

Executive Summary

In August 2003, the ASEAN+3 finance ministers established the ASEAN+3 Asian Bond Markets Initiative (ABMI) to foster the development of a regional bond market. The ABMI intends to promote the development of domestic and regional bond markets by (i) facilitating a wide variety of issuers' access to the bond markets and (ii) removing policy and regulatory impediments to developing the markets. 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.

This report intends to show a first step to move towards the harmonization. The report proposes a dual approach towards regional harmonization of bond markets: one is a gradual and bottom-up approach focusing on the onshore secondary market, which is suitable for government bonds because local currency markets in the region have their own specific regulations and practices; and the other is a holistic and top-down approach focusing on the offshore wholesale primary corporate bond market limited to professionals.

In addition to this, the report proposes partial harmonization through common standards and mutual recognition among agreeable member states. This approach is not easy given large differences in development stages of financial markets in ASEAN+3. Besides, it may be applicable only to limited market practices and rules which share common legal backgrounds. However, ASEAN has made important steps to achieve capital market integration through setting common capital market disclosure standards for cross-border offerings of securities called ASEAN and Plus Standards Scheme. It is worth considering extension of the approach to the plus three countries.

To harmonize the bond markets, we must understand the differences across individual markets. Then, we can mitigate the differences towards more harmonized markets and establish regional standards. The process requires continuous efforts to build relationships of trust and understanding not only among the public sector but also the private sector. This report proposes to establish the Asian Bond Market Forum (ABMF) as an institutionalized framework to foster standardization of market practices and harmonization of regulations. The ABMF is expected to facilitate discussions for standardization and harmonization among experts including the private and public sectors, which are currently not possible in this region.

This report is organized as follows: Section 1, as an introduction, provides a background why we need to harmonize the markets.

Section 2 provides an analysis of available options to promote harmonization of the region's government bond markets, including benchmark studies of the government bond markets in Japan and Korea. The benchmark studies are intended to provide a model framework to be used in country studies once the ABMF has been established. This section also discusses key lessons observed from the experiences of Japan and Korea in developing more efficient and liquid secondary government bond markets. Finally, possible target areas for initial harmonization are suggested.

Section 3 proposes a strategy to establish a common corporate bond market for the region. After identifying the difficulties and problems associated with the region's cross-border corporate bond transactions, this section proposes a detailed plan to establish a common private placement market for professional market players.

Section 4 proposes a partial harmonization through setting a common standards and mutual recognition. ASEAN Capital Market Forum (ACMF) has agreed on the ASEAN and

Plus Standards Scheme to facilitate cross-border offering. In addition, ACMF's implementation plan for ASEAN Economic Community envisages mutual recognition as a core strategy. The same approach may be taken in ASEAN first, then, considered in plus three countries.

Section 5 assesses the ongoing discussions and proposals of various international forums in the wake of the global financial crisis to improve regulatory regimes and security regulations, particularly in relation to the self-regulatory organizations in capital markets.

Section 6 proposes establishment of the ABMF. The section provides organizational rationale and structure, a detailed agenda, and a roadmap of key issues to be discussed. Case studies of international and regional securities market forums are also presented in this section.