facility (CGIF)

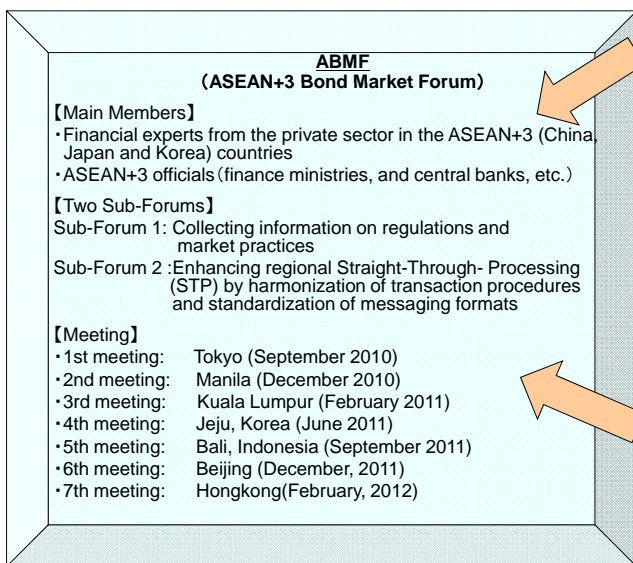
- Due to conservative investment policy of institutional investors in the region, even those companies with investment grade rating by local credit agencies, face difficulties in getting finance by bond issuance.
- ⇒ The main objective of the CGIF is to support the issuance of corporate bonds in ASEAN+3 by providing credit enhancement to allow eligible issuers to access local currency bond markets.
- ⇒ The CGIF was established in November 2010 with the initial capital of 700 million USD.



11

5. ASEAN+3 Bond Market Forum (ABMF)

Purpose: To foster standardization of market practices and harmonization of regulations relating to cross-border bond transactions in the region



(Previous ABMI approach)

Task Force 3 (Co-Chairs: Malaysia and Japan) **【Key areas: Improving the Regulatory Framework】**

- Examining measures to harmonize legal systems and market practices in each market
- ① Strengthening the regulatory and supervisory framework for bond markets
- ② Facilitating collaboration among security dealer associations and self-regulatory organizations in the region

The Group of Experts on Cross-border Bond Transactions and Settlement Issues (GOE)

- Identifying the main barriers to cross-border investment and settlement in the ASEAN+3 bond markets
- ① Regulatory barriers (Cash controls, Foreign exchange controls, and Taxes, etc.)
- ② Settlement barriers (Messaging format, Securities numbering, and Settlement cycle, etc.)

12

6. Step forward

- At the 14th ASEAN+3 Finance Ministers' Meeting (AFMM+3) on May 4, 2011, the Finance Ministers tasked the Deputies to discuss how to further enhance the ABMI, focusing on its objective, scope, including capital market, and framework.

(Reference) Joint Ministerial Statement of the 14th ASEAN+3 Finance Ministers' Meeting (May 4, 2011) (Excerpt)

"12. We recognized that the ABMI has contributed to developing efficient and liquid bond markets in the region since the start of its activities in 2003 so that large savings in the region can be better utilized to increase investments in the region. Given the significant economic development in the region, we tasked the Deputies to discuss how to further enhance the ABMI, focusing on its objective, scope, including capital market, and framework.

13

7. Challenges and potential roles of the Bonds markets

- (1) Infrastructure Development
- (2) Innovation and technology
- (3) Facilitating the changes of economic growth pattern
- (4) Enhancing efficiency of corporate financing
- (5) Reducing the risk of sudden capital outflow
- (6) Smooth implementation of monetary policy

14