

ASEAN Fixed Income Summit

Conference Summary Report

Sasana Kijang, Bank Negara Malaysia
29 September 2014

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Introduction

The inaugural ASEAN Fixed Income Summit (“AFIS”) was held in Sasana Kijang, Bank Negara Malaysia on 29th September 2014. It was initiated to address issues and challenges revolving liquidity and market transparency in the ASEAN region to achieve further integration of domestic financial markets. The forum allowed participants to gain insights on developments in ASEAN Financial Integration towards 2020 in promoting ASEAN as a fixed income investment destination.

Attracting close to 500 participants, the Host - Bank Negara Malaysia and the Joint Organisers - Cagamas Berhad, Financial Markets Association of Malaysia and Malaysian Association of Corporate Treasurers as well as conference partner International Financing Review, brought together policy makers, regulators, market participants and industry specialists to enable a meaningful and synergistic meeting of minds.

The AFIS addressed the development of the cross border bond market in Asia, from the perspectives of leading issuers, investors, banks, and policymakers, and asked how receptive the region has become to investing in local currency bonds issued from neighbouring nations. The timing coincided with Cagamas’ inaugural RMB1.5billion EMTN issuance on 22 September 2014. The RMB issuance represents a number of firsts for Cagamas, the Malaysian domestic as well as the international bond markets. This is Cagamas’ first ever non-MYR denominated bond issuance, the largest RMB issue by a Malaysian issuer to-date, the largest RMB bond in Southeast Asia to-date and the world’s first RMB bond to be issued by a secondary mortgage corporation.

The Deputy Governor of Bank Negara Malaysia, Dato’ Muhammad bin Ibrahim delivered the Opening Address and outlined the need for a clear and shared vision of the ASEAN fixed income market. He emphasised the need to enhance the network of intermediaries in the region as it would support the development of strong and integrated market.

The Keynote Address presented by Madam Zhu Yanlai, Deputy Chief Executive of the Bank of China (Hong Kong) was from the perspective of China’s market on the Internationalisation of Renminbi and how receptive the region has become to investing in local currency bonds issued from neighbouring nations.

The Deputy Chief Executive, Securities Commission of Malaysia, Dato' Dr. Nik Ramlah Mahmood, touched on the need for a holistic framework to promote and accelerate the development of bond market in her Keynote Address.

The conference was organised around 5 main sessions. The first session 'Progress Update on the ASEAN Bond Markets Initiative' addressed the current and future progress of the ASEAN Bond Markets. Among the main issues that were discussed included mutual recognition of the region's regulatory, supervisory and taxation framework, integrated region-wide operational architecture, smoothing FX volatility and the effects of foreign fund-flow reversals to the region.

The second session 'Facilitating Cross Border Investment in the ASEAN Bond Market' examined the establishment of regional benchmarks by supranational agencies, cross currency Asian bond tranches, development of regional credit ratings and the roles of regional intermediaries.

The third session i.e. the Keynote Presentation by Dato' Dr. Nik Ramlah entitled 'Sustaining Growth Development of the Malaysian Bond and Sukuk Markets', considered recent developments in the region's bond and Sukuk markets and its regulatory environment and the way forward. Issues that would facilitate the development of the bond market were put forward such as accelerating time-to-market, removal of mandatory credit rating and securitization. A centralised electronic platform is also imperative to increase market efficiency by expediting the price discovery process.

The fourth session 'Promoting Cross-Border Issuance in the ASEAN Bond Market' deliberated some of the solutions that would promote cross-border bond issuance in ASEAN+3 countries. Products and facilitative services such as credit wraps, private guarantee solutions, investment facility and the development of currency and interest rate swap facilities were discussed comprehensively.

The fifth session entitled 'The Policymakers' Perspective' brought together Deputy Governors and a leading supranational agency officer into a thorough examination of the central banks' stance toward the development of the regional bond market. It examined the impact that global financial regulations such as the Financial Stability Board and Basel III, would have on the growth of the market and the motivation behind the inherent support they are providing for the regional bond market to grow.

The conference's final session provided a glimpse of what the market players could expect in the future. Subjects such as yield expectations, issuance forecast and development of Sukuk markets were deliberated in line with the upcoming trends and demands.

The conference was sponsored by AmlInvestment Group Berhad, CIMB Bank Berhad, Danajamin Nasional Berhad, Maybank Berhad, OCBC Bank (Malaysia) Berhad, RHB Banking Group, Asian Institute of Chartered Bankers and RAM Holdings Berhad.

Summary of Opening Remarks

Dato' Ooi Sang Kuang

Chairman, Cagamas Berhad

- Highlighted that the objective of this forum is to address the development of the cross border bond market in Asia, from the perspectives of leading issuers, investors, banks, and policymakers and to determine how receptive the region has become to investing in local currency bonds issued from neighbouring nations.
- The Summit enables a meaningful and synergistic meeting of minds, bringing together policy makers, regulators, market participants and industry specialists, contributing to medium and long term benefits across the region.
- Over the course of the Summit, the panel speakers will seek to examine the real challenges in cross border issuance including regional regulation, issuance obstacles and investor appetite for non-domestic securities and will conclude with an outlook for ASEAN bond markets in 2015.
- In conclusion it is hoped that at the end of the Summit, the participants would gain better insights to the developments in ASEAN Financial Integration towards 2020 in promoting ASEAN as the fixed income investment destination.

Summary of Opening Address

Dato' Muhammad bin Ibrahim

Deputy Governor, Bank Negara Malaysia

- Highlighted the development of ASEAN region as one of the most dynamic and fastest growing region in the world, owing to its diverse range of economies in terms of size, stages of development and economic structure and offers vast investment prospects to global investors.
- Many initiatives and measures have been implemented under the ASEAN Economic Community Blueprint and discussions and negotiations are on-going. ASEAN intra-regional trade flows have grown substantially in the past 15 years. This amplifies the need of a developed regional fixed income market to support and facilitate further growth of intra-regional trade, financing and investment.
- ASEAN local currency bond markets are now playing a more important role in each economy. The CAGR of ASEAN local currency bond issuance has recorded a staggering 12.9% since 2003. However, although the local currency growth figures are encouraging the financial linkages between ASEAN fixed income markets are still insignificant and intra-regional investments are still small. More than 90% of ASEAN cross-border portfolio investment flows are with advanced economies outside Asia.
- Liquidity is a big challenge in most markets. This is amplified by the under-developed repo market in ASEAN capital markets, hold-to-maturity behaviours of institutional investors and non-uniform regulatory standards in the region. Hence, emphasise must be put on the necessities for the ASEAN member countries to do more to facilitate intraregional cross-border bond issuances.
- The major areas ASEAN market players must work on are increasing capacity and capability of domestic players to serve the needs of intra-regional investors; up-to-date and comprehensive information must be made available to efficiently facilitate regional investment activities; advice on credit, regulatory requirements and tax implications must be made easily accessible; and the market players should be able to offer ancillary services such as FX and interest rate hedging and security services efficiently across the board.

- Malaysia has liberalized its foreign exchange administration rules to facilitate domestic investors to invest abroad. BNM and the Securities Commission ("SC") have together introduced a transparent and facilitative framework for the issuance and subscription of ringgit and foreign currency denominated Sukuk and bonds in Malaysia. Several foreign companies to-date have issued bonds in Malaysia totalling RM20.5 billion (USD6.5 billion equivalent).
- BNM had recently collaborated with Euroclear and Hong Kong Monetary Authority to facilitate custody services of Ringgit securities by launching a platform for cross-border investment and settlement of debt securities. BNM's Real Time Gross Settlement System ("RENTAS") has also been upgraded and its capability to act as a central depository and settlement system is showcased by the recent issuance of Cagamas' inaugural RMB1.5 billion EMTN paper through its platform.
- The growth prospects and potentials of ASEAN region to become the world's fixed income destination are huge. An area that could be improved that would yield strong direct benefits is the convergence of international standards among the regional fixed income markets. This would facilitate greater mobility of issuers, investors and intermediaries across markets, apart from enabling them to better match funding and investment needs.
- Recommended three steps that could contribute to further integration of the regional fixed income market. First, the market player should look into enhancing and improving the network of the financial intermediaries. This could be done through the formation of a regional dealer's network for the primary and secondary market to create liquidity, attract greater foreign investors' participation and lower the cost of funding for issuers in the region. Second, the untapped area of cross currency foreign exchange market must be developed to support the regional settlement for trade and investment. This would lower the cost of exchange rate hedge, promote efficiency in trade and enhance export competitiveness for businesses. Third, more platforms such as AFIS should be organized to promote regional integration by having discussions, exchanges of ideas and bring together policy makers and industry participants.

Summary of Keynote Address

Madam Zhu Yanlai

Deputy Chief Executive, Bank of China (Hong Kong) Ltd

Development of an Asian currency: Internationalisation of the Renminbi and implications for the ASEAN fixed income market

- The most recent Asian financial crisis has taught us the importance of developing local currency bond markets both domestically and intra-regionally. The development of the ASEAN bond market can be substantially boosted by the further growth of RMB bond markets both onshore and offshore.
- Renminbi (“RMB”) Internationalization has been one of China’s main economic objectives in recent years. To qualify as an international currency, the RMB has to be widely used in international pricing, settlement, payment, investment and held as foreign currency reserves in central banks around the world. The RMB, albeit is not yet a freely convertible currency, has gained tremendous momentum in the international arena becoming one of the main currencies in international payments and treasury activities. RMB is now being used by about 20 of the world’s central banks’ foreign reserves holdings.
- The major underlying drivers for the rapid development of RMB Internationalization come from China’s external policy to increase economic integration with the outside world and from its internal impetus for further reforms.
- From its external policy perspective, China has grown into the world’s largest goods exporter and the second largest importer. China used to receive substantial capital inflows through FDIs but now has accumulated a substantial amount of foreign exchange reserves through trade surplus and other inflows. At the same time, increasing number of cash-rich Chinese corporations are looking overseas for investment opportunities. These developments have resulted in an increasing demand for RMB and RMB denominated assets in the overseas markets.
- Internally, China is challenging itself to achieve more sustainable and quality economic growth by adopting a more environmental and natural resources friendly growth in the long term after decades of rapid economic growth. Exports have played a very important role in China’s economic development but China needs to reduce its trade dependencies

vis-à-vis the higher exposure to global fluctuations associated with international trading, increasing labour costs, rising trade frictions and greater demands on the environment. It is critical for China to implement deeper structural reforms and move up the value chain.

- China's bond market is still in a developing stage as compared to the world's major economies. The domestic economy is mainly financed by bank lending providing about 85% of the economy's financing. The RMB bond market has substantial room for growth.
- A world's leading international financial centre, Hong Kong is the world's freest economy with no capital controls, simple and low tax regime and offers a developed financial infrastructure. Its Real Time Gross Settlement ("RTGS") is one of the most advanced in the world incorporating four major currencies USD, Euro, HKD and RMB.
- Hong Kong's offshore RMB bond issuances have been relatively small. Its size is only as big as 1% of total China's onshore bond market. This represents enormous growth potential in the future.
- Several recent and upcoming offshore RMB issuances as a testament of China's commitment to develop its offshore bond market. United Kingdom has announced that it will issue a RMB denominated government bond which will be added to the country's foreign currency reserves. Singapore's Industrial and Commercial Bank of China had also announced that it would issue a RMB4 billion bonds. And furthermore, Cagamas has recently issued a RMB1.5 billion EMTN paper. All of these recent issuances are paving the way for further internationalization of the RMB.
- Malaysia as a leading Islamic financial centre could play a vital role in the internationalization of RMB. Large corporations like Cagamas, Khazanah and Axiata would be at the centre of this development given a strong political, social and financial foundation of the country.

Key Discussion Points - Session 1: Progress Update on the ASEAN Bond Markets Initiative

Iwan Azis

Head of Office of Regional Economic Integration, Asian Development Bank

Dato' Lee Kok Kwan

Chief Executive Officer, Corporate Banking, Treasury and Markets, CIMB Group

Session 1 kick-started the conference by providing the progress update on the ASEAN Bond Markets Initiative (ABMI), an initiative endorsed by the ASEAN+3 governments at the Finance Ministers Meeting in Manila, the Philippines on 7 August 2003. It posed the question of whether the region is any closer to achieving its collective objective to have a harmonized regulatory, supervisory and taxation framework in the region. It also addresses whether the market is ready to push for region-wide operational architecture and how the region could neutralize the effects of foreign fund-flow reversals.

Comments by Mr Iwan Azis

- Update of ASEAN+3 Bond Markets Initiative (ABMI)
 - 3 rationales of ABMI; to address the issues pertaining:
 - i. Currency and maturity mismatches
 - ii. Excess savings after Asian Financial Crisis
 - Pre-1997 – Asia recorded very high investments
 - Post-1997 (post-crisis) – Asia recorded excess savings
 - Asian investors are not investing in Asia, they invest in abroad more (in developed countries)
 - However, the investments in developed countries are being reinvested back in Asia by Western investors.
 - Therefore, the development of bond markets in Asia will eradicate both mismatches
 - iii. ASEAN countries are in huge deficit in infrastructure, not only 'real' infrastructure but also intangibles infra such as education and healthcare.
 - Financing these infrastructure developments is a crucial issue to address

- Taskforce to address these issue include initiatives such as:
 - Promoting the supply side of the local currency bond
 - Credit guarantee; to promote issuance of corporate bonds
 - Demand side
 - Try to encourage investment in infrastructure
 - Possibility of using foreign reserves which the region's sovereigns have much to spare
 - Regulatory framework
 - Bond market infrastructure
 - Forum
 - Active in trying to help the efforts made by the other 3 initiatives above
- What does all these mean to the ASEAN region
 - Question of whether the regional markets are more resilient than before
 - Lessons learnt from the many crisis the world had in the 90s:
 - Standard features of market dynamics before the crisis was that financial sector growing much faster than the real sector
 - Therefore, imperative that ASEAN not to repeat that mistake
 - Bond market must be developed to be in-line with the rapid development of the real sector in the region

Comments by Dato' Lee Kok Kwan

- Reliance on foreign currency funding is toxic
- The development of local currency bond market is the key to ASEAN+3 growing resiliency against external shock from damaging its real economy
- ASEAN has the ability to be self-sufficient and should not rely on foreign funding because:
 - The region is high in savings
 - FX reserves are large
- Well-functioning local currency loan/deposit banking and capital markets is the key to intermediating the large pool of domestic savings
- Intra-ASEAN regional trade and FDI flows are growing exponentially
- Enabling ASEAN+3 to invest in ASEAN+3 region (recycling of savings)
 - Cross-border issuance and investing
 - US Reg-S model: to develop a similar "Reg-S" for local currency to facilitate cross-border intra-regional bond market activities

- Recognition of domestic credit ratings amongst the region (provided they have a strong track record)
 - ASEAN rating agencies are not inferior in rating AAA/AA ratings to their international counterparts
 - International rating agencies rated ASEAN+3 countries not reflecting the country's strength in the global market
 - For example, China is rated AA-
 - This rating is only the same as Portugal in the Europe
 - Unlike Portugal, China's contribution to the world's GDP is much more substantial – what is the justification for the similar ratings given?
- Developing retail access to the existing bond market
 - If retail investors were allowed to invest in equities of a company, they should be allowed to invest in the bonds of the same company (senior bonds, sub-debt – which ranked safer than equities)
- Sukuk market gaining international acceptance

Q&A session

- The key to increase investors coming into ASEAN is to align the national policies accordingly, which may involve revisions of domestic regulations and constitutions
- To understand the reason why there are huge differences in the way the domestic rating agencies rate companies compared to the international rating agencies, we have to start by understanding the reason credit rating agencies were formed in the first place
 - US credit agency came about because America used to be the main pool of capital. Therefore, there was a need of some reference framework to allocate their capital accordingly; domestically and internationally
 - Rating agencies in the Europe helped allocate European capital across the continent
 - Today, Asia relies on international rating agencies that originated from western countries (i.e. S&P, Fitch, Moody's)
 - China should take the lead in establishing regional credit rating agency
 - China has the biggest pool of capital in the world
 - Today, their allocation of capital outside China is still very much driven by western credit rating agencies, and this is peculiar given that they are the disproportionate savers in the world.

Key Discussion Points - Session 2: Facilitating Cross Border Investment in the ASEAN Bond Market

Wan Kamaruzaman Wan Ahmad

Chief Executive Officer, KWAP

Rohaya Mohammad Yusof

General Manager of Capital Markets Department, EPF Malaysia

Joel Kim

Head of Fixed Income Asia Pacific, Blackrock

Session 2 seeks to deliberate the cross-border investment issues from the perspectives of investors. It discussed current investor trend and appetite towards bond market. Will the establishment of regional credit ratings and benchmarks provide the confidence that the investors demand? Are the initiatives done so far by various players in the market to promote cross-border issuance and investment appeal to the wider need of investors? These questions were discussed at length amongst some of the top institutional investors in the region.

- The exposure of these top institutional investors to ASEAN countries, other than Malaysia, is relatively small
- There is a need for institutional investors to diversify abroad, however, not many markets offer more attractive returns than Malaysia
- In most mandates, institutional investors can only invest in countries that have a minimum BBB- rating.
 - Only 3 countries in the region has that rating – Malaysia, Singapore and Thailand
- Nevertheless, domestic rating agencies are not fully capable to cover the shortages of international rating agencies.
- A “Reg-S solution” for local currency would help to standardize the requirements of investing abroad among the regional market players. Often times, cross border issuing and investing activities are met with the obstacle of having to understand the local regulations; the issue is compounded if the regulation is not written in English.

- These pose additional problems for would be investors. Apart from that, if investors were to invest intra-ASEAN, they have to go offshore to hedge their foreign currency exposure.
- The development of initiatives under the Asian Bond Markets Initiative (ABMI) has been very slow
 - The same issues have been there and discussed for many years without real efforts to act upon it
 - It needs more concerted effort from all member countries to develop acceptable products for the region
- Both the supply and demand side have to work together to develop a regional bond market
- The demand is definitely there but the supply is not
 - Institutional investors have a critical role to play but they need the financial intermediaries to support their initiatives

Summary of Keynote Address: Session 3

Dato Dr. Nik Ramlah Mahmood

Deputy Chief Executive, Securities Commission of Malaysia

Sustaining Growth and Development of the Malaysian Bond and Sukuk Markets

- One of the key lessons learnt from the recent Asian financial crisis is that the market needs a broad, deep and well developed bond market to provide a more stable source of long term financing. Malaysian bond market has been doing well for the last 15 years, with corporate bond market tripled in size. Malaysia has also become a leader in global sukuk market exceeding USD100 billion in size as at the end of 2013.
- The significant growth can be attributed to the detailed strategic framework set out in Security Commission's ("SC") Capital Market Masterplan 1 (CMP1) to steer development in the decade of 2001-2010. CMP1 focused on streamlining the regulation of corporate bond issuance processes emphasizing on the disclosure requirements under the issued PDS Guidelines. This has liberalised the utilisation of bond proceeds and do away with minimum credit rating requirements.
- The SC guidelines have been revised over the years particularly catering for specific provisions to facilitate the entry of foreign issuers into the market. The direct benefit of this is the creation of new segment of high quality issuances that can appeal to a wider base of investors.
- The utilisation of technological innovation particularly in the creation of a centralised electronic trading platform improved price transparency and liquidity by facilitating an efficient price discovery process. This together with SC's active market surveillance safeguards investors from unethical and manipulative trading practices.
- Recent regulatory developments have shown a marked improvement from the foundation that has been laid under CMP1. The CMP2 which covers the decade from 2011-2020 focuses to deepen and broaden Malaysian fixed income market to meet retail investors' demand to a wider range of products. This has led SC to introduce the retail bonds and sukuk framework in September 2012.
- Under CMP2 framework as well, the Sustainable and Responsible Investment (SRI) Sukuk Framework were introduced. In line with CMP2 initiatives to promote socially

responsible financing and investment, the SRI Sukuk Framework will position Malaysia to capitalise on the changing trends towards environmentally and socially responsible business practices.

- The demand of infrastructure financing in the region is substantial and still growing. According to ADB, the ASEAN region needs infrastructure financing of over USD60 billion per year until 2020 to facilitate the growth of the region. ASEAN governments may face challenges in fully fulfilling construction costs given fiscal and budgetary constraints, thus the crucial need for private sector participation.
- The development of local currency bond markets can be taken at a regional level through the ASEAN+3 Asian Bond Markets Initiative. Greater cross-border transactions can also be advanced through the ASEAN Capital Markets Forum initiatives.
- Accelerating time-to-market for bond and sukuk issuances would be one of the priorities to further grow the region's fixed income market. Since investors have now attained a level of sophistication with strong ability to protect their own interests, SC is now looking at developing a new framework to accelerate time-to-market for wholesale offerings.
- The removal of the mandatory credit rating from 1 January 2017 for local issuances will enable the market to transition towards a more market-driven environment. Securitization transactions embedded with the necessary safeguards have the potential to be a valuable financing tool transforming illiquid assets into liquid and tradable assets.

Key Discussion Points - Session 4: Promoting Cross-Border Issuance in the ASEAN Bond Market

Madhur Mehta

Managing Director, Debt Capital Markets, Standard Chartered Bank Singapore

Arshad Mohd Ismail

Executive Vice President, Maybank Islamic

Foo Su Yin

Chief Executive Officer, RAM Rating Services Berhad

Kiyoshi Nishimura

Chief Executive Officer, Credit Guarantee and Investment Facility

Session 4 seeks to discuss the initiatives that have been executed to promote cross-border issuances in the ASEAN bond market from the issuers' perspectives. Could the provision of guarantees ensure greater penetration of corporations into the different jurisdictions in ASEAN? What are the roles of credit rating agencies vis-à-vis investors coming in to tap the capital market of the country? Can Islamic Finance offer the solution to some of the issues facing cross-border issuance currently?

- Bond markets will come into prominence over the next 2-3 years partially because loan market is declining in volume because of various factors.
- Issuers are interested in:
 - provision of funding at the cheapest costs
 - managing maturity profile
 - diversifying investor base
- For bond market to grow, some issues need to be addressed:
 - Banks' interest to increase loan asset; this pose a direct competition for bond market
 - Basel III reforms increasing banks' capital charge
 - Single borrower limit
- Since 2007, we have seen foreign issuers tap into the Malaysian market.
 - RAM has already rated 28 foreign entities, out of which 21 had successfully tap the market

- The main factors for them to issue cross-border are costs and speed of issuance
 - The 'ASEAN scale' developed by RAM seek to play an instrumental role in supporting the development of the Asian bond market and facilitating cross border fund raising through the credit ratings.
- From Islamic Finance point of view, there are 2 perspectives relevant to cross-border Sukuk issuance:
 - i) Local issuer issuing USD Sukuk
 - Transaction based in Reg-S
 - Issuer would expect to tap the investor in different parts of the Reg-S world ie Malaysia, Singapore, Hong Kong, Middle East etc
 - The challenge is how much of this new liquidity would come from pure Islamic investors?
 - ii) Foreign issuers issuing MYR issuance
 - SC has made it fairly easy for these types of investors, however, there are still not as many issuers as expected
- The role of Credit Guarantee and Investment Facility:
 - Promoting cross border issuance by providing guarantees
 - Facilitate portfolio diversification of investors' portfolios
 - ASEAN bond markets are very different between different jurisdictions. In some market, retail investors are dominant over the institutional investors and vice-versa. Although CGIF seeks to provide solution to most of the issues, it does not have the capacity to address all issues.
- Islamic Finance has been promoting itself as the ethical way of financing. Nevertheless, Islamic Finance has to appeal to what investors and markets want from a particular type of products or investment strategy.
- For Islamic Finance, timing and the way a transaction is 'pitched' to investors could affect the pricing of Sukuk issuances.
- Islamic Finance need to get in new issuers especially from other jurisdictions than Malaysia and the GCC, in order for it to grow further.

Key Discussion Points - Session 5: The Policymakers' Perspective

Dr Eli M Romolona

Chief Representative for Asia and the Pacific, Bank for International Settlements

Diwa C. Guinigundo

Deputy Governor, Bangko Sentral ng Pilipinas

Pongpen Ruengvirayudh

Deputy Governor (Monetary Stability), Bank of Thailand

Ng Yao Loong

Executive Director, Markets Policy & Infrastructure Department, Monetary Authority of Singapore

Session 5: 'The Policymakers' Perspective' is aimed to discuss the development of the regional fixed income market from the region's policymakers' perspectives. The session started with a presentation by Dr Eli Romolona, followed by presentations by Mr Diwa Guinigundo and Madam Pongpen Reungvirayudh and moved to a panel discussion before ended with a Q&A session. The main points of the presentations, panel discussion and Q&A are outlined below.

Presentation by Dr Eli Romolona

- ASEAN government bond markets in the region are more developed than the corporate bond markets. This is applicable mainly to bigger ASEAN markets like Singapore, Malaysia and Thailand.
- Smaller ASEAN markets like Vietnam, Laos and Cambodia's priority is to develop their basic banking system. Hence, bond markets in these countries need not be developed for the time being.
- The normal practice currently, corporate bond issuances in the region were issued with guarantee. This makes it look like a government bond issuance, with relatively low risks.
- Dr Eli suggested issuance of bonds that does not involve guarantee, hence, credit risk assessment, trading and pricing is determined by market forces. This will promote competitive behaviour amongst the corporate issuers.

- Dr Eli also stressed on the wrong presumption the market players have on the idea that the development of corporate bond market will follow the development of the government bond market.
- Corporate bond issuances, even though with guarantee, are generally small in size as compared to government bond issuances. Dr Eli made a comparison between these two categories using the terminology of 'tuk-tuk' (referring to small size but many issuances of corporate bonds) vs 'Hyundai' (making reference to bigger size issuances of government bonds).
- In order for ASEAN to successfully have a regional capital market, mutual recognition in terms of regulatory standards and practices need to be inherent in all member countries.
- Dr Eli also highlighted that for ASEAN to develop a regional dealer network, disclosure standards and eligibility criteria for intra-regional cross border issuances must exist for market confidence and transparency.

Presentation by Mr Diwa Guinigundo

- Mr Diwa outlined the reason the Bangko Sentral ng Pilipinas are having inherent interest in the development of capital market in ASEAN. They are:
 - ♦ Corporate leverage
 - ♦ Non-bank source of credit (i.e. shadow banking)
 - ♦ Impact of large capital flows (reversal flows)
 - ♦ Financial crisis management
 - ♦ Reforms in the capital market
- In general, Mr Diwa stated the reason why central banks are interested in the development of capital markets
 - ♦ Banks are the biggest players in capital markets
 - ♦ Concerns over payment and settlement
- Mr Diwa then elaborated to the audience two major topics which are 'Regional Policy-making agenda' and 'Financial Regulation in Global Market';
- Regional policy-making agenda
 - ♦ Where do bond market sit

- Issuer base
 - Asian bond market is still dominated by government bonds.
 - The reason for this is that budget deficit was high in recent years. Government issues bonds as part of its debt management program to avoid the effects of bunching of maturities.
 - Issuance of additional debt as a fiscal policy tool to affect monetary tightening in the market to complement the monetary policy
 - Bond markets in ASEAN have been growing significantly due to pull factor, push factor, timing and supply factor.
- Investor profile
 - Asian still has a narrow investor profile
 - This led to high interdependencies between investors and issuers which is unhealthy for the market in the long run
- Financial intermediaries
 - Shifting patterns in ASEAN financial intermediaries
 - The dominant position of domestic credit has been overtaken by equity financing
 - Global regulations like Basel III restrict banks to issue bonds
 - Regulators across Asia have encouraged issuance of global debt to stimulate the use of bond market
- ♦ What are the agenda for the future
 - Mitigating financing and rollover risks
 - Asian corporate bond markets have been dominated by bonds denominated in local currency
 - However, foreign currency issuance is increasing
 - Short term maturities of corporate securities remain elevated
 - Limited liquidity incorporating bond markets
 - Average issue size is relatively small
 - Skewed distribution towards qualified institutional investors, which characterized by a 'buy-and-hold to maturity' behaviour
 - Limited market making activities
 - Lack of opportune investment outlets for investors

- Developing the bond market in the future remains a work in progress.
Future bank growth will be driven by 3 things:
 - Infrastructure financing
 - Cross-border expansion
 - General economic growth
 - The growth of the real market remains to be the natural impetus to the development of the bond market
- Financial regulation in global market
 - ♦ The higher order agenda of international reforms
 - Reform should not be mandatory to all ASEAN countries, owing to the fact that some countries were affected more by the global financial crisis than others
 - Discretion at national regulators to set domestic guidelines
 - The reform agenda should not replace the long standing banking supervision issues and risks identified by the national regulators which can create system-wide dislocations if not properly managed
 - The nexus between monetary stability and financial stability need to be supervised, not only in times of conflict.
 - ♦ How do regulatory authorities manage those reforms
 - Reforms require modifications to what is currently practiced
 - This will affect:
 - Information requirements
 - Manpower requirements
 - Co-ordination requirements

Presentation by Madam Pongpen Reungvirayudh

- Asian Bond Market Development
 - ♦ Asian bond markets have grown from 12% to 50% of GDP from 1997
 - ♦ Two-third of bond issuances in domestic market is dominated by government bond

- Some big corporations that are bigger than the banks are having trouble to get funding
- ♦ How can central bank help:
 - Accept corporate bond as collateral in open market operation
 - This would be an incentive for banks to turn into central banks for additional funding (i.e. repo)
- Challenges and Opportunities Going Forward
 - ♦ Change in financial landscape
 - Big demands for bonds of developing economies
 - Two-third of global savings will be coming from developing countries in 2013 (World Bank)
 - The challenge is to channel these large savings to support the developing economy in its growth
 - Issue of financial intermediaries
 - ♦ Ageing society
 - More demand for long term investment
 - Insurance and asset management industries could do more to offer new products
 - ♦ Regional integration
 - More mutual recognition of each other's regulations, standards and practices
 - ♦ Financial literacy – especially with regards to innovation in response to new world standards and regulations
 - Basel III reforms
 - Convertible bonds
 - The timing of these bonds to be converted into equity
 - Increases in LCR and NSFR would limit banks to do lending
 - Hence, the market must not rely too much on banks for credit, development of corporate bond market is imperative
 - ♦ The ASEAN region will have a further growth in infrastructure projects

- World Bank projected the composition of loans to bonds in the region would change from 70:30 now to 40:60 in 2022.
- ♦ How to develop the bond market
 - Look into using more repo
 - Banks to have corporate bonds as collateral
 - Ministry of Finance
 - Introduce variety of new products
 - Basel III bonds
 - Amortizing bonds
 - Perpetual bonds
 - Covered bonds
 - To allow banks to issue
 - Corporate bond market to be given extra attention

Comments from Mr Ng Yao Loong

- Governance and Disclosure Standards
 - ♦ Capital market integration
 - Common prospectus disclosure standards – currently adopted by Thailand, Singapore and Malaysia
 - Collective investment schemes
 - Distribution of funds across participating jurisdictions
 - ♦ Underlying all these is the governance
 - Peer ranking
 - Cross jurisdiction ranking
 - Recognition of ASEAN as an asset class which securities passed certain criteria
- Linking up ASEAN
 - ♦ Creation of network of post trade settlement and depository clearing functions for bonds and equities
 - ♦ Development of hedging instruments (i.e. interest rate swap etc) to link member countries

- Access to simple investment products
 - ♦ Increasing retail investors participation (vs institutional investors)
 - ♦ Broadening investor base
 - ♦ To allow certain issuers (with good track record) to offer their existing bonds to retail investors, after certain stipulated period of offer to institutional investors, without having to issue a new prospectus and other hurdles.

Key Discussion Points - Session 6: Market Outlook 2015

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Ken Akintewe

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Yik Hui

Director Debt Capital Markets, Barclays

The final session of the conference brought together the issuer and investor sides of the market in a panel discussion on the future development of the fixed income universe in ASEAN. The expectations from both sides of the equation in speeding up the positive development of the regional bond market were discussed comprehensively. The conclusion of the Summit also summarized several key takeaways and what the market as a whole can further accomplish to ensure a more robust and interconnected ASEAN fixed income market becomes a reality.

- 2014 has been a record year of bond issuances in Asia. More and more investors were looking for diversification and this trend is expected to continue. On the other side of the equation, the issuers were also looking to diversify their investor base.
- In Asia, demand will come from 3 trends/sources:
 - ♦ In Region demand – fund manager, pension funds, insurer
 - ♦ Emerging market funds
 - ♦ Crossover funds – US, Japan, Europe investing into Asia
- In the short term (within 6 months), investors are being very cautious due to:
 - Rising interest rates environment
 - High intervention of central banks in the market
- In future, given the liquidity compression experienced by the market, yields are not expected to be as good as it was before 2015.
- Global investors understand Asia much better now than in the past.
 - This is reflected in the way the market is behaving
- Most products in Asia have been plain vanilla. Issuers would like to see more demand for exotic financial products that would deepen the market.

- How is the demand for issuance that comply the requirements of AT1 capital (under Basel accord) from the buyers' side?
 - Although this is something that the investors could consider, investors are being cautious as how the product would behave in the market. More research is required into it.
 - Further, investors have to also consider the liquidity issues; at the moment, they are putting their investments in the most liquid forms.
- ASEAN has strong fundamentals, but growth is still slow. One of the main reasons for this is that governments in the region are practicing high financial prudence.
- Characteristics of Australian bond market:
 - Very liquid
 - Priced efficiently
 - Numerous tools for managing risks
 - 80% in the market are foreign investors
- ASEAN countries must
 - Develop fully defined yield curves to make it more attractive and transparent to the global investors – Malaysia, Thailand and Singapore to be emulated
 - Focus on reducing withholding taxes to make the market more attractive to more investors, thereby, improving liquidity.

Summary of Closing Remarks

Chung Chee Leong

Chief Executive Officer, Cagamas Berhad

- The Deputy Governor of Bank Negara Malaysia, Dato' Muhammad bin Ibrahim in his opening remarks has outlined the need for a clear and shared vision of the ASEAN fixed income market.
- We heard the key note speech presented by Madam Zhu Yanlai from the perspective of China market on the Internationalization of Renminbi and how receptive the region has become to investing in local currency bonds issued from neighbouring nations.
- From a perspective of a regulator, Dato' Nik Ramlah in her keynote address, has touched on the need for holistic framework to promote and accelerate the development of bond market. A centralized electronic platform is imperative to increase market efficiency by expediting the price discovery process.
- Many insightful comments from policymakers, issuers, investors and bankers on the development of the financial markets and the overall financial system, ranging from the issue of financial liberalization to financial inclusion and financial stability. These issues were discussed with at length in the context of the ASEAN financial system.
- Several speakers have highlighted the importance of mutual recognition for local rating agencies amongst ASEAN member countries.
- They also highlighted that ASEAN has the ability to be self-sufficient and should not rely on foreign funding given the region's high savings and large FX reserves.
- ASEAN countries have strong fundamentals and given its high growth stage, the region could become the preferred destination for global investors to invest.
- I wish to echo what Deputy Governor Muhammad Ibrahim said in his opening address to have this ASEAN Fixed Income Summit as an annual event, the host to be rotated among the ASEAN member countries.
- We hope the summit will contribute to the development of the cross border bond market in Asia as we strive to overcome many challenges in the years to come.