6. Establishing the ASEAN+3 Bond Market Forum (ABMF)

6.1. Rationale of the ABMF

The ASEAN+3 countries share a consensus on the importance of fostering liquid and efficient bond markets in Asia by facilitating the harmonization of bond standards and regulations. Unlike Europe, where adoption of a single currency provided key momentum for integration and harmonization, East Asian countries will require more cooperative and systematic joint efforts to establish a harmonized and integrated regional bond market.

As stated in the analysis provided in section 2, the efforts to establish a regional bond market should be based on an understanding of the different characteristics of each domestic market. Accordingly, a review is needed of the policies, practices, and regulatory standards of bond markets in individual ASEAN+3 countries; followed by an exploration of the possibility of harmonizing these standards and practices to facilitate the development of an integrated regional bond market in East Asia. Indeed, these efforts have been realized through various working groups and task forces organized under the Asia Bond Market Initiative (ABMI). However, these efforts lack a comprehensive plan to effectively foster harmonization of bond markets in Asia. In 2005, in recognition of the gridlock, ABMI member countries agreed to complement ongoing efforts with a more progressive and systematic approach, which would be empowered by a comprehensive discussion among member countries, and to implement this approach by conducting research for the Asian Bond Standard.[46] The discussion among member countries will require experts to convene regular meetings aimed at identifying differences across domestic markets to effectively foster harmonized and integrated Asian bond markets over the long-run.

It is important to employ differentiated approaches in fostering the harmonization of government and corporate bond markets. At this stage, a drastic approach to harmonize bond standards and regulations may not be feasible, especially with respect to government bond markets. Hence, a forum to study measures and strategies for the harmonization of bond standards and regulations is needed for government bond markets. The harmonization of corporate bond markets might entail utilizing a less-regulated offshore market approach and seeking a transition to an integrated regulatory environment as the new market develops. However, it may be difficult to expect harmonization via offshore markets since governments tend to opt for autonomy and flexibility in their sovereign debt management. As a result, it may be ideal for each country to first develop its own domestic government bond market and then seek gradual harmonization as individual markets develop.

The development of local currency (LCY) bond markets has been driven by the rapid growth of government bond markets. **Figure 6-25** shows changes in the relative size of LCY government and corporate bond markets relative to gross domestic product (GDP) during the last decade. As can be seen, government bond markets have grown relatively faster than corporate bond markets in many Asian countries. Hence, the environment needed to begin the process of harmonizing government bond markets is rapidly improving. The importance of harmonizing bond standards in the secondary government bond market was recently highlighted as authorities coped with the global financial crisis, during which Asian governments sought fiscal expansion via the massive issuance of government bonds. Hence, taking measures to effectively enhance liquidity and reduce financing costs has taken on heightened importance.

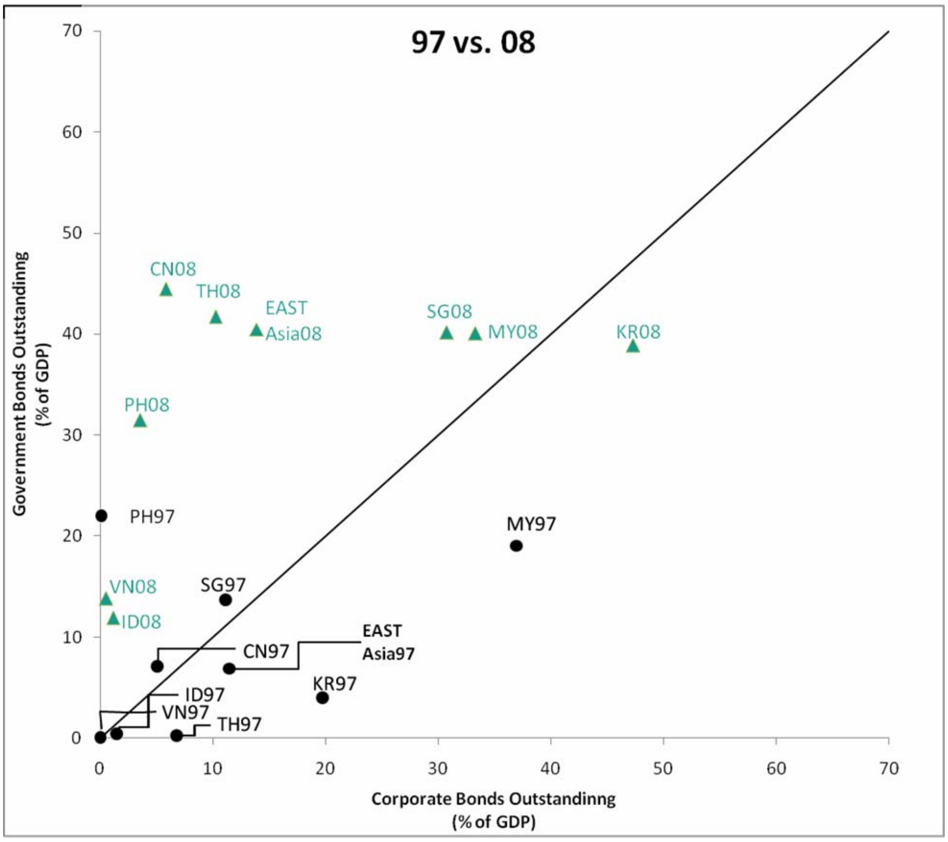
[46] *Asian Bond Standard* (2005). Submitted to the ABMI by the Ministry of Finance and Economy of the Republic of Korea.

With this background and based upon the need for differentiated approaches to bond market harmonization, this section proposes establishment of the ASEAN+3 Bond Market Forum (ABMF) to foster comprehensive and systematic discussions among bond market specialists and policymakers from member countries to develop strategies for the harmonization and integration of Asian government bond markets. The region's market experts and policymakers will first need to identify the differences in bond market standards and policies across the region's economies and share their experiences to develop effective harmonization strategies.

The ABMF can begin by conducting detailed analysis of each market and providing comprehensive comparative studies. Under the proposed ABMF, market experts would contribute to discussions on specific issues related to their own respective markets and policymakers would accelerate the integration process by recognizing the benefits of harmonization. The discussion agenda would center on facilitating the development of more liquid and efficient secondary government bond markets. ABMF discussions could also extend to corporate bond market issues by analyzing existing models of common corporate bond schemes such as Euro medium-term note (MTN) programs and the Asian Currency Note Program (ACNP).

This section reviews existing bond market international forums and proposes an organizational structure and agenda for the ABMF.

Figure 6-25: Growth of Asian Local Currency Bond Markets, 1997–2008



Source: AsianBondsOnline website.

6.2. Existing International and Regional Bond Forums: Case Studies

6.2.1. Economic Financial Committee (EFC) Sub-Committee on European Union Government Bonds and Bills Markets (Brouhns Group)

Until the late 1990s, European Union (EU) member countries sought to ensure flexibility and autonomy in their respective fiscal management and government bond policies. Therefore, no common guidelines on regulating EU-wide government bond markets had ever been adopted. The Economic and Financial Committee (EFC) under the European Commission was among the first entities to seek harmonized bond standards in the EU. In line with this endeavor, the EFC created the Sub-Committee on EU Government Bonds and Bills Markets in 1997 to study the modalities of debt re-denomination in stage three of the European Economic and Monetary Union (EMU) and other issues related to government bonds and bills markets in the context of the adoption of the euro. The sub-committee was named the Brouhns Group after the name of its first committee chair, Grégoire Brouhns.

At the time of its establishment, the sub-committee comprised representatives from the public debt management offices of 25 EU member states as well as officials from the European Central Bank and European Commission. Although the sub-committee was only a non-binding multilateral partnership, it achieved the following in terms of harmonizing government bond standards:

(i) standardized issuing procedures,

(ii) debt re-denomination and harmonization of market practices,

(iii) collective action clause in issuing international debt securities, and

(iv) standardized reporting formats for primary dealers.

After achieving its initial tasks, the sub-committee continued to work under a new mandate. Currently, it comprises representatives from all 27 EU member states who are responsible for managing public debt, typically from their respective country's debt office, finance ministry, or central bank, depending on the authority of debt management policies. The European Commission and the European Central Bank are also represented in the sub-committee, which continues to promote the further integration and improved functioning of EU government bond markets, thereby positively impacting financial markets as a whole. In particular, the sub-committee is tasked with:

(i) monitoring the EU bond market to promote the efficient functioning of the EU's primary and secondary government debt markets,

(ii) reviewing existing barriers to the further integration of the EU government securities markets,

(iii) supporting member states in identifying and implementing best practices through the exchange of information and experiences on both strategic and technical aspects of government debt management,

(iv) dealing with other important issues of public debt management on an ad hoc basis when necessary, and

(v) reporting regularly (at least once a year) to the EFC on major developments and key strategic issues.

6.2.2. OECD Working Party on Public Debt Management

The Organisation for Economic Co-operation and Development (OECD) organized a Working Party on Public Debt Management (WPDM) as a working group under the Committee on Financial Markets in 1979. WPDM was established to allow high-ranking debt managers of OECD countries to exchange ideas and share experiences from the management of national debt and government bond markets. WPDM discusses a wide range of policy issues concerning national debt and is in the process of establishing global standards based on accumulated knowledge and experience.

WPDM shares its knowledge and experience regarding the efficient operation of primary and secondary government bond markets with the governments of developing countries. Specifically, its discussion agenda includes the following:

(i) current state of the government bond market in each country,

(ii) electronic bond trading system,

(iii) effective organization of debt management office,

(iv) role of debt managers in sovereign asset–liability management,

(v) primary and secondary government bond markets,

(vi) risk management of government debt,

(vii) government cash management,

(viii) derivatives markets, and

(ix) assessment and management of contingent liabilities.

The activities of WPDM are directed and supported by a Bureau, which is responsible for planning and coordination for the WPDM. The Bureau is not a formal organization, but a steering group in charge of preparing the WPDM's main activity plan and an annual meeting, as well as deciding the meeting agenda. One chairman and ten vice-chairmen, who are high-ranking debt managers of EU member states, are elected by the WPDM as members of the Bureau each year.[47]

As for the working-level organization, in order to facilitate in-depth discussions, the WPDM organizes various ad hoc debt management expert groups for key debt management issues. Each group comprises 5–7 experts from a pertinent field. In principle, the groups hold meetings once a year and continue with further discussions through conference calls as needed. An expert group will be dismissed when a final report has been completed, including an in-depth discussion of the relevant topic, and policy alternatives have been submitted to the annual general meeting of the WPDM.

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[47] For instance, members of the Bureau who were elected in 2007 include L. Jensen from the Denmark National Bank as Chair and representatives from the Hungarian Government Debt Agency, Italian Treasury, Agence France Trésor (AFT), Australian Office of Financial Management, Japanese Ministry of Finance, United States (US) Treasury, German Finance Agency, National Bank of Belgium, Canadian Department of Finance, United Kingdom (UK) Debt Management Office, and OECD as vice-chairs.

6.2.3. Global Forums

The WPDM organizes two global forums in cooperation with the OECD–Italian Treasury Network for Public Debt Management, the OECD–World Bank–International Monetary Fund (IMF) Global Bond Market Forum, and the OECD Global Public Debt Forum. Each forum is held once a year and covers 2–3 topics. A partial list of topics addressed at past annual forums includes:

(i) price discovery in government bond markets,

(ii) government debt management and bond markets in Asia 10 years after the 1997/98 Asian financial crisis,

(iii) the role of retail instruments in issuing strategies,

(iv) risk management of government debt,

(v) challenges and prospects of European Public Debt Markets related to EU enlargement,

(vi) the role of repurchase (repo) markets for the development of secondary government bond markets of new EU members and other emerging markets,

(vii) the efficiency of government bond issuance methods, and

(viii) innovations in the fixed-income sector and their use for the design of government debt instruments in emerging markets.

Participants include debt managers, supervisory bodies, central banks, financial policy authorities, and private market participants from OECD countries. The Global Bond Market Forum has been held in association with the World Bank and IMF since 2006. The Asian Development Bank (ADB) is also participating in the forum to discuss issues regarding Asian debt markets.

In addition to the two forums above, WPDM intermittently holds regional and local forums. The annual Baltic–Nordic Forum on Public Debt Management was held prior to 2004 when the Baltic countries became member states of the EU. The OECD–China Forum on Public Debt Management and Government Securities Markets has been held regularly since its first meeting in June 2004.

6.2.4. OECD–Italian Network for Public Debt Management in Emerging Markets (PDM Network)

The PDM Network collects experiences and techniques in sovereign debt management and disseminates them to developing countries. At the same time, the PDM Network facilitates communication between OECD's debt managers and national debt managers of developing countries. Since the signing of a memorandum of understanding between the OECD and Italian Ministry of Finance in 2004, the Italian Ministry of Finance has been covering all expenses incurred from operating the network.

Throughout the PDM Network, debt managers from OECD and developing countries share WPDM's best practices and a wide range of pertinent resource materials on-line, thereby enabling the efficient sharing of accumulated knowledge. The network is also widening its range of activities by disseminating WPDM's acquired information and contributing to the OECD Global Public Debt Forum. The PDM Network's governance group, comprising less than seven representatives, is an entity that plans activities and manages the network's budget. The governance group currently comprises representatives from the OECD, Italian Ministry of Finance, Central Bank of Denmark, Central Bank of Spain, and Debt Management Office of Belgium. The group holds two regular meetings each year.

6.2.5. ASEM Public Debt Management Forum

The Asia–Europe Meeting (ASEM) Public Debt Management Forum is a non-OECD debt management forum. The fourth meeting of the ASEM Public Debt Management Forum was held in December 2005 under the joint auspices of the UK and the People's Republic of China (PRC) with participants from the PRC, Denmark, Finland, Germany, Indonesia, Italy, Japan, Republic of Korea (Korea), Malaysia, Netherland, Poland, Singapore, Sweden, Thailand, UK, and the IMF. The forum covered various topics, including the relationship between national debt management and monetary and foreign exchange policies, governance structures for national debt management, and the relationship between the balance sheet of the public sector and national debt management strategies.

6.2.6. Clearing and Settlement Advisory and Monitoring Expert Group

In order to create efficient and safe EU securities clearing and settlement systems, and to tackle Giovannini barriers in parallel, the European Commission Communication on Clearing and Settlement (April 2004) called for a new advisory and monitoring group known as the Clearing and Settlement Advisory and Monitoring Expert Group (CESAME).[48] The group was in operation from July 2004 to June 2008, during which time it carried out dual roles including (i) advising and assisting the Commission in the integration of EU securities clearing and settlement systems in general, and (ii) focusing on the removal of those Giovannini barriers for which the private sector had sole or joint responsibility.

Following the dismissal of the CESAME group, a new industry group, known as CESAME II, was set up to ensure the continuation and proper completion of CESAME's mission, and to dismantle all remaining and newly-identified obstacles in the cross-border, post-trading area. This group, comprising high-level representatives of various private- and public-sector bodies involved in the post-trading process, is chaired by the European Commission.

The tasks of CESAME II include:

(i) supporting projects and ensuring transparency for efficient, EU-wide post-trading via removal of Giovannini barriers;

(ii) continuing work on dismantling Giovannini barriers as well as other identified obstacles for which the private sector has sole or joint responsibility;

(iii) monitoring implementation of the recommendations, standards, and any other solutions developed by the industry for the dismantling of industry-related Giovannini barriers; and

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[48] As for the harmonization of settlement and clearing, significant progress has been made in overcoming national barriers since the publication of the review and recommendations by the Giovannini group (2001, 2003). The Giovannini Group comprised financial sector experts and met under the chairmanship of Alberto Giovannini to advise the Commission on financial sector issues. The Group identified the source of the problems with respect to 15 barriers based on market practices, regulatory requirements, tax procedures, and issues of legal certainty. The report set a theoretical framework for harmonization and identified legal and technological issues.

(iv) overall monitoring of developments in the post-trading area.

To ensure consistency of action, CESAME II is also required to:

(i) interface with the private- and public-sector bodies involved in the process of removing Giovannini barriers;

(ii) offer informal assistance to the European Commission through the provision, upon request, of detailed information on specific technical issues;

(iii) liaise with the expert groups assigned to tackle legal barriers and barriers related to tax procedures; and

(iv) liaise with international bodies to ensure the consistency of EU initiatives with those developed at the international level.

Out of 15 Giovannini barriers recognized by the Giovannini Group and the Commission in October 2008, CESAME was asked to tackle those six that were identified as industry-related barriers: Barrier 1 (the diversity of information technology [IT] platforms), Barrier 3 (corporate actions), Barrier 4 (absence of intra-day settlement finality), Barrier 6 (differences in standard settlement periods), Barrier 7 (different operating hours and/or settlement deadlines), and Barrier 8 (differences in securities issuances).

6.2.7. Securities Market Practice Group (SMPG)

Participants in securities markets have historically defined market practice rules for existing securities messaging standards. This resulted in an inefficient exchange of information in which standards and their associated market practice rules were being interpreted and implemented differently by various industry participants in a range of geographic markets.

To address this shortcoming, the Securities Market Practice Group (SMPG), a global securities industry group, was created in July 1998 with the objective of establishing globally-accepted harmonized market practices that, when integrated with standards, would bring the securities industry closer to achieving straight-through-processing (STP). SMPG membership is open to all securities industry players through participation in the National Market Practice Groups (NMPGs) and other affiliated organizations, such as infrastructure and liaison organizations, which are interested in creating globally-accepted market practices for the securities industry. NMPGs have been established in more than 35 countries and comprise investment management institutions (IMIs), broker/dealers, custodian banks, central securities depositories, and regulators, among others. SMPG has designated the Society for Worldwide Interbank Financial Telecommunication (SWIFT) as a facilitator and sponsor.

In line with SMPG's objective and existing globally-accepted market practices, NMPGs seek to discuss and agree upon locally harmonized market practices. NMPGs are led by two co-chairs: a national convener (primary contact) and a vice convener (secondary contact). Country-specific practices are documented and published (www.smpg.info), and regularly updated. NMPG representatives attend global SMPG meetings to comment on SMPG global market practice working documents. Local meetings are held at the convenience of each individual NMPG.

Since its inception, the SMPG has focused on enhancing securities industry practices through harmonization of non-regulated geographic differences, as well as consistent implementation by securities industry participants within and across all markets. To meet this objective, the SMPG global forum hosts two meetings per year and holds periodic conference calls led by its steering committee and NMPG representatives (i.e., national convener and vice-convener), with the participants restricted to NMPG official representatives, affiliated organizations, and guests approved by the steering committee. The meetings cover a range of issues including (i) standardized methods of informing custodians, (ii) transfer securities, (iii) the resolution of cross-matching at central securities depositories, (iv) the creation of NMPGs in non-participating countries, and (v) the development of multi-year project plans.

The securities market practices that SMPG envisions to create can be understood as the sum of business data and rules needed for an automated and dependable communication of securities transactions in all market segments (e.g., corporate action) at both the local and global market levels. In practice, the above definition can be differentiated into two component parts:

(i) market requirements that all SMPG-compliant financial companies should be able to process global and local market practices, and

(ii) additional functionalities that provide business data and rules needed for the automated and dependable communication of specific processes not applicable to all financial institutions.

The detailed SMPG process to produce these securities market practices begins with the NMPGs' analysis and documentation of local practices. The SMPG then collates common elements, specifies additional country requirements, and identifies further opportunities for harmonization of non-regulated differences. After final review and refinement by the SMPG, the market practice rules are published on the SMPG website.

To enable effective implementation of these market practices in day-to-day business operations, the business rules and data have been translated into the available International Organization for Standardization (ISO) 15022 and ISO 20022 standards so that a unique description of type, structure, data fields, qualifiers, code words, and formats used in such messages can be ascertained.

With interpretation and implementation through ISO standards, the SMPG has produced over 30 market practice recommendations covering trade initiation/confirmation, settlement, reconciliation, and corporate actions using ISO 15022 messages. Additionally, the SMPG has since expanded to define market practices for the investment funds industry using ISO 20022 messages.

Some of the key market practices defined include:

- comprehensive place of settlement listing and corresponding market practice usage;
- common element listing of values for settlement;
- statement of holdings and transaction;
- block trades;
- status message and pending transaction recommendation;
- repo—one message vs. two messages;
- corporate action event interpretation grid;
- proxy scenarios successfully recommend use of new suites of proxy messages in

ISO 20033;

- consistent usage and placement of key data elements for corporate action events;
- corporate action notification, instruction, confirmation, and status market practices; and
- order, execution, allocation, and trade confirmation market practices.

6.2.8. Association of National Numbering Authority (ANNA)

Founded in 1992 in Brussels, the Association of National Numbering Agencies (ANNA) has been striving under the umbrella of ISO to promote and maintain the ISO 6166 standard, and to distribute the International Securities Identification Numbering System (ISIN)[49] in a uniform structure among its members and the global financial community for use in any application in the trading and administration of securities.

To realize its goal of global promotion of ISO 6166 and transnational harmonization of ISIN, since its inception ANNA has welcomed a significant number of national numbering agencies (NNA) as designated by ISO 6166. ANNA's membership at the end of 2008 stood at 78 full members and 23 partners representing 113 countries.

The presence of NNAs has been central to the technical development, application, and uniform dissemination of ISIN. In particular, the NNAs' willingness to adjust their securities identification number (i.e., ISIN allocation procedures in the interest of transnational harmonization) has led to the development of extensive and sustainable standards and guidelines to which ANNA members may adhere in their daily operating practices. Of particular note is the willingness of NNAs to share their nationally allocated ISINs on a centralized basis via ANNA and make available their own extensive data to their local markets for this purpose.

ANNA—in line with the NNAs' willingness to share their nationally allocated ISINs and in association with Standard & Poor's and Telekurs Financial—has developed a new entity known as the ANNA Service Bureau to facilitate NNAs' daily interactions and make the ISINs available on a permanent basis. The ANNA Service Bureau collects and consolidates ISIN data from the 78 ANNA members via central registers and integrated databases, and disseminates this information to the market via downloadable FTP (delivered weekly or daily) and a real-time, web-based query tool through which the securities industry may link and cross-reference the single ISO numbering standard ISIN with the myriad local numbering systems embedded in the infrastructure of market participants.

Aside from providing ISIN products, the ANNA Service Bureau provides the following benefits and features to the industry on behalf of ANNA:

(i) data quality support assuring timeliness, accuracy, and availability;

(ii) centralized administration;

(iii) robust database storage and disaster recovery; and,

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[49] ISIN is a unique number structure that identifies fungible securities—bonds, commercial paper, equities, and warrants. Consisting of a total of 12 characters, ISIN can generally be broken down into three parts—a two-letter country code, a nine-character alpha–numeric national security identifier, and a single check digit.

(iv) global, proactive technology and communication support enabling robust interaction with the financial industry.

As for the administration of ANNA, the Board of Directors is vested with the power to conduct all acts of administration. The Board of Directors comprises five directors who are elected by the general meeting, with the directors nominating the board's chairman, vice chairman, executive secretary, and treasurer to represent ANNA through a 3-year term of office. The directors hold a general meeting within 6 months following the end of each financial year to discuss:

(i) approval of new members and the suspension and termination of existing members;

(ii) approval of annual accounts and any annual budget and fees for administrative services for the forthcoming year;

(iii) decisions on the formation of any proposed partnership, joint-venture, union, or cooperation with any company or firm; and

(iv) decisions regarding the development and financing of new data processing products and/or services in relation to ANNA's objective, and major improvements to (or the curtailing of) existing products and services.

As ANNA's responsibilities have grown since its founding in 1992, a number of working groups (WGs) and task forces (TFs) have been formed through decisions of the general meeting. While WGs are permanent bodies that explore strategic matters, TFs operate on a fixed-time period and present their results to the general meeting. At present, three working groups are in operation to serve ANNA's objectives:

(i) WG1 (assisting markets),

(ii) WG2 (ISIN quality and guidelines), and

(iii) WG4 (emerging ANNA members).

6.3. Organization of the ASEAN+3 Bond Market Forum (ABMF)

The proposed ABMF should be different from existing debt management forums in the following aspects. First, while existing debt management forums deal with more comprehensive issues, including treasury cash management and sovereign debt risk management, the ABMF will, at least during the initial stage, limit its focus to the harmonization of bond markets. Second, while existing debt management forums and the proposed ABMF share a common interest in developing national bond markets, the ABMF will pursue the harmonization and integration of national bond markets from the perspective of fostering an integrated regional bond market in Asia. Third, while debt management forums are generally interested in issuing strategies for primary markets, the ABMF will initially focus on the harmonization of bond standards and regulations in the secondary bond market, recognizing the difficulty of harmonizing the issuing policies of government bonds. Finally, unlike debt management forums, the ABMF will study corporate bond market issues and the linkages between government and corporate bond markets.

In addition, the ABMF can learn lessons from the experience of European financial integration. In Europe, the public and private sectors communicate closely through various forums such as CESAME and SMPG as examined above. Likewise, the ABMF should be able to institutionalize effective regional public and private sector dialogue, which is indispensable to the efforts to harmonizing standards in this region. The following description presents the terms and organizational structure of the proposed ABMF.

6.3.1. Purpose of the ABMF

The ABMF, under the ambit of ASEAN+3 countries and comprising of bond market experts from the region, will be established to discuss various bond market issues to further develop liquid and well-functioning bond markets, and effectively channel the region's abundant savings for the increased investment needs.

The ABMF aims to:

(i) assess the existing regulatory frameworks and identify recommendations on how to foster harmonization of regulations and market practices that facilitate cross-border bond transactions in the region;

(ii) enhance dialogue between the private sector and ASEAN+3 officials to develop bond markets in the region and promote harmonization, standardization, and integration; and

(iii) provide opportunities to exchange knowledge, expertise, and experiences among the private and public sector in the region;

6.3.2. Function of the ABMF

The ABMF shall provide ASEAN+3 officials with the viewpoints and recommendations of the regions' bond market experts on issues that will be adopted by Task Force 3 (TF3) of the Asian Bond Markets Initiative (ABMI). While the ABMF will prepare recommendations for the ABMI, these recommendations will not be binding for ASEAN+3 member countries.

The ABMF will:

(i) provide in-depth analysis of bond markets in the region and and make intra-regional comparisons in order to identify national differences and target the market characteristics required for harmonization and standardization;

(ii) explore issues to promote harmonization of bond standards to facilitate cross-border issuance and investment; and

(iii) prepare a strategy and road map for the harmonization of regulations and market practices; and integration of bond markets across the region.

6.3.3. Membership and Participants

The ABMF shall consist of (a) national members, (b) national experts, and (c) international experts. The membership of the ABMF will be given until the forum members bring out a conclusion to the issue discussed. The period of discussion to reach a conclusion is expected to be one to two years. The members and experts will be selected based on issues which are adopted by the TF3. The members and experts selected must have extensive knowledge and expertise in the issues which will be discussed. The members and experts should be selected from among those actively involved in bond markets in the region including, but not limited to, the following:

The ABMF shall consist of national members, national experts, and international experts. The members and experts should be selected from among those actively involved in bond markets in the region including, but not limited to, the following:

(i) financial industry associations such as bankers' associations, security dealers' associations, and self-regulatory organizations (SROs);

(ii) institutional investors such as pensions, fund managers, and insurance companies;

(iii) commercial banks and brokers;

(iv) custodians and central securities depositories (CSDs);

(v) rating agencies;

(vi) financial services providers, including information technology (IT) vendors;

(vii) financial regulators, including securities commissions;

(viii) central banks;

(ix) law firms; and

(x) academics

The national members shall be nominated by each member country of TF3. In principle, the number of national members should be limited to one or two persons from each country for the purpose of effective communication. National members should represent the opinions of their respective home market as opposed to the opinions of the institution to which they belong. It is advisable for national members to form a preparatory working group within their respective markets.

With the consent of other national members, a national member may nominate national experts as participants. The national experts shall contribute to discussions by providing insight on specific issues related to their respective markets.

With the consent of other national members, a national member may nominate international experts as participants. The international experts shall contribute to discussions related to cross-border transactions in the region.

In the case of the Brouhns Group in the EU, although the group was a non-binding partnership, by having members who were high-level representatives from the debt management offices of member countries, the representatives were able to more easily put into practice the group’s discussion results and therefore accelerate the harmonization process. On the other hand, given current circumstances in Asia, where national interests and policy formulation regimes are heterogeneous, the involvement of public sector experts would create difficulties. In this setting, it would be more appropriate to discuss technical issues among the private sector first and then consult with public sector opinion.

6.3.4. Organization and Governance

6.3.4.1. Organization

The ABMF shall be organized under TF3 of the ABMI. The ABMF will consult with the co-chairs of TF3 from time to time in undertaking any regional activities and will report to TF3 on a regular basis regarding the progress of its activities. If any of its proposed activity would have significant impact on any member country(s), ABMF, through ADB as its Secretariat, shall seek endorsement from the co-chairs of TF3 before carrying out such activity.

6.3.4.2. Chair

The chairman of the ABMF will be elected by national members. If multiple forums are established, the chairmen of the forums shall be elected by the national members of each forum.

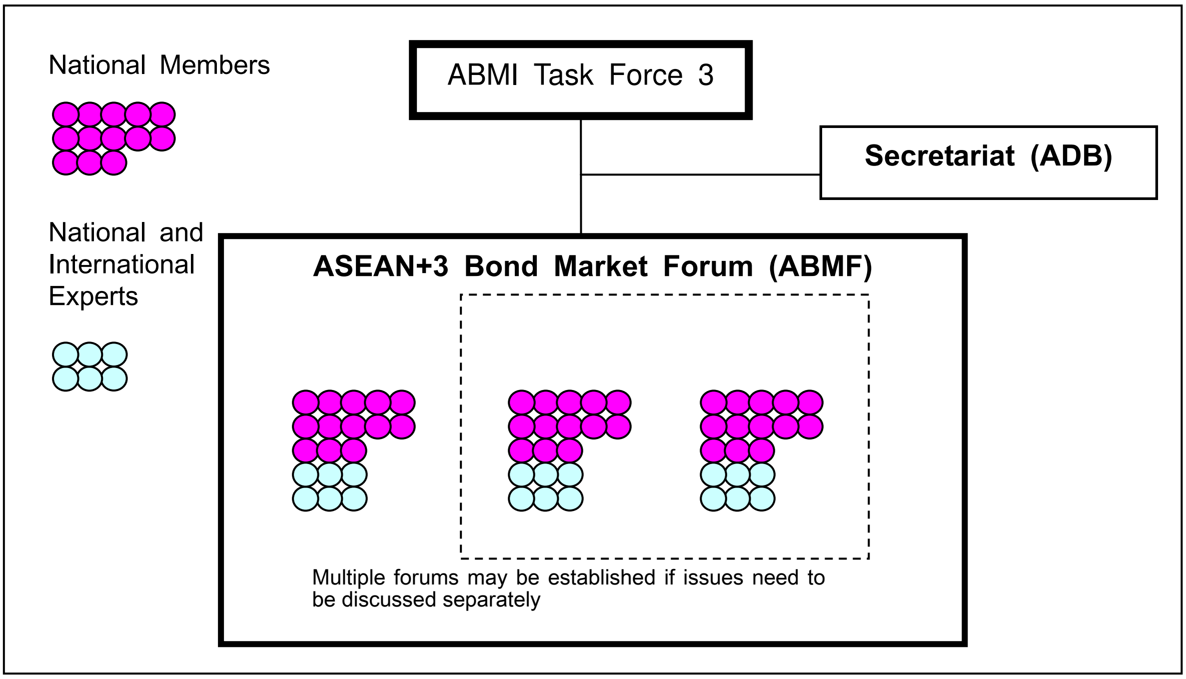
6.3.4.3. Secretariat

To facilitate communication among ABMF members and between the ABMF and TF3, ADB will serve as an ABMF member as well as its Secretariat. In ADB's capacity as Secretariat, it will provide the necessary support to facilitate ABMF discussions.

6.3.5. Funding

Respective participants will assume all expenses related to activities of the ABMF.

Figure 6-26: Organization of the ABMF



6.4. Proposal of Agenda and Roadmap

6.4.1. Issues and Priorities

The ABMF should take stock of the Group of Experts (GoE) report[50]. The GoE report recommends improving information flows to foreign investors to narrow the information gap by facilitating access to information on regulations. The GoE also proposes starting discussions on the settlement barriers among private sector experts first to avoid political controversy. Later, if TF3 members agree, the regulatory barriers could be chosen as agenda items.

Figure 6-27: List of Major Market Barriers Identified by the GoE Report

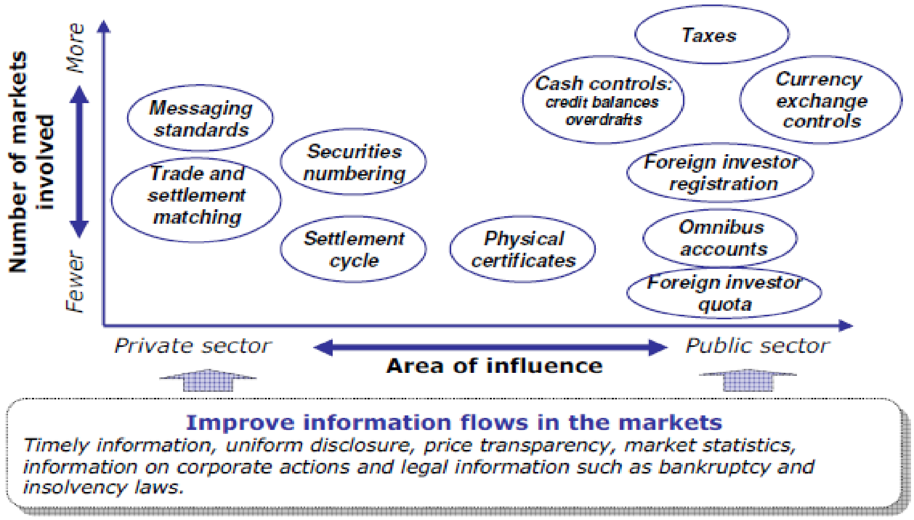
Settlement barriers	Messaging standards Securities numbering Settlement cycle Trade and settlement matching Physical certificates
Regulatory barriers	Foreign investor quota Foreign investor registration Currency exchange controls Cash controls—credit balances Cash controls—overdrafts Taxes Omnibus accounts Regulatory framework Legal framework

GoE = Group of Experts.
Source: Asian Bond Markets Initiative (ABMI) Group of Experts Report for Task Force 4 (TF4).

Therefore, the ABMF should start its discussions by focusing on reducing the information gaps and addressing the settlement barriers.

50 ABMI Group of Experts (GoE) Report can be downloaded from http://asianbonsonline.adb.org or http://asean3goe.adb.org

Figure 6-28: Major Barriers to Cross-Border Investment and Settlement in ASEAN+3 Markets Identified by the GoE Report



GoE = Group of Experts.
Source: Asian Bond Markets Initiative (ABMI) Group of Experts Report for Task Force 4 (TF4).

- **Collecting Information on regulations and market practices**

Before harmonizing regulations, it is necessary to first collect all relevant information on regulations as well as market structures and practices in the region, and then share this information among members. The GoE identified various barriers to cross-border bond investment and settlement from the perspective of foreign investors. To make the study more comprehensive, it is also necessary to examine regulations on and barriers to cross-border investment from the perspective of domestic investors.

To facilitate the information-collection exercise in each market, the studies on Japanese and Korean markets described in Section 2 can be utilized as a reference to decide what kind of information should be collected. In addition, existing market guides for other ASEAN+3 markets, such as the Malaysian Debt Securities and *Sukuk* Market: A Guide for Issuers and Investors, can also be utilized as a reference. Once all of the relevant information has been collected, a compendium of regulations and market structures and practices in the region will be published through the ADB-sponsored Asian Bonds Online website. Though it will only be a first step, this information-collection exercise should bring large benefits to regional bond markets given the high level of information asymmetry that has led to hesitancy among many investors to participate in Asian bond markets, according to the study by the GoE.

- **Enhancing regional Straight-Through-Processing (STP) by harmonization of transaction procedures and standardization of messaging formats**

The GoE report identifies various settlement barriers, particularly, messaging formats, securities numbering and trade and settlement matching as the major barriers. The ABMF will address these problems and enhance regional STP. This is important because the GoE report also finds that cross-border transaction costs in this region are higher than in other developed markets. It is still unclear why these costs are higher since the study also finds that CSD fees in the region are not significant. Market size and transaction volumes can provide a partial explanation for the higher custodian costs. In addition, higher costs may be due to some procedures being handled by custodians themselves. If these procedures can be systemized, the costs can be reduced significantly. In this regard, it is important to clarify all transaction processes related to custodians.

It is also necessary to clarify all transaction procedures involved in cross-border transactions from one end-user to the other end-user. Ideally, it is desirable to execute a cross-border transaction without any manual processes or transaction information conversion between domestic systems. This ideal situation can materialize only if all transactions are operated through systems using common standards and the same messaging. This is not currently possible because individual countries have their own system and standards, which is inevitable because certain transaction procedures follow national requirements to account for unique circumstance. In addition, some segments of a market may prefer their own ways of handling transactions, which creates differences in transaction procedures, hence, requires additional conversions to international practices. Further more, differences in languages remain the biggest barrier as some Asian countries use their own letters and characters for communication if we want to integrate Asian retail markets. This will be critical because high Asian savings should be recycled within the region. At this stage, investing in neighboring countries is not easy due to various constraints. Difference in language is one of the constraints, and transaction costs associated with the conversion is a minor but a part of the constraints. For example, Chinese characters and Thai letters need to be converted into alphabets to execute cross-border transactions. This problem could be mitigated if all transactions were executed under the International Organization for Standardization's (ISO) new standard, ISO20022.[51] ISO20022 incorporates technology that can process different national letters and characters. To do so, it is necessary, first, to agree upon business procedures to be standardized, then, to standardize information to be processed under the framework of ISO20022. However, at this moment, there is no such coordinating body to discuss this issue regionally. It would be in the interest of ASEAN+3 members to use ABMF to discuss the use of national letters and characters regionally.

Further more, the work under the forum is expected to contribute to reduction of cross-border transaction costs by increasing competitions among financial telecommunication networks. If the messaging formats and transaction procedures are standardized and unified more, financial institutions may be able to utilize various financial telecommunication networks and make them compete without undermining safety and efficiency. The region needs more efficient and cheaper money and securities transfer system to be benefited from more integrated and harmonized financial markets. By clarifying various cross-border transaction procedures and enhance STP, the costs involved in cross-border transactions can be reduced. The work under the forum is the first step to achieve the goal.

- **Mutual recognition of regulations and standards**

Once identification of regulatory differences in the region through information collection exercise for each bond market is completed, the ABMF may be able to discuss possibility of introducing mutual recognition scheme in the region. In ASEAN, there has been precedent to

[51] International Standard Organization (ISO) is a worldwide federation of National Standards Bodies. ISO20022 provides the financial industry with a common platform for the development of messages in a standardized XML syntax using (i) a modeling methodology (based on UML) to capture, in a syntax-independent way, financial business areas, business transactions, and associated message flows; and (ii) a set of XML design rules to convert the messages described in UML into XML schemas.

introduce mutual recognition in some area of capital market regulations. It is partial and gradual steps towards harmonization in all ASEAN+3 region. It is important to step forward to have a common prospectus standard. In this regard, discussion among stock exchanges and securities commission needs to be encouraged.

In relation to ASEAN Capital Market Forum (ACMF[52]), the ABMF can play a complimentary role; the ACMF is the forum of the regulators while ABMF can be a forum of the private sector to discuss implications of common standards set by the ACMF; or ABMF can be a forum of ASEAN+3 regulators to discuss how to extend the ASEAN common standards to the plus three countries.

To start the discussion, it is necessary to have clear and comprehensive mapping of regulations and market rules, then, we can start discussion of partial harmonization. At this stage, it is not clear which regulations and rules can be mutually recognized or what needs to be changed to make common standards. After successful mapping of regulations, we should be able to prioritize and consider sequencing of harmonization.

- **Regulatory issues related to a common issuance program**

The ABMF may also be able to discuss regulatory issues identified by the study, "Promotion of Asian Medium Term Note (MTN) program" by Nomura Research Institute (NRI). The study identified that local private placement rules needs to be governed by local laws in some countries and can be governed by English laws in the other countries. To have a common issuance program in the region, it is necessary to consider how we can avoid problems arising from conflict of laws, or find common approaches applicable to all markets in the region. Particularly, it is necessary to investigate and identify legal procedures involved in case of insolvency. It is desirable to find a common insolvency procedure, which is especially important to reduce legal uncertainty.

6.4.2. Roadmap of the ABMF

Table 6-38 summarizes the ABMF roadmap in terms of the detailed agenda items.

The proposed issues can be discussed either one-by-one or simultaneously. Information collection exercises and discussions on messaging format standardization can be launched in parallel because the GoE has already discussed and provided recommendations on the standardization of messaging formats.

After the successful launch of the ABMF, it will be necessary to review achievements and plan for future work, particularly on the standardization of messaging formats and settlement-related issues (e.g., security numbering) since these issues require a long-term vision grounded in sound planning and analysis. In addition, if the ABMF becomes recognized as an effective forum for mitigating settlement-related barriers, it can start discussing regulatory barriers in close communication with regulators and central banks.

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[52] The ASEAN Capital Markets Forum (ACMF) comprises securities regulators from 10 ASEAN jurisdictions, namely Brunei Darussalam, Cambodia, Indonesia, Laos PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. It was established in 2004 under the auspices of the ASEAN Finance Ministers, the ACMF initially focused on harmonization of rules and regulations before shifting towards more strategic issues to achieve greater integration of the region's capital markets under the ASEAN Economic Community Blueprint 2015.

Table 6-38: Roadmap of the Asia Bond Market Forum (ABMF)

1. Agreement on the Terms of Reference		2010
2. Establishment of ABMF		2010
Possible issues to be discussed	Information-collection exercise for each bond market in ASEAN+3	2010 to 2011
	Standardization of messaging format	2010 to 2011
	Possibility of introducing mutual recognition scheme in the region	From 2012 or onwards
	Regulatory issues identified through the MTN study	From 2012 or onwards
3. Preliminary review of ABMF activities and discussion on possible agenda items moving forward		Early 2011
4. First round review of the ABMF		Late 2011