



Technical Assistance Report

Project Number: 40572
Regional Policy and Advisory Technical Assistance (R-PATA)
December 2008

**Harmonization of Bond Standards in ASEAN+3
(Cofinanced by the Republic of Korea e-Asia and
Knowledge Partnership Fund and the Investment Climate
Facilitation Fund under the Regional Cooperation and
Integration Financing Partnership Facility)**

ABBREVIATIONS

ABMI	–	Asian Bond Markets Initiative
ADB	–	Asian Development Bank
ASEAN	–	Association of Southeast Asian Nations
ASEAN+3	–	ASEAN, People's Republic of China, Japan, and Republic of Korea
EU	–	European Union
GOE	–	group of experts
PRC	–	People's Republic of China
SRO	–	self-regulatory organization
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Type	–	Regional policy and advisory technical assistance (R-PATA)
Targeting Classification	–	General intervention
Sector	–	Finance
Subsector	–	Capital markets and funds
Themes	–	Sustainable economic growth, regional cooperation, private sector development
Subthemes	–	Promoting macroeconomic stability; money and finance; policy/institutional/legal/regulatory reforms

NOTE

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. The Asian Bond Markets Initiative (ABMI) ad hoc support task force¹ requested the Asian Development Bank (ADB) during its meeting in February 2006 to undertake, under a technical assistance (TA), a review of policies, practices, and regulatory standards for bond issuance in individual countries of the Association of Southeast Asian Nations (ASEAN), Japan, People's Republic of China (PRC), and Republic of Korea (collectively ASEAN+3) and explore the possibility of harmonizing these standards and practices to facilitate the development of an Asian bond market. The ABMI is a regional initiative established under the Forum of Finance Ministers of ASEAN+3. The design and monitoring framework is in Appendix 1. The concept paper of the proposed TA was approved by management on 1 September 2006.²

II. ISSUES

2. One of the most valuable lessons from the 1997 Asian financial crisis is that the region must develop bond markets as an alternative funding source to bank loans. Prior to the crisis, financial institutions and corporations in the region relied on foreign currency loans for funding. Inadequate hedging, however, made them vulnerable to foreign exchange risks. In addition, much of the borrowing was short term for financing long-term investment. Poor corporate governance at both corporations and financial institutions, together with poor supervision of financial institutions, meant credit was poorly allocated, contributing to the weaknesses of banks' balance sheets. These combined factors triggered the financial crisis. Since the crisis, policy makers in the region have undertaken structural reforms to improve corporate governance in financial institutions and corporations and strengthen financial supervision. They have reached a consensus on the need to promote the development of a regional bond market to ensure the availability of long-term domestic currency funding, prevent maturity and currency mismatches, and channel the region's savings into regional investment.

3. In August 2003, the ASEAN+3 finance ministers established the ASEAN+3 ABMI to foster the development of a regional bond market. 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. Activities under the ABMI complement those undertaken by other regional forums to promote bond market development, including those of the Executives' Meeting of the East Asia-Pacific Central Banks and the Asia-Pacific Economic Cooperation.

4. Bond markets in the region have been dominated largely by government bonds. As of December 2007, government bonds accounted for \$9.5 trillion of the \$11.2 trillion bonds issued in 2007 in the ASEAN+3 markets.³ Despite Asia's large pool of savings, regional cross-border issuance and investments have been insignificant. ASEAN+3 countries allocate only 2% of their investment in bonds to those issued in local currencies. Significant differences across the region

¹ Six working groups were originally established in the ABMI to address key constraints on bond market development. In May 2005, they were reorganized into four working groups with an ad hoc support team for the focal group and a technical assistance coordination team. Recently, the working groups were rearranged into four new task forces focusing on four key areas: (i) promoting the issuance of local currency-denominated bonds (supply side); (ii) facilitating demand for local currency-denominated bonds (demand side); (iii) improving the regulatory framework; and (iv) improving related infrastructure for bond markets.

² The technical assistance first appeared in the business opportunities section of ADB's website on 2 October 2006.

³ ADB. Asian Bonds Online. <http://asianbondsonline.adb.org/regional/regional.php>

regarding accounting, tax treatment of debt securities, national legal systems, and investor protection have made cross-border investment highly costly, constraining the development of a regional bond market.

5. Because Europe has, more than any other region, successfully developed a deep and stable regional financial market, and as the European Union (EU) has the longest experience in addressing impediments to the creation of a single financial market, ASEAN+3 requested ADB to commission an issues paper on the EU's experience in developing the European bond market. It is thought that lessons from European experiences could serve as a conceptual framework for a regional bond market in Asia.

6. The issues paper identified a number of issues to address as first steps toward ASEAN+3 countries' creating an integrated bond market in the region. Firstly, bond standards and practices—particularly those relating to issuing procedures, settlement, listing and disclosure, issuing international securities identifying numbers, electronic disclosure, documentation, secondary transactions, syndicate rule, and accounting and auditing—would have to be harmonized to encourage issuers' and investors' participation in the regional bond market.

7. Secondly, there is a need to review policy, financial laws, and regulations established by supervisory authorities and national self-regulatory organizations (SROs) in individual ASEAN+3 countries to ensure that they do not impede the development of the regional bond market and determine how SROs could further facilitate the harmonization of bond standards. Eurobond markets were initially established by market participants on their own, with each market having its own bond standards. Subsequently, once SROs such as the International Primary Market Association and International Securities Market Association were established, they took the initiative to harmonize standards for Eurobonds across the continent.

8. Although government and corporate bonds in ASEAN+3 countries have been issued largely through public offerings, private placement is an important distribution channel for both government and corporate bonds. As private placement could widen the funding sources for corporations without the stringent requirements of a public listing, while providing a degree of exposure to better understand the pricing of their debt instruments, private placement is highly attractive to corporations seeking to raise funds through the debt market. Standards for bonds issued through private placement are typically based on those for European bonds, and many of the standards have no relevance to ASEAN+3 market conditions. A better understanding of standards for bonds issued through private placement is essential to help policy makers promote the development of the regional bond market.

9. The 11th ASEAN+3 Finance Ministers' Meeting in Madrid, in May 2008, agreed on the new ABMI road map to provide further momentum to work that will be undertaken under the ABMI. The objectives of this new, comprehensive ABMI road map are for member countries to make voluntary efforts to further develop local currency-denominated bond markets and, through the efforts of individual countries and the concerted efforts of ASEAN+3, to seek to develop a regional bond market that is more accessible for both issuers and investors.

10. Thus, this TA is consistent with the new ASEAN+3 ABMI road map by helping to harmonize standards in the secondary government and corporate bond markets to facilitate issuers' and investors' participation. With greater participation by investors, the regional bond

market will further develop and become deeper, broader, more liquid, and more efficient in pricing risks in the region. The work supported by this TA is under the purview of the ABMI task force 3 for improving the regulatory framework.⁴

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

11. The expected impact of the TA is a deeper, broader, more liquid, and more efficient regional bond market. The objective of the TA is to promote the development of domestic and regional bond markets through four components: (i) harmonizing standards, including regulations, practices, and infrastructure, in secondary government bond markets, including proposing measures to establish a government bond market forum to support the process; (ii) harmonizing standards for corporate bonds to facilitate cross-border issuance; (iii) strengthening SROs and/or establishing new ones, as appropriate, to facilitate the harmonization of corporate bond standards and regional bond market integration; and (iv) informing institutional investors of updates in the bond market situation and initiatives undertaken to achieve an efficient bond market. Activities proposed under this TA will take into account those to be undertaken under proposed TA for Minimizing Foreign Exchange Settlement Risk in the ASEAN+3 Region: Support for Group of Experts (GOE TA), which aims to harmonize standards and practices to facilitate the settlement and clearance of bond transactions across the region.⁵

B. Methodology and Key Activities

12. The TA will undertake the following activities under four components:

13. Component 1 will assess and harmonize bond standards in secondary government bond markets across the region. Activities will include

- (i) assessing policies, standards, and practices in secondary government bond markets in selected ASEAN+3 countries (People's Republic of China, Indonesia, Japan, Republic of Korea, Malaysia, Philippines, Singapore, Thailand, and Viet Nam) and proposing measures to harmonize them;
- (ii) providing analyses of trading in secondary government bond markets and the microstructures of the markets, particularly regarding their trading platforms in the ASEAN+3 countries;
- (iii) preparing a strategy and/or road map to harmonize and integrate secondary government bond markets across the region, taking into account EU experiences;
- (iv) identifying financial laws and regulations relating to the cross-border trading of government bonds through electronic trading systems;
- (v) providing analyses of laws and regulations on secondary government bonds across the nine countries, particularly those on foreign investment and cross-border trading through electronic trading systems;

⁴ The ABMI task force 3 focuses on (i) strengthening the regulatory and supervisory framework for securities; (ii) facilitating collaboration among SROs in the region; (iii) improving bankruptcy procedures related to bond transactions; and (iv) promoting the application of international accounting and auditing standards.

⁵ ADB. Forthcoming. *Technical Assistance for Minimizing Foreign Exchange Settlement Risk in the ASEAN+3 Region: Support for Group of Experts*. Manila (Project No. 41517). The TA has a proposed budget of \$850,000, which is expected to be approved by the first quarter of 2009.

- (vi) recommending measures to harmonize laws and regulations across the region in line with best international practices; and
- (vii) proposing measures to establish a government bond market forum and how the forum could help facilitate the harmonization of policies, standards, and practices in bond markets across the region, taking into account activities to be undertaken under the GOE TA.

14. Component 2 will assess and harmonize corporate bond standards to facilitate the cross-border issuance of corporate bonds. Activities will include

- (i) assessing policies and standards for regional access to corporate bond markets through public offerings and private placement, identifying standards and policies that impede the development of domestic and cross-border bond issuance, and providing analyses of recent market activities with respect to cross-border bond issuance in the region (e.g., issued amounts, issuers, currency of denomination, underwriters, and investors);
- (ii) identifying potential paths toward harmonizing standards and integrating corporate bond markets in the selected ASEAN+3 countries based on EU experiences;
- (iii) assessing the role of private placement in harmonizing and integrating corporate bond markets;
- (iv) recommending a road map toward harmonizing standards and integrating corporate bond markets in the selected ASEAN+3 countries based on EU experiences, taking into account activities to be undertaken under the GOE TA;
- (v) identifying laws and regulations impeding the development of each market and, in particular, those impeding cross-border trading activities and foreign investment; and
- (vi) providing detailed analyses of laws and regulations on cross-border bond issuance in the nine countries, paying special attention to the private placement channel.

15. Component 3 will strengthen existing SROs and establish new ones to support the harmonization of corporate bond standards and regional bond market integration. Activities will include

- (i) identifying major SROs in the region;
- (ii) assessing and providing detailed analyses of bond standards established by SROs in the nine selected ASEAN+3 countries and recommending measures to harmonize them;
- (iii) assessing and providing detailed analyses of major SROs in these countries based on lessons from the EU;
- (iv) recommending measures to strengthen SROs and, if necessary, establish new ones based on lessons from the EU, to support the development of an integrated bond market; and
- (v) recommending an SRO model that can be adopted toward a market-driven approach to harmonizing Asian bond standards.

16. Component 4 will disseminate information to institutional investors in the bond market situation and initiatives undertaken to achieve an efficient bond market. This outcome can be achieved through road show presentations, conferences, and forums.

C. Cost and Financing

17. The TA is estimated to cost \$950,000 equivalent. The TA will be cofinanced on a grant basis by (i) the Republic of Korea e-Asia and Knowledge Partnership Fund for \$500,000 and (ii) the Investment Climate Facilitation Fund⁶ under the Regional Cooperation and Integration Financing Partnership Facility for \$450,000; both funds will be administered by ADB. The cost estimates and financing plan are in Appendix 2.

D. Implementation

18. ADB will be the Executing Agency for the TA, which will be administered by the Office of Regional Economic Integration.

19. The TA will require 38 person-months of consulting services (17 person-months of international consultancy and 21 person-months of national), with one national consultant working with each international consultant: government bond market specialists (14 person-months, total), corporate bond market specialists (10 person-months, total), capital market specialists (8 person-months, total), and financial legal experts (6 person-months, total). The consultants will have extensive knowledge of bond market standards in the region. The outline terms of reference are in Appendix 3. The consultants will be recruited individually in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time).

20. The TA will be implemented over 12 months and is expected to begin in March 2009 and end in February 2010. The first component will be completed by October 2009 and the second and third components by February 2010. The interim and draft final reports will be presented to ABMI task force 3 for discussion and comments. The report will be based the consultants' extensive discussions with policy makers, market regulators, and market participants. The draft final report is expected to be presented to the task force by October 2009. A subsequent presentation will be made by February 2010, upon completion of the second component. Disbursements under the TA will be done in accordance with ADB's *Technical Assistance Disbursement Handbook*.⁷

IV. THE PRESIDENT'S DECISION

21. The President, acting under the authority delegated by the Board, has approved ADB administering (i) technical assistance not exceeding the equivalent of \$500,000 to be financed on a grant basis by the Republic of Korea e-Asia and Knowledge Partnership Fund and (ii) technical assistance not exceeding the equivalent of \$450,000 to be financed on a grant basis by the Investment Climate Facilitation Fund under the Regional Cooperation and Integration Financing Partnership Facility for Harmonization of Bond Standards in ASEAN+3, and hereby reports this action to the Board.

⁶ Established by the Government of Japan.

⁷ ADB. 2008. *Technical Assistance Disbursement Handbook*. Manila.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<p>Impact</p> <p>Deeper, broader, more liquid, and more efficient regional bond markets</p>	<p>Greater participation by issuers and investors in regional bond markets</p> <p>Movement toward harmonized regional bond markets</p>	<p>Selected ASEAN+3 countries and ABMI task force 1 promote the issuance of local currency-denominated bonds</p>	<p>Assumptions Support from ASEAN+3 countries</p> <p>Risks Lack of support from ASEAN+3 countries Impact of the global financial crisis</p>
<p>Outcome</p> <p>1. Harmonized standards in government secondary markets across the region</p> <p>2. Increased cross-border issuance of corporate bonds</p> <p>3. SROs strengthened and new ones established to support Asian bond market integration</p> <p>4. Institutional investors informed of updates in the bond market situation and initiatives undertaken to achieve an efficient bond market</p>	<p>Harmonized standards</p> <p>Issuance amount; number of issuers, underwriters, and investors; and currency of denomination</p> <p>Measures to strengthen SROs identified</p> <p>Number of new SROs established</p> <p>Road show presentations</p> <p>Conferences and forums</p>	<p>Selected ASEAN+3 countries and ABMI task force 1 promote the issuance of local currency-denominated bonds</p>	<p>Assumptions Support from ASEAN+3 countries</p> <p>Risks Lack of support from ASEAN+3 countries Impact of the global financial crisis</p>

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<p>Outputs For Outcome 1 Government bond market forums to facilitate harmonization of bond standards in the government secondary bond markets</p> <p>Analysis of trading in the government secondary bond markets and the microstructures of the markets</p> <p>Strategy and/or road map to harmonize and integrate government secondary bond markets</p> <p>Specific measures for ABMI</p>	<p>Establishment of government bond market forums</p> <p>Better understanding of policy impediments to developing regional bond markets</p> <p>Strategy and/or road map prepared and agreed by selected ASEAN+3 countries</p> <p>Policy measures agreed by ABMI</p>	<p>Selected ASEAN+3 countries and ABMI task force 1 promote the issuance of local currency-denominated bonds</p>	<p>Assumptions</p> <p>Support from ASEAN+3 countries</p> <p>Qualified consultants</p> <p>Timely recruitment of consultants</p> <p>Risks</p> <p>Lack of support from ASEAN+3 countries</p> <p>Impact of the global financial crisis</p> <p>Consultants fail to produce good reports</p>
<p>For Outcome 2 Assessment of policies and standards impeding the domestic and cross-border issuance of bonds through public listings and private placement</p> <p>Measures to harmonize standards and integrate corporate bond markets</p> <p>Assessment of the role of private placement in the harmonization and integration of corporate bond markets</p>	<p>Better understanding of policies and practices for the cross-border issuance of corporate bonds</p> <p>Measures agreed by selected ASEAN+3 countries</p> <p>Better understanding of the role of private placement</p>		

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
A road map for harmonizing standards and integrating corporate bonds	Road map approved by selected ASEAN+3 countries		
<p>For Outcome 3 Detailed analysis of bond standards established by SROs and measures to harmonize them</p> <p>Assessment of major SROs in these countries based on lessons from the EU</p> <p>Measures to strengthen SROs</p> <p>SRO model to be adopted toward a market-driven approach to harmonizing Asian bond standards</p>	<p>Better understanding of bond standards of SROs</p> <p>Better understanding of key factors for SRO success in the EU</p> <p>Harmonization measures agreed by selected ASEAN+3 countries</p> <p>SRO model</p>		
For Outcome 4 Road show and presentations	Number of presentations and participants		

Activities with Milestones (March 2009–February 2010)	Inputs
1.1 Identify and engage consultants 1.2 Fact-finding missions to selected ASEAN+3 countries 2.1 Preparation of reports to ADBI ad hoc support task force 2.2. Revise the report based on comments of the task force 3.1. Presentation of the revised report to ABMI 3.2. Recommendations to be approved by ABMI	<ul style="list-style-type: none"> <li data-bbox="1133 363 1463 499">• Republic of Korea e-Asia and Knowledge Partnership Fund: \$500,000 <li data-bbox="1133 531 1463 768">• Investment Climate Facilitation Fund under the Regional Cooperation and Integration Financing Partnership: \$450,000

ABMI = Asian Bond Markets Initiative, ADBI = Asian Development Bank Institute, ASEAN+3 = Association of Southeast Asian Nations, People's Republic of China, Japan, and Republic of Korea, EU = European Union, SRO = self-regulatory organization.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost^a
Cofinanced by the Republic of Korea e-Asia and Knowledge Partnership Fund^b and Investment Climate Facilitation Fund under the Regional Cooperation and Integration Financing Partnership Facility^c	
1. Consultants (international and national)	
a. Remuneration and per diem	
i. International consultant	550.0
ii. National consultant	130.0
b. International and local travel	110.0
c. Report, printing, and communications	10.0
2. Workshops	50.0
3. Miscellaneous administration and support costs	15.0
4. Contingencies	85.0
Total	950.0

^a The cost estimate was prepared in accordance with the guidelines in the memo on "Budgeting for TA and Staff Consultant Services" issued on 6 August 2008 from Principal Director, COSO to Heads of Departments and Offices.

^b Administered by ADB. The Republic of Korea e-Asia and Knowledge Partnership Fund will cofinance \$500,000.

^c Established by the Government of Japan and administered by ADB. The Investment Climate Facilitation Fund under the Regional Cooperation and Integration Financing Partnership Facility will cofinance \$450,000.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. The technical assistance will engage individual consultants for three main reasons: (i) All consultants will work separately with their own responsibilities, outputs, and geographical coverage. (ii) The work does not require coordination of tasks. (iii) The required expertise is highly specialized and widely diverse and therefore impossible to source from a firm.

A. Government Bond Market Specialist (international, 6 person-months)

2. The consultant will have (i) strong analytical skills and preferably a PhD in economics; (ii) extensive, preferably 10 years', working experience in bond markets in Asia; (iii) extensive knowledge of bond standards in the region; and (iv) extensive experience in dealing with high officials in the region. The consultant will be responsible for managing and implementing the technical assistance (TA) and the timely delivery of the interim, draft final, and final reports. Specifically, the consultant will

- (i) assess policies and standards for secondary government bond markets in selected ASEAN+3 countries (People's Republic of China, Indonesia, Japan, Republic of Korea, Malaysia, Philippines, Singapore, Thailand, and Viet Nam), and facilitate the harmonization of bond standards in the government secondary bond markets;
- (ii) provide analyses of trading in the secondary government bond markets and the microstructures of the markets, particularly regarding their trading platforms in the selected ASEAN+3 countries;
- (iii) prepare a strategy and/or road map to harmonize and integrate secondary government bond markets across the region, taking into account European Union (EU) experiences and activities to be undertaken under the TA for Minimizing Foreign Exchange Settlement Risk in the ASEAN+3 Region;
- (iv) recommend specific measures for the Asian Bond Markets Initiative (ABMI) to undertake toward harmonizing standards for government secondary bond markets and moving towards integration; and
- (v) propose measures to establish a government bond market forum for ASEAN+3 and how the forum could help to facilitate the harmonization of standards and practices in the secondary government bond markets based on consultation with member countries.

B. Corporate Bond Market Specialist (international, 5 person-months)

3. The consultant must have extensive knowledge and practical working experience in the private placement of both corporate and government bonds in the region. The consultant must also have a deep understanding of standards applied to both government and corporate bonds in major Asian bond markets. Among other things, the consultant will

- (i) assess policies and standards impeding the development of domestic and cross-border bond markets through public listings and private placement, as well as provide analyses of recent market activities with respect to cross-border bond issuance in the region (e.g., issuance amount, issuers, currency of denomination, underwriters, and investors);

- (ii) identify potential paths toward harmonizing standards and integrating corporate bond markets in the selected ASEAN+3 countries based on EU experiences;
- (iii) assess the role of private placement in harmonizing and integrating corporate bond markets; and
- (iv) recommend a road map toward harmonizing standards and integrating corporate bond markets in the selected ASEAN+3 countries based on EU experiences, taking into account activities to be undertaken under the GOE TA.

C. Capital Market Specialist (international, 3 person-months)

4. The consultant must have extensive experience in Asian financial markets and a deep knowledge of self-regulatory organizations (SROs) in the EU. He or she should have knowledge of the international bond market standards developed by international SROs such as the International Primary Market Association, International Capital Market Association, and International Swaps and Derivatives Association. He or she will

- (i) identify standards impeding the development of cross-border bond issuance in nine ASEAN+3 countries;
- (ii) identify measures to harmonize standards for cross-border bond issuance in general and, in particular, for the private placement channel by ASEAN+3 member countries;
- (iii) recommend specific measures for the ABMI to undertake to achieve the harmonization of standards in these markets;
- (iv) assess key factors determining SROs' success and effectiveness in supporting the development of the bond market in the EU; and
- (v) recommend measures to strengthen SROs and to establish new ones based on lessons from the EU, to support the harmonization of bond standards.

D. Financial Legal Expert (international, 3 person-months)

5. The financial legal expert must have extensive knowledge of financial laws and regulations in Asian financial markets, particularly regarding corporate and government bonds issued through both public listings and private placement. He or she should have knowledge of standards developed by international SROs such as the International Primary Market Association, International Capital Market Association, and International Swaps and Derivatives Association. The consultant will

- (i) identify financial laws and regulations relating to the cross-border trading of government bonds through electronic trading systems;
- (ii) provide analyses of laws and regulations on secondary government bond sales across the nine countries, particularly those on foreign investment and cross-border trading through electronic trading systems;
- (iii) identify laws and regulations impeding the development of each market and, in particular, those impeding cross-border trading activities and foreign investment;
- (iv) provide detailed analyses of laws and regulations on cross-border bond issuance in the nine countries, paying special attention to the private placement channel; and
- (v) recommend measures to harmonize laws and regulations across the region in line with best international practices, taking into account activities to be undertaken under the GOE TA.

E. National Consultants

6. National consultants—a government bond market specialist (8 person-months), corporate bond market specialist (5 person-months), capital market specialist (5 person-months), and financial legal expert (3 person-months)—are to provide support for the international consultants' completion of their respective tasks.