

APEC public-private sector forum on bond market
development

Capacity Building for the Developments of Bond Markets: Current Regional Cooperation Efforts

Lotte Schou-Zibell
Economist

Office of Regional Economic Integration
Asian Development Bank
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Outline

- I. The Evolution of ADB's Regional Cooperation Efforts to Develop Bond Markets in East Asia
- II. Recent Economic Trends
- III. Regional Cooperation & Integration Strategy
- IV. Asian Bond Markets Initiative (ABMI)
- V. AsianBondsOnline & Asia Bond Monitor (ABM)



I. The Evolution of ADB's Regional Cooperation Efforts to Develop Bond Markets in East Asia

- ADB Established 1966
- Poverty Reduction Strategy, 1999
- Office of Regional Economic Integration established (OREI) 2005
- Regional Cooperation and Integration Strategy (RCI), 2006
- Eminent Persons Group Report—Toward a New Asian Development Bank in a New Asia, 2007



II. Recent Economic Trends

- East Asia is a highly diverse and heterogeneous region
- Some of the world's largest and most sophisticated financial systems co-exist with small, underdeveloped and often fragile systems

II. Recent Economic Trends

- The incidence of poverty has continued to drop
- Global and regional economic landscapes have changed extensively since 1994
- Intraregional trade in East Asia has increased from about 30% in the 1990s to about 56% in 2005
- Free trade agreements (FTAs) are increasing in East Asia and many other parts of Asia-Pacific
- The Asian financial crisis revealed a high degree of “contagion” across the region, illustrating the need for greater monetary and financial cooperation

III. What can regional cooperation and integration do?

- Market-driven economic “integration” requires “cooperation” to manage the externality/spill-over issues that integration implies
- Regional “cooperation” can accelerate regional “integration”
- RCI can help offer opportunities to unlock the region’s economic potential, contributing to economic growth, inclusive development, and poverty reduction

III. The Regional Cooperation and Integration Strategy - 4 pillars

Regional and Subregional Economic Cooperation

- Cross-border Infrastructure
 - Physical Connectivity
- Hardware and Software

Trade and Investment Cooperation and Integration

- Trade and investment expansion
- Regional trade arrangements
- Regulatory coordination

Monetary and Financial Cooperation and Integration

- Financial market development and integration
 - Regional macroeconomic and financial stability
- Exchange Rates

Regional Public Goods

- Clean energy and environmental protection
- Communicable disease control disaster response
- Good governance transnational crime prevention

III. Pillar 3: Monetary and Financial Cooperation and Integration

- Interdependence of financial markets
- Regional financial stability is key to global financial stability
- Advanced initiatives on policy dialogue, reserve pooling (Chiang Mai Initiative) and regional bond market development (Asian Bond Markets Initiative)

III. Pillar 3: Monetary and Financial Cooperation and Integration

—some areas in need of further development

- Development and liberalization of domestic financial markets—building bloc for larger regional bond markets
- Liberalization of contractual savings institutions
- Development and harmonization of domestic laws, regulation, financial standards and access rules for foreign financial institutions and products
- Develop financial infrastructure

IV. Background on ASEAN+3 Asian Bond Markets Initiative (ABMI)

- ABMI aims to develop efficient and liquid bond markets in the ASEAN+3 Region
- Initiative endorsed by the ASEAN+3 Finance Ministers Meeting in August 2003 in Manila, Philippines
- Participation of countries in the initiatives is on a voluntary basis

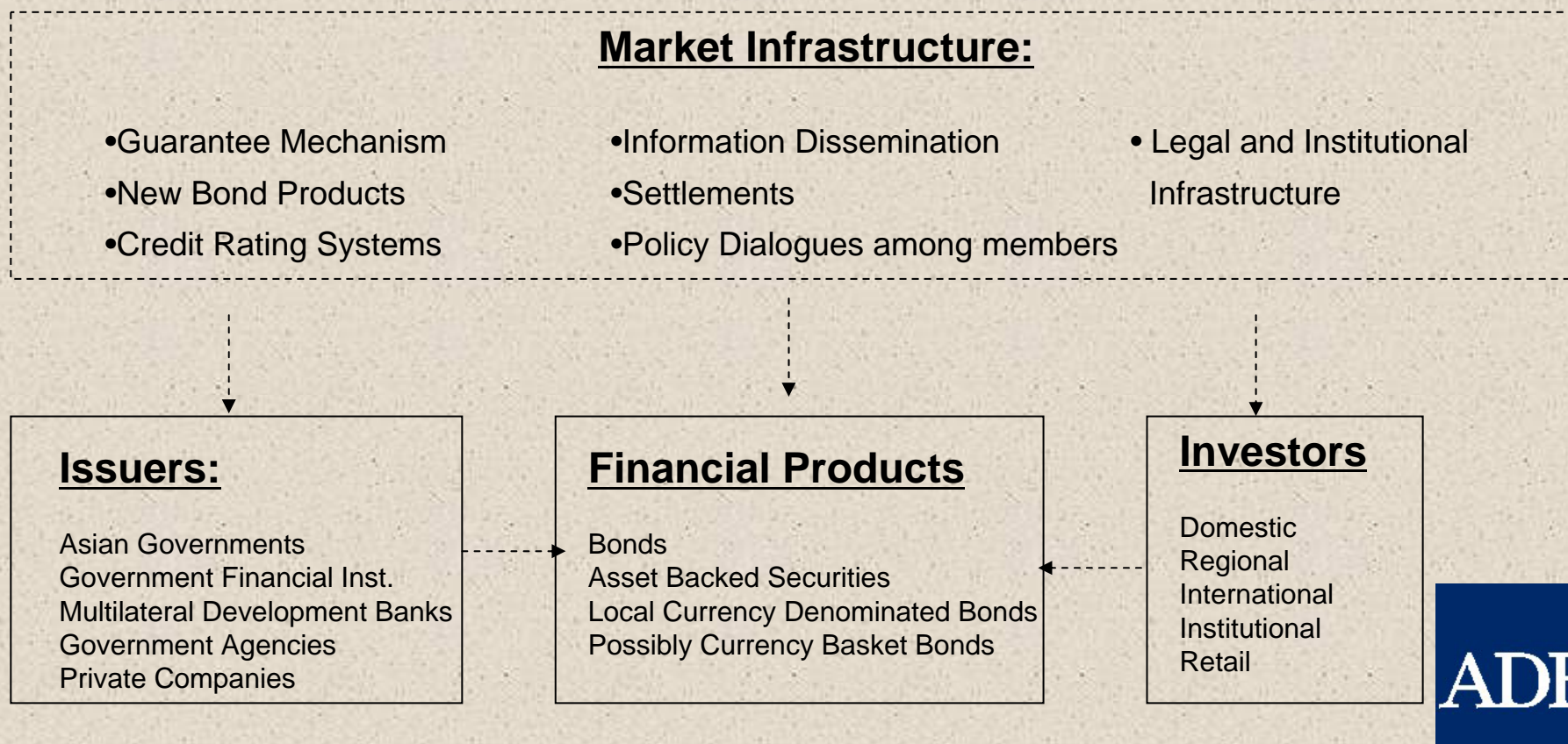
IV. ABMI Objectives

- ASEAN+3 ABMI aims to develop a robust bond market
- Avoid double maturity and currency mismatch that exacerbated 1997 East Asian Financial Crisis
- Re-channeling of Asian Savings into Asian economies
- Regional Financial Cooperation



IV. ABMI Focal Areas

1. Facilitate access to market via wider variety of bond issues in Asia
2. Enhance market infrastructure for bonds



IV. ABMI Working Groups

- Initially, 6 voluntary Working Groups (WGs) on the ABMI
- May 2005 reorganized to 4 WGs, an Adhoc Support Team for the Focal Group (ASTFG) and a Technical Assistance Coordination Team (TACT)

Working Group 1	Working Group 2	Working Group 3	Working Group 4
New Securitized Debt Instruments	Credit Guarantee and Investment Mechanisms	FOREX Transactions & Settlement Issues	Rating Systems

IV. ADB's Role in ABMI

ADB supports the ABMI by:

- Providing technical and research assistance to other Working Groups (WG) and the Focal Group for the ASEAN+3 member countries
- WG 1: Phase 1 study completed “ASEAN+3 Regional Multi-Currency Bond” & Phase 2 study “ASEAN+3 Regional Basket Currency Bonds” being finalized
- WG 2: Study on “ASEAN+3 Guarantee & Investment Mechanisms” completed and new study to examine options to be started 2007
- WG 3: “Minimizing Foreign Exchange Settlement Risk in the ASEAN+3 Region” – to be finalized in 2nd quarter 2007
- WG 4: Technical expertise provided to enhance credibility and visibility of domestic rating agencies

IV. WG3: Asia Bond Clearing and Settlement Conference 2007

- Singapore, 16 April 2007
- Themes:
 - Current market situation and challenges
 - Government efforts / regional initiatives
 - The future of clearing and settlement systems for Asia
 - Do we need a Regional Settlement Intermediary to reduce settlement risk in cross-border bond transactions in Asia?
- 140 participants from 83 institutions



V. AsianBondsOnline & Asia Bond Monitor

Improving transparency/information dissemination

- ❖ Asian Bonds Online Website (<http://asianbondsonline.adb.org>)
 - Launched in May 2004, a one-stop information site on ASEAN+3 bond markets
 - Completed studies of working groups can be downloaded from this site
 - 1,700 visitor sessions per day (average 2006)
- ❖ Asian Bond Monitor
 - A Bi-annual (April and November) publication (6 issues published)
 - April 2007 issue downloadable from <http://asianbondsonline.adb.org>



V. Asian Bonds Online & Asia Bond Monitor

—Securitization—Concepts and Development in East Asia

- Securitization in Asia is more modest than in Europe and North America despite its growth. Yet securitization holds considerable potential for regional development.
- Securitization is typically associated with risks involving similar, unconnected, and predictable cash flows.
- Future Asian securitization can facilitate the release of individual capital and assist in public policy.
- Securitization requires a transparent legal framework, clear accounting principles, regulatory support, a neutral taxation setting
- National and regional policies should complement commercial trends--support institutional improvements; promote common standards; apply structured finance techniques.
- Initiatives to encourage securitization (i) microfinance, (ii) student loans; (iii) infrastructural risk.



Thank You

Lotte Schou-Zibell

Telephone: (63-2) 632-5245

Email: lschouzibell@adb.org

Asian Development Bank
Office of Regional Economic Integration (OREI)
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Telephone: (632) 632-4444

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