



## Recent Movements of Asian Bond markets

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In many Asian countries bond markets (government and corporate) still remain smaller as compared with their banking and equity markets (Chart 1), but steady and patient efforts have been made to foster region-wide development of bond markets under the regional cooperation scheme that gained momentum in the early 2000s.

Chart 1 Financial Markets in Asia (% of GDP)

	Government bond		Corporate bond		Bank lending		Equity	
	2003	2014	2003	2014	2003	2012	2003	2013
Malaysia	48.4%	60.5%	36.6%	42.7%	139.9%	133.9%	146.1%	166.1%
Singapore	37.3%	49.8%	30.2%	32.1%	83.2%	94.9%	149.3%	248.6%
Thailand	31.1%	57.3%	7.7%	19.0%	85.4%	99.2%	79.7%	97.4%
Philippines	37.4%	30.8%	0.2%	6.0%	54.3%	50.9%	28.3%	83.5%
Indonesia	24.7%	13.0%	2.3%	2.2%	49.2%	41.2%	22.9%	46.4%
Vietnam	2.2%	21.7%	0.0%	0.3%	44.8%	96.8%	0.4%	23.6%
Korea	30.2%	51.5%	45.3%	73.6%	94.8%	117.6%	43.8%	90.7%
Hong Kong	9.6%	37.8%	34.8%	29.3%	143.5%	201.1%	441.5%	1132.8%
China	26.5%	32.5%	0.8%	18.1%	142.2%	150.8%	31.3%	40.7%
Japan	128.8%	203.4%	19.5%	16.7%	234.2%	249.9%	63.5%	104.9%

(Data) Based on the data of Asian Bonds Online, World Federation of Exchanges and the World Bank

\*Bank lending for Vietnam is based on the data on domestic credit of the World Bank

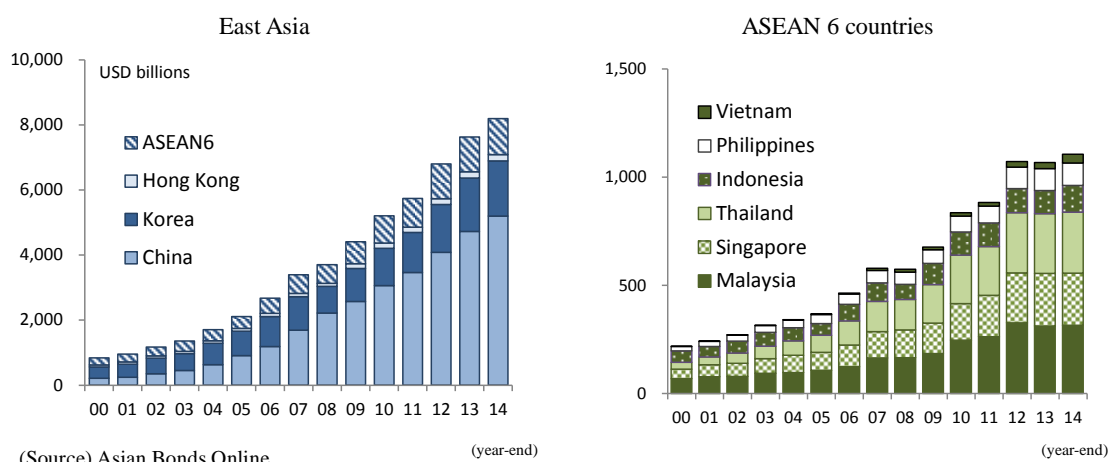
### 1. Development of Asian Bond Markets

#### A) The Size of the markets

The size of bond markets in East Asia (China, Indonesia, Korea, Hong Kong, Malaysia, Philippines, Singapore, Thailand, and Vietnam) grew to \$8.2 trillion at the end of 2014 from

\$1.3 trillion at the end of 2003 (Chart 2). During the same period, corporate bond markets expanded from \$465.1 billion to \$3.3 trillion. The BIS estimates the world bond market almost doubled from about \$50 trillion at the yearend of 2003 to \$100 trillion in mid-2013, so the bond markets in Asia expanded at a faster pace than the world market thanks to the government policies to develop and foster their markets, accompanied by rapid economic expansion of the Asian countries.

**Chart 2 Size of Bond Markets In Asia**



Among these countries, China accounts for 60% of the whole Asian bond markets. Chinese corporate bond market was minimal until the middle of the 2000s, but since then it expanded to around 20 % of GDP reflecting the diversification of financial products and active bond issues by the local government financial vehicles (LGFVs). The bond market in Korea accounts for 20% of the East Asia bond market and represented 125% of Korea’s GDP at the end of 2014, the highest ratio in East Asia. According to the data of Asian Bonds Online (ABO), the size of corporate bond market reaches one and a half times the government bond market, but this figure includes the bonds issued by public enterprises as well as financial bonds, so excluding those, the size of corporate bond market for the private nonbank corporations is not so large as it looks<sup>1</sup>. The size of the bond markets in Hong Kong and Singapore is small in actual amounts as these countries are small with a population of less than 10 million. Yet their size in terms of ratio against GDP is relatively high at 67% and 82% respectively as both countries are active in

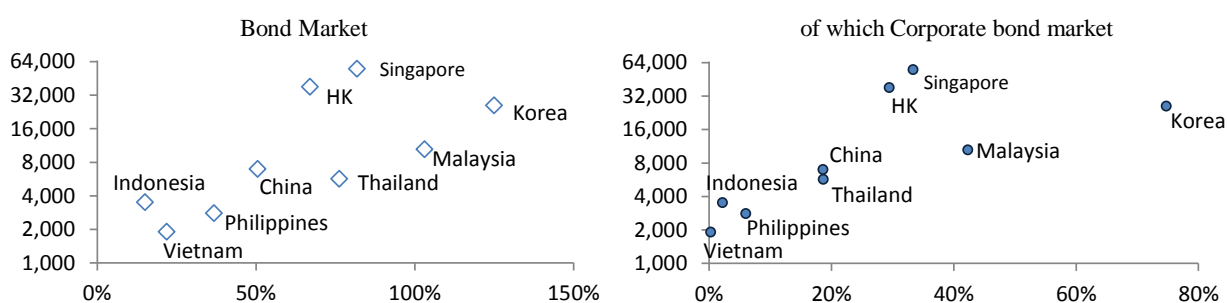
<sup>1</sup> According to the data published by the Korea Stock Exchange, listed bonds were comprised at the end of September 2014 of 34% of government bonds, 1% of local government bonds, 12% of currency stabilization bonds, 14% of financial bonds, 23% of public enterprise bonds issued based on special laws, and 16% of other corporate bonds.

regularly issuing public bonds (foreign exchange bills in Hong Kong and government bonds in Singapore) in order to provide yield curves that are used as a bench mark for other debt, so as to promote the development of bond market to become an important international financial center in the region.

In the bond market of the ASEAN countries other than Singapore, the size of the market, especially for corporate bonds, tends to be smaller in relatively lower income countries (Chart 3). In Malaysia, which is shifting to a high income country group based on the World Bank classification, the government bond market amounts to 60% of GDP, and the corporate bond market that began to be fostered in the 1980s to 40% of GDP, which are both very high in the region. The Malaysian market is characterized by the high ratio of the sukuk (Islamic bond) reflecting its effort to become one of the international hub markets for Islamic finance. In the middle of 2014 the sukuk accounted for 50% of total corporate bond outstanding as the corporations were given special incentives to issue sukuk in the latter half of the 2000s.

On the other hand, in Thailand, the government bond market surged after the Asian currency crisis, triggered by the increased fiscal expenditures, while the corporate bond market expanded less rapidly with its ratio to GDP remaining less than 20%. In Indonesia, the bond market remains at slightly more than 10% of GDP although the ban on the issuing of government bonds was withdrawn after the Asian currency crisis and corporate bond market stays even smaller at 1-2 % of GDP. In the Philippines, the corporate bond market remained at 6% of GDP at the end of 2014 although the government started to develop government bond market in relatively early years in order to finance the constant budget deficits since the 1970s. In Vietnam, the government bond market, although developing, remains at around 20% of GDP and the corporate bond market is on an early stage to be developed with the legislation for corporate bond issuance enacted only in 2006.

**Chart 3 Bond Market (% of GDP, (horizontal axis) and Per capita GDP (USD, vertical axis)**



(Source) Asian Bonds Online, IMF

By issuers of corporate bonds, the top ten corporations in terms of outstanding are mostly represented by such industries as finance, transportation, communication, public utilities, and real estate, with many state-owned enterprises included (Chart 4). These corporations, except for China and Hong Kong where their shares are more or less at 10%, hold relatively high shares of 30% level of total corporate bond outstanding in Korea, Singapore, Thailand and Malaysia, and 40% level in Indonesia and the Philippines, and more than 100% in Vietnam. This means that the market is concentrated by a small number of corporations which have a strong background of credibility of having public nature and it will be a challenge for these countries how to broaden the issuers' base to other private corporations.

**Chart 4 Top Ten Issuers of Corporate Bonds** (as of September 2014, US\$ billion)

China			Korea			Singapore		
Outstanding	State-owned	Type of Industry	Outstanding	State-owned	Type of Industry	Outstanding	State-owned	Type of Industry
China Railway	97.6	○ Transportation	Korea Land & Housing Corp.	54.3	○ Real Estate	Housing and Development Board	15.9	○ Financial institution
State Grid Corporation of China	41.5	○ Public utility	Korea Housing Finance Corp.	51.7	○ Financial institution	CapitaLand	4.1	× Real Estate
China National Petroleum	41.0	○ Public utility	Korea Finance Corp.	44.5	○ Financial institution	United Overseas Bank	3.2	× Financial institution
Industrial and Commercial Bank of China	18.3	○ Financial institution	Korea Deposit Insurance Corp.	39.7	○ Financial institution	Temasek Financial I	2.8	× Financial institution
Bank of China	15.3	○ Financial institution	KDB Daewoo Securities	38.7	○ Financial institution	DBS Bank	2.6	× Financial institution
China Construction Bank	13.8	○ Financial institution	Woori Investment and Securities	36.5	○ Financial institution	SP PowerAssets	1.9	× Public utility
Agricultural Bank of China	13.5	○ Financial institution	Korea Investment and Securities	36.5	× Financial institution	Public Utilities Board	1.6	○ Public utility
China Minsheng Bank	11.7	× Financial institution	Korea Electric Power	29.0	○ Public utility	GLL IHT	1.4	× Real Estate
Central Huijin Investment	10.9	○ Investment company	Hana Daetoo Securities	26.2	× Financial institution	Land Transport Authority	1.4	○ Government Authority
China Power Investment	10.2	○ Public utility	Mirae Asset Securities	26.1	× Financial institution	City Developments	1.3	× Real Estate
Sub Total	273.8	Share of Top 10 issuers	Sub Total	383.2	Share of Top 10 issuers	Sub Total	36.2	Share of Top 10 issuers
Total Corporate Bonds	1828.2	15%	Total Corporate Bonds	1041.0	37%	Total Corporate Bonds	99.6	36%
Hong Kong			Malaysia			Thailand		
Outstanding	State-owned	Type of Industry	Outstanding	State-owned	Type of Industry	Outstanding	State-owned	Type of Industry
The Hong Kong Mortgage Corpora	1.9	○ Financial institution	Project Lebuhraya Usahasama Bhd.	9.3	× Road construction	PTT	5.9	○ Ennergy
CLP Power Hong Kong Financing	1.4	× Public utility	Cagamas	7.1	○ Financial institution	The Siam Cement	4.5	○ Construction Materials
Sun Hung Kai Properties (Capital Market)	1.3	× Real Estate	Khazanah	6.1	○ Government fund	CP All	4.0	× Commerce
Wharf Finance	0.9	× Financial institution	Prasarana	4.2	○ Transportation	Charoen Pokphand Foods	2.1	× Food and Beverage
The Link Finance (Cayman) 2009	0.8	× Financial institution	Pengurusan Air	3.6	○ Public utility	Bank of Ayudhya	1.9	× Financial institution
MTR Corporation (C.I.)	0.7	○ Transportation	Danainfra Nasional	3.6	○ Financial institution	Krung Thai Bank	1.5	○ Financial institution
HKCG (Finance)	0.7	× Public utility	Maybank	3.5	× Financial institution	Thai Airways International	1.3	○ Transportation and Logistics
Swire Pacific	0.7	× Diversified Operati	Perbadanan Tabung Pendidikan Tinggi Nasional	2.9	○ Government fund	Toyota Leasing Thailand	1.3	× Financial institution
Hongkong Electric Finance	0.7	× Public utility	CIMB Bank	2.5	× Financial institution	The Siam Commercial Bank	1.2	× Financial institution
NWD (MTN)	0.7	× Real Estate	Public Bank	2.5	× Financial institution	True Corporation	1.2	× Communications
Sub Total	9.8	Share of Top 10 issuers	Sub Total	45.2	Share of Top 10 issuers	Sub Total	24.9	Share of Top 10 issuers
Total Corporate Bonds	83.2	12%	Total Corporate Bonds	136.1	33%	Total Corporate Bonds	68.9	36%
Philippines			Indonesia			Vietnam		
Outstanding	State-owned	Type of Industry	Outstanding	State-owned	Type of Industry	Outstanding	State-owned	Type of Industry
Ayala Land Inc.	1.3	× Real Estate	PLN	1.3	○ Energy	Techcombank	0.14	× Financial institution
SM Investments Corporation	1.0	× Diversified Operations	Indonesia Eximbank	1.1	○ Financial institution	Asia Commercial Joint Stock Bank	0.14	× Financial institution
Ayala Corporation	0.9	× Diversified Operations	Astra Sedaya Finance	1.0	× Financial institution	HAGL JSC	0.12	× Real Estate
JG Summit Holdings	0.9	× Diversified Operations	Adira Dinamika Multifinance	1.0	× Financial institution	Vincom	0.05	× Real Estate
San Miguel Brewery Inc.	0.9	× Brewery	Bank Internasional Indonesia	0.7	× Financial institution	Vinpearl	0.05	× Real Estate
Metrobank	0.7	× Financial institution	Bank Tabungan Negara	0.7	○ Financial institution	Kinh Bac City Development	0.02	× Real Estate
Philippine Long Distance Telephone Co.	0.7	× Communications	Bank CIMB Niaga	0.7	× Financial institution	Saigon Telecommunication	0.01	× Communications
Philippine National Bank	0.6	× Financial institution	Bank Pan Indonesia	0.6	× Financial institution	Binh Chanh Construction	0.01	× Construction
RCBC	0.6	× Financial institution	Jasa Marga	0.5	○ Transportation	Tan Tao Investment	0.01	× Real Estate
SM Prime Holdings	0.6	× Real Estate	Bank Permata	0.5	× Financial institution	Ho Chi Minh City Securities	0.01	× Financial institution
Sub Total	8.2	Share of Top 10 issuers	Sub Total	7.9	Share of Top 10 issuers	Sub Total	0.56	Share of Top 10 issuers
Total Corporate Bonds	17.2	47%	Total Corporate Bonds	18.1	44%	Total Corporate Bonds	0.56	100%

(Source) Asian Bonds Online

## B) Liquidity

One of the big challenges the bond market in the region faces is the improvement of liquidity. Chart 5 shows the development of bid-ask spreads for government and corporate bonds, based on the Asian Bond Market Liquidity Survey that the ABO conducts annually for the market

participants. The spreads are generally wide except for Korea and their volatilities are also high. Between 2013 and 2014, the spreads narrowed possibly owing to a dissipation of uncertainties of the market over the prospect for Fed's tapering of quantitative easing. Wider spreads for corporate bonds can be explained by the relatively small amount of issues and underdeveloped secondary market. According to Asia Bonds Monitor November 2014, corporate bonds are typically bought by “buy and hold” investors and liquidity is generally limited to one or two months after the issuance.

**Chart 5 Average Bid-Ask Spreads (in basis points)**

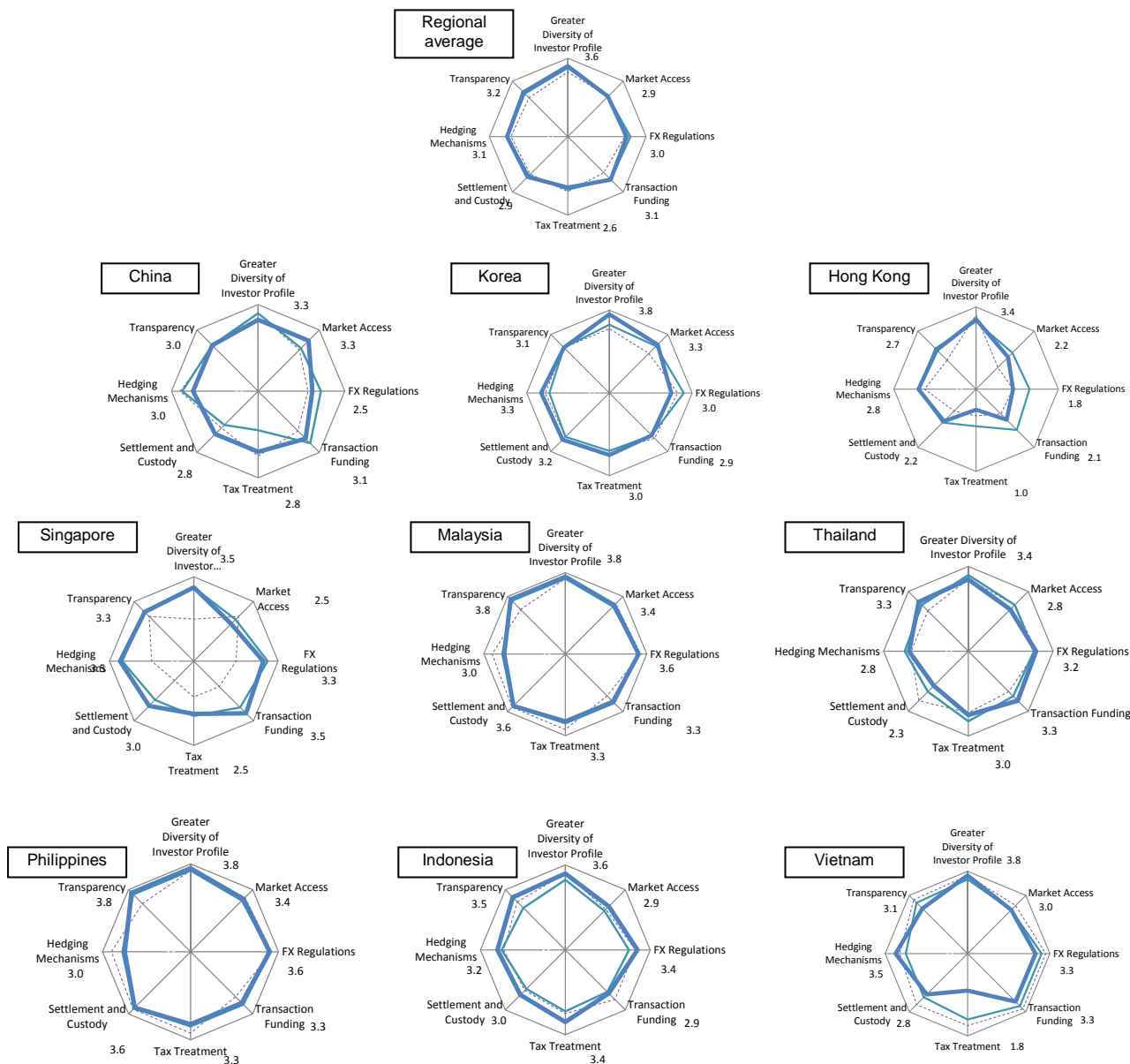
	Government bond					Corporate bond				
	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
Korea	1.1	0.7	0.6	0.7	0.7	2.6	1.7	1.9	4.4	3.1
China	2.2	4.0	2.7	4.1	3.4	5.7	6.9	10.4	11.4	6.9
Hong Kong	5.1	4.7	6.4	7.3	4.6	12.5	28.1	21.3	31.9	5.8
Singapore	3.0	3.8	3.1	2.6	2.3	10.4	19.0	15.9	21.9	6.3
Malaysia	2.6	3.3	2.7	3.8	1.7	16.0	8.2	9.4	9.8	7.5
Thailand	3.1	3.3	3.2	2.4	1.9	11.1	9.9	10.3	8.6	5.4
Philippines	3.1	5.3	2.1	5.4	3.3	30.5	52.9	34.5	36.6	16.9
Indonesia	-	-	6.6	8.6	6.0	-	-	18.7	26.1	23.1
Vietnam	13.2	33.5	30.5	21.7	11.7	25.0	103.1	138.3	na	47.5

(Source) Asian Bonds Online/Asia Bonds Monitor Nov 2011 – 2014

The above ABO Survey also asks the market participants for their perceptions on the 8 issues considered necessary to improve the liquidity in both government and corporate bond markets (Chart 6). The results show that they have put “greater diversity of investor profile” on the top priority since 2009 (3.6 for government bond market and 3.4 for corporate bond market in 2014), surpassing the other issues of “transparency” (do 3.2 and 3.2 respectively), “hedging mechanisms” (do 3.1 and 3.1), “transaction funding” (development and expansion of money market and repo market) (do 3.1 and 3.1), “foreign exchange regulations” (do 3.0 and 3.1), “settlement and custody” (do 2.9 and 3.1), “market access” (do 2.9 and 3.0) and “tax treatment” (do 2.6 and 3.1). The greater diversity of investor profile is regarded as most important regardless of the country and the region.

**Chart 6 Important Factors to Improve the Liquidity of the Government Bond Markets**

(dotted line: 2010, narrow line: 2012, heavy line: 2014)



(Source) Asian Bonds Online/Asia Bonds Monitor

\*Each issue is evaluated as 1 for not important, 2 for somewhat important, 3 for important, and 4 for very important. The numbers on the figures represent the average evaluation for the issue in 2014.

### C) Investors

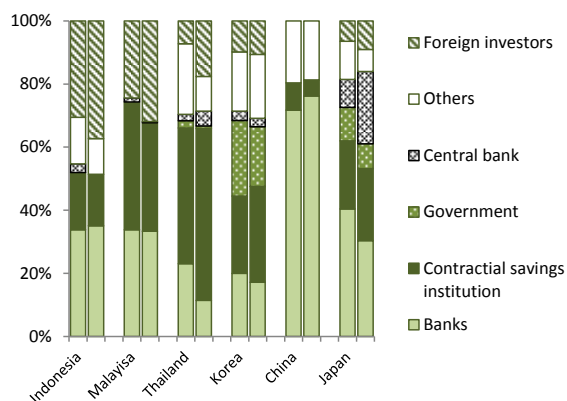
According to the ABO, among the holders of government bonds in China, Korea, Malaysia, Thailand and Indonesia, foreign investors have been prominently increasing their share of holding especially in the three ASEAN countries of the above (Charts 7 and 8). Their increasing trend was once disrupted by the global financial crisis but immediately recovered the

momentum. In Indonesia and Malaysia, foreign investors hold 30-40% of the government bonds. However, since foreign investors tend to react more quickly than the domestic investors to the changes in the market environment, in order to promote a steady and stable development of domestic market, it will be an agenda for them how to increase the share of domestic investors that are accompanied by more diversified profiles.

In Indonesia, banks follow the foreign investors as a second largest holder of the government bonds, with a share of more than 30%. The share of contractual saving institution (insurance and pension), which is basically a long term investor, fell to slightly less than 20%, but as the new national social security system has started in January 2014 to include the introduction of universal health insurance system, it is to be seen whether this will lead to an increase in their demand for the government bonds in the future. In Malaysia, foreign investors, banks, and insurance and pension which is largely represented by Employees Pension Fund (EPF), account for about 30% respectively. As private insurance companies and individuals increase their shares, they will contribute to the diversification of domestic investors as well. In Thailand, insurance and pension accounts for more than 50%, and foreign investors almost 20%. It is an agenda to expand other investors profiles like commercial banks and individuals. In Korea, investor profiles are relatively dispersed with insurance and pension accounting for 30%, government and banks a bit below 20% respectively, foreign investors 10% and others 20%. In China, almost 80% is held by banks and therefore there is a good chance not only for insurance and pension which accounts for less than 10% but also other investors to expand their shares in the future.

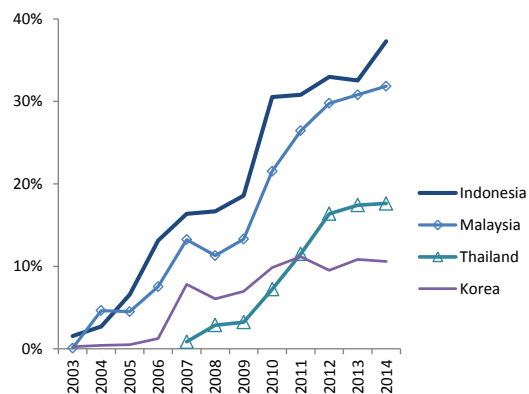
**Chart 7 Government Bond Outstanding by Holder**

(left : end 2010、right : end September 2014)



(Source) Asian Bonds Online

**Chart 8 Foreign Investors' Share of Government Bond Holding**



(Source) Asian Bonds Online \*End of September for data for 2014. \*\*Data disrupted for Malaysia between 2012 and 2013.

## D) Regional Investment

Expansion of cross border investment in the region is one of the policy objectives for fostering bond markets in the region. According to the IMF data, outstanding of the cross border bond investments among the intra-regional countries<sup>2</sup> amounted to \$432.8 billion (\$247 billion excluding those from Hong Kong to Mainland China) at the end of 2013, rapidly expanding from \$59.6 billion at the end of 2003. As is shown in Chart 9, the share of outstanding cross border bond investment to intra-regional countries (A) in the total cross border bond investment from intra-regional countries (B) rose broadly across the countries from a decade ago, but the amount accounts for only a little more than 1% of the world-total cross border bond investment outstanding. Given the fact that the East Asian bond market accounts for a little less than 10% of the world market, the share of intra-regional cross border bond investment remains relatively small.

**Chart 9 Cross Border Bond Investment Outstanding** (end of 2013, \$ million)

	Investment from										C	D	C/D	[c.d., 2003]	
	Hong Kong	Macao	Singapore	Malaysia	Thailand	Indonesia	Philippines	Korea	Japan	Sub total	World total				
Investment to															
China	185,848	19,399	6,112	184	379	433	203	398	1,367	214,323	264,745	81%	72%		
Hong Kong		1,913	14,163	989	3,391	101	198	1,409	3,051	25,217	61,010	41%	51%		
Macao	668		非公開	na	328	0	na	0	0	996	1,024	97%	0%		
Singapore	9,707	619		6,284	69	189	55	895	8,666	26,483	96,713	27%	39%		
Malaysia	10,079	196	25,677		141	495	47	455	3,550	40,640	96,746	42%	51%		
Thailand	707	32	6,627	379		12	119	177	2,800	10,853	25,867	42%	55%		
Indonesia	719	1	7,842	678	16		932	120	3,487	13,793	51,898	27%	33%		
Philippines	587	na	4,511	116	5	4		27	2,093	7,343	27,721	26%	22%		
Vietnam	474	na	97	21	na	1	na	1	34	628	2,828	22%	20%		
Laos	0	na	非公開	na	99	0	na	0	0	99	120	83%	0%		
Taiwan	1,025	na	2,097	1	0	2	非公開	7	98	3,232	30,878	10%	46%		
Korea	16,938	398	25,932	1,439	3,129	151	281		20,413	68,682	182,076	38%	65%		
Japan	19,130	20	非公開	80	47	30	48	1,156		20,510	535,382	4%	3%		
A Sub total	245,882	22,578	93,058	10,171	7,604	1,419	1,883	4,643	45,560	432,799	1,377,008	31%	18%		
B World total	434,929	27,472	434,708	19,739	22,541	12,325	5,531	45,857	2,701,376	3,704,478	26,783,758				
A/B	57%	82%	21%	52%	34%	12%	34%	10%	2%	12%					
[A/B, 2003]	16%	21%	13%	12%	2%	11%	7%	8%	1%	3%					

(Source) IMF

\*Data on investment from China, Vietnam, Laos, and Taiwan are not available although they are included in receiving countries.

## 2. International Arrangements

### A) ABMI

International efforts to foster bond markets in East Asia were initiated by the common understanding that the Asian currency crisis was triggered partly by the sudden withdrawal of short term capital denominated in foreign currencies by the western financial institutions, and that in order to restrict the “double mismatch of currency and maturity (borrowing foreign currency denominated money in short-term and lending local currency denominated money in

<sup>2</sup> Please refer to Chart 9 for the countries and regions included in the intra-regional data.



long-term” it is necessary to foster the bond market denominated in local currencies and at the same time make effective use of the pool of regional savings for regional investment.

Asian Bond Market Initiative (ABMI) promoted under the auspice of the finance ministers and central bank governors meeting of the ASEAN (Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) + 3 (Japan, China and Korea) countries<sup>3</sup> represents such international efforts. Its activities have been reviewed several times since its setup in 2003. It is at present guided by the “New Roadmap+” published in 2012, an improved version of the “New Roadmap” adopted in 2008. The four Task Forces of the Roadmap are 1) TF1 on promoting issuance of local currency-denominated bonds, 2) TF2 on facilitating the demand of local currency-denominated bonds, 3) TF3 on improving regulatory framework, and 4) TF4 on improving related infrastructure for the bond markets, and their priorities are shown in Chart 10<sup>4</sup>.

**Chart 10 Priorities in New Roadmap+ (as of May, 2012)**

Issues to be addressed	Roadmap	
	First	Second
<b>&lt; TF1 &gt; Promoting Issuance of Local Currency-denominated Bonds (Chairs : China, Thailand)</b>		
Launching CGIF guarantee programs	✓	
Developing infrastructure-financing schemes –Including Lao-Thai pilot project	✓	
Developing derivatives and swap markets		✓
<b>&lt; TF2 &gt; Facilitating the demand of Local Currency-Denominated Bonds (Chairs : Japan, Singapore)</b>		
Further developing the government bond markets- Developing repo markets and securities borrowing and lending	✓	
Fostering an investment-friendly environment for institutional investors & transmitting the ABMI's knowledge to institutional investors	✓	
Enhancing cross-border transactions		✓
<b>&lt; TF3 &gt; Improving Regulatory Framework (Chairs : Malaysia, Japan)</b>		
Enhancing ASEAN+3 Bond Market Forum (ABMF) activities - Common Bond Issuance Program	✓	
Enhancing financial access to consumers and SMEs	✓	
Improving bankruptcy procedures related to bond transactions		✓
<b>&lt; TF4 &gt; Improving Related Infrastructure for the Bond Markets (Chairs : Korea, Philippine)</b>		
Facilitating the establishment of the Regional Settlement Intermediary (RSI)	✓	
Strengthening the foundation for a regional credit rating system	✓	
Raising financial awareness		✓
<b>&lt; TACT &gt; Technical Assistance and Coordination Team (Chairs : Brunei, Laos, Vietnam )</b>		
Facilitating technical assistances(TA) to ASEAN member countries to strengthen their capacities in the bond market	✓	

(Source) Ministry of Finance, Japan

<sup>3</sup> Other international initiatives in the 2000s also include the Asian Bond Fund (ABF) project promoted by the EMEAP (informal meeting by 11 central banks and monetary authorities in Asia and the Pacific). Mutual funds developed under the project; ABF1 (launched of operation: 2003) and ABF2 (launched of operation: 2005), incorporated in its investment the government bonds and agency bonds of EMEAP member countries except for Japan, Australia and New Zealand (i.e., China, Hong Kong, Korea, Singapore, Malaysia, Thailand, Philippines, and Indonesia). It is highly evaluated that this inclusion has contributed to the promotion of reforms of regulations of the bond markets in the countries and the region.

<sup>4</sup> A new review is likely in the near future as the press release to announce the New Roadmap+ noted that there would be a regularly review (for example every 3 years) to reevaluate the priorities of the roadmap and incorporate new agendas.

Some of the recent major progresses are noted below.

**Guarantee business of Credit Guarantee Insurance Facility (CGIF)<sup>5</sup> :**

Since its first guarantee project implemented on April 2013, guarantees by CGIF to the local currency-denominated bonds issued by the corporations in the ASEAN+3 countries has increased to 7 cases (6 issuers), approximate total \$500 million as of December 2014 (Chart 11). Reflecting the objectives of CGIF which is to strengthen the resiliency of regional financial sector and to promote integration of regional financial markets, each guarantee represented the first or rare case to the bond market such as the long-term bonds and cross border bonds. According to Global Capital’s digital news of January 7 2015, the CEO of the CGIF spoke that although the guarantee cases increased in 2014, it will be limited to 5-6 cases for 2015 because the organization is small in size and constrained in human resources.

**Chart 11 Provision of Guarantee by CGIF**

Issue date	Issuer (business line, issuing venue)	Issue size/Tenor	Remarks
2013/4	Noble Group (Trading company of commodity and agricultural products, Hong Kong)	THB 2.85B / 3Y	CGIF supported the bond issuance of the company which does not meet the requirement as bond issuer in Thai.
2013/12	BCA Finance (Automobile finance, Indonesia)	IDR 300B / 3Y	Sole investment by Japanese institutional investor (Daiichi Life Insurance).
2014/3	Ditto	IDR 120 B / 3Y	—
2014/8	Kolao Holdings (Car and bike sale, Laos)	SGD 60M / 3Y	Diversified the finance source of the company that operates in a country where financial market is underdeveloped.
2014/11	Protelindo Finance (Tower lease, Indonesia)	SGD 180 M / 10Y	The company has succeeded to raise long-term fund at fixed rate in its first cross border bond issue.
2014/12	Masan Consumer Holdings (Food and beverage manufacturing, Vietnam)	VND 2.1T / 10Y	A non-financial institution has succeeded to issue long-term bond in a still undeveloped corporate bond market.
2014/12	Astra Sedaya Finance (Consumer loans, Indonesia)	SGD 100M / 3Y	The company’s initial bond issuance in Singapore market.

(Source) CGIF

**Infrastructure Finance :**

In June 2013, government of Lao PDR issued its bonds in the Thai market as a pilot project of cross border issuance of infrastructure bond, and the bonds were bought mainly by Thai institutional investors. The Lao government issued bonds two more times in the Thai market by 2014, and in December 2014 EDL-Gen (Lao Electricity Generator), a state corporation, issued a 6.5 billion baht bond. These experiences of issuing cross-border bonds by governments and agencies are expected to contribute to the narrowing of investment gap in Lao’s economic

<sup>5</sup> A fund aimed to provide credit guarantees for local currency denominated bonds issued by investment grade companies in ASEAN+3 countries, established by the ten members of ASEAN+3 and ADB in November 2010, Guarantee capacity was increased to 1.75 billion USD, 250% of its capital (0.7billion USD) in November 2013. Long-term rating by S&P as of 18June, 2014 is AA, outlook “stable”.

infrastructures. It is reported that now Myanmar government is planning to issue its first bond in Thai bond market.

#### **ASEAN+3 Bond Market Forum (ABMF) <sup>6</sup> :**

Out of the two sub-forums (SFs) of ABMF, SF1, which is aimed on collecting information and standardization of market regulations and practices, is now in the process of preparing a single application format for bond issuance and related guidelines in order to promote ASEAN+3 Multi-currency Bond Issuance Framework (AMBIF)<sup>7</sup> It is scheduled to broaden the scope of standardization into issuance requirement, accounting standard, and credit information. Pilot program of bond issuance under the framework of AMBIF is still awaited.

SF2, which aims to promote efficient bond transactions, harmonization of market infrastructures and message formats related to transactions and settlements, is working on diffuse of ISO20022, an internationally agreed message scheme, and ISIN (International Securities Identification Number). It also explores appropriate approaches to standardize and harmonize the cross border repo transactions taking into account the differences of transaction systems, regulatory institutions, tax system and extent of adaptation of international standards that exist among the countries and the regions.

ABMF is scheduled to undergo an organizational reform after the end of Phase 3 (scheduled for 2014 to end of 2015). SF1 will be incorporated in the TF3 of ABMI while SF2 will be integrated with CSIF to form a new unit of ASEAN+3 Standard Introduction and Evaluation Group (ASIEG) to support the activities of TF4.

#### **Regional Settlement Intermediary (RSI) :**

In May 2013, the 16<sup>th</sup> meeting of ASEAN+3 Finance Ministers and Central Bank Governors agreed to set up a Cross-border Settlement Infrastructure Forum (CSIF) under ABMF, to facilitate discussion on the improvement of cross-border bond and cash settlement infrastructure in the region, including the possibility of establishing an RSI. Building on the past proposals for “Asian ICSD”, which aimed to establish Asian version international settlement agency, and

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<sup>6</sup> Established in 2010 as a public-private joint study unit and works as a common platform on practical consultations for standardization of regulations (including infrastructures) and harmonization of practices that are necessary for enhancing cross border bond transactions in the ASEAN+3 countries.

<sup>7</sup> An initiative aimed for establishing cross border bond market that targets on the professional investors in the region. For more details, please refer to the Newsletter No.10, “Domestic Bond Markets in the ASEAN Region”, issued in 2012 by the IIMA.

“CSD Linkage” which tried to mutually connect the national CSDs, CSIF proposed a new RSI model “CSD-RTGS Linkage”. This enables simultaneous settlement of fund and securities (delivery versus payment (DVP)) by connecting national CSDs and real time gross settlement system (RTGS) operated by central banks by a gateway (a small device with functions such as network connection and message conversion). According to the report by ADB published on May 2014, CSIF is planning to make comprehensive analysis to specify the requirements of CSD-RTGS Linkage as well as to develop implementation roadmap of CSD-RTGS linkages as short-term and medium-term goal (by 2018) and integrated solution in accordance with the eight principles as long-term goal (around 2020) (Chart 12) .

**Chart 12 Basic Principles on Establishing identified by CSIF**

<p><b>Principle 1:</b> Domesticity and cost efficiency: Maximize utilization of existing cash and bond settlement infrastructure.</p> <p><b>Principle 2:</b> Safety: As recommended in the “Principles for financial market infrastructures,” cash settlement should use central bank money where practical and available.</p> <p><b>Principle 3:</b> Flexibility: Allow newcomers to join when market is reasonably developed and ready.</p> <p><b>Principle 4:</b> Accessibility: Structure that small- and medium-sized local financial institutions can benefit (not just for major and global players).</p> <p><b>Principle 5:</b> Gradual integration: Start from bilateral links. Explore possibility of centralized integration as long-term goal.</p> <p><b>Principle 6:</b> Consistency and collaboration with other initiatives: Explore greater benefit by maintaining consistency and collaboration with other initiatives of the region.</p> <p><b>Principle 7:</b> Standardization: Standardize market practices and technical aspects among members as much as possible to minimize costs.</p> <p><b>Principle 8:</b> Harmonization of rules and regulations: Harmonize rules and regulations as much as practical which hinder cross-border transaction. Regulations that require holistic policy considerations such as capital control, taxation, etc., are taken as given.</p>
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(Source) “Basic Principles on Establishing a Regional Settlement Intermediary and Next Steps Forward”, ADB

## **B) APFF**

Asia Pacific Financial Forum (APFF)<sup>8</sup>, a platform organized under APEC Business Advisory Council (ABAC), is intended to enhance and assist in the development of the region’s financial markets not sufficiently covered by other initiatives such as ABMI and ABF. Plans shown in

<sup>8</sup> A regional platform for public-private collaboration aimed to develop robust and integrated financial markets and services in Asia-pacific region. APFF’s first symposium was held in April 2013 and the second in July 2014.

their 2014 Interim Report that relate to the promoting of bond markets are; developing classic repo market (market for repurchase agreement, i.e., a sale of assets and a commitment by the seller to repurchase those assets from the buyer at a later date) and OTC derivatives market, expanding investment information base, enhancing cross border transactions, and promoting long-term investment by insurance companies and pension funds.

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There is a view that in East Asia, especially in the ASEAN countries, it is more urgent to strengthen the banking system than to develop bond markets. However, sooner or later it will become an unavoidable agenda for banks and corporations of these countries to sophisticate their financial management tool, while the diversification of financial products through the development of bond markets requires steady and continuous efforts. The challenge of ABMI took a long time to materialize, but it is contributing to the development and expansion of regional bond market as mentioned above; cross border bond issuance in Thailand by neighboring developing countries is increasing, sufficient numbers of candidates exist for CGIF guarantee programs, and efforts of ABMF to standardize the market regulations and practices in the region have reached the stage of a more detailed planning. It is expected that through the mutual cooperation of international initiatives such as ABMI and APFF, steady efforts will be made to lay a foundation of further developing and deepening of the bond markets in East Asia.

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