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Update on the Developments of the Asian Bond Market Initiative

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The bond markets in the East Asia expanded to \$9.6 trillion¹ as of end-March, 2016 (cf. \$1.3 trillion at the yearend of 2003), supported by the international arrangements for fostering the markets with the aim to actively utilize the abundant regional savings in the intraregional investment. The recent development of the Asian Bond Markets Initiative (ABMI) under the sponsorship of the ASEAN+3 (China, Korea and Japan) Finance Ministers and Central Bank Governors Meeting, one of the major such arrangements, has seen the following evolutions².

1. Guarantee business of Credit Guarantee Investment Facility (CGIF)³

3 guarantees by the CGIF were issued on the local currency denominated bonds issued by the companies in the region during the period of October 2015 to March 2016, following 6 guarantees issued in the previous period of April 2013 to December 2014 (Chart 1). Each case has characteristics that include the first bond issue by the issuer, the first issuance of cross-border bond, issuance of long-term bonds that are rare in the issuing market, purchase by a Japanese institutional investor. This fact reveals that the credit enhancement by the CGIF guarantee is contributing to the expansion of market participants in the regional bond markets.

Chart 1 Guarantees issued by CGIF

Year/ Month	Issuer (business line, country)	Place of issuance	Amount /maturit y	Notes
2015/10	Indorama Ventures Public Company	Singapore	SGD 195M/	The first guarantee on the Thailand corporates. The issuer is a major polyester maker that issued

¹ Aggregates of outstanding of bonds issued by China, Hong Kong, Indonesia, Korea, Malaysia, Singapore, Philippines, Thailand, and Vietnam.

² As for the developments up to March 2015, please refer to the News Letters of No.12 of 2015 “Recent Movements of Asian Bond Markets” and No. 20 of 2014 “Progress of Bond Market in East Asia”.

³ CGIF is a trust fund established in 2010 and is co-funded by the ASEAN+3 and the Asian Development Bank. Rating by the S&P was AA with “stable” outlook as of July 2015.

	(Petrochemical product/ wool yarn producer, Thailand)		10 years	cross-border bond for the first time.
2016/2	Vingroup Joint Stock Company (Real estate developer/ management, Vietnam)	Vietnam	VND 3,000B/ 5 years, 10 years	The first guarantee on the bond issued by a real estate developer and the first one on multi-tenor bond.
2016/3	PT Mitra Pinasthika Mustika Finance (Automobile/bicycle loan, Indonesia)	Indonesia	IDR 140B/ 3 years	First bond issuance by the issuer. The Sompo Japan Nipponkoa Insurance introduced the facility to its customer company to help their fund raising, and became one of the investors in the bond.

(Source : CGIF)

2. Pilot issuance of the AMBIF bonds

The first cross-border bond based on the AMBIF (ASEAN+3 Multi-currency Bond Issuance Framework) was issued on September 28, 2015 in Thailand by Mizuho Bank of Japan. The face value amounted to 3 billion baht with a maturity of three years. According to the report of Japan Security Dealers Association on the 21st meeting of the ABMF (ASEAN+3 Bond Market Forum)⁴, issuance of the AMBIF bonds is also under consideration in Indonesia, Korea and Vietnam. As the issuance of such bond by Mizuho bank faced a considerable difficulty in the negotiation with the Thai authorities and related agencies over the prevention of double taxation, it was decided to make a survey to get comprehensive information on the current situation of taxation matters among the countries in the region. It is seen that the ABMF continues to address sincerely the emerging challenges one by one in order to achieve the aim of increasing the number of cross-border bond issuance by the private companies in the region. A revision of “ASEAN+3 Bond Market Guide” of the ABMF, which compiles the details of the bond market of the region countries, is to be published sometime in 2016.

3. CSD-RTGS Linkages

In an effort to establish CSD-RTGS Linkages that aim to realize the simultaneous settlements of funds and securities (DVD settlement)⁵, a road map was presented by the CSIF (Cross-border Settlement Infrastructure Forum, composed of central securities depositories and central banks in the ASEAN+3 region) in its “Progress Report on Establishing a Regional Settlement Intermediary and Next Steps: Implementing Central Securities Depository-Real-Time Gross Settlement Linkages in ASEAN+3”, published in May 2015. The

⁴ Public-private cooperative project to discuss standardization and harmonization of rules and regulations and infrastructures with the aim of fostering transactions of cross-border bonds within the ASEAN+3 region. The 21st meeting was held on January 25-26, 2015.

⁵ Specifically, the settlement of securities of the central securities depositories (CSD) of each country will be mutually connected with the real time gross settlement system (RTGS) of funds operated by the Central Banks.

CSD-RTGS linkage will be put into operation in 2019-2020 after desktop study and system development, and then CSD and RTGS of each country will be connected through the newly established central hub (Chart 2)

Chart 2 Road Map for establishing a regional settlement intermediary in ASEAN +3

Phase	Implementation phase1 2015 - 16	Implementation phase 2 2017 - 18	Implementation phase 3 2019 - 20	Integration phase 4 2020-
Target	Develop standard message flows and items	Develop CSD-RTGS linkages	Implement CSD-RTGS linkages	Implement integrated solution
Specific measures	Specifying essential user Requirements.	Defining detailed user requirements, design, coding, and testing.	Starting production operation of CSD-RTGS Linkages.	Developing a central hub and connecting each CSD and RTGS system with the hub.

(Source) Asian Development Bank

4. Mid-term Road Map

At the 19th meeting of the ASEAN+3 Finance Ministers and Central Bank Governors held in May 2016, ABMI's new Medium-Term Road Map for 2016-2018 was endorsed. The details of the road map has not been published, but according to the joint statement of the meeting, expectations for further progress of the projects shown above (1 to 3) were expressed, and a policy direction indicated that they will “promote green bonds⁶, covered bonds⁷, prime collateral for repo markets, and municipal finance in selected member economies to help meet the demand for infrastructure development with the local currency-denominated bonds.” The factors for promoting such bonds can be seen in the heightened international recognition of “green economy” and “green growth” in the case of green bonds and evaluation of high efficiency of the bonds as a means of fund raising for infrastructure investment in the case of covered bonds. In the meanwhile, the actual issuers of the green bonds in the region are limited only to a few of large corporates and major banks, and Singapore and Korea are the only countries that have started to foster the covered bonds market. It is to be watched whether the increasing demands for infrastructure in the region will work as a good motivation for building/promoting new markets for these products.

⁶ The World Bank defines the bonds as debt security that is issued to raise capital specifically to support climate-related or environmental projects. The first bond of this kind was issued in 2008.

⁷ Bonds issued by financial institutions against the collateralized assets with relatively high creditworthy like housing loans. Europe has an established market for them.