



ABMI Medium-term Road Map for 2023 to 2026

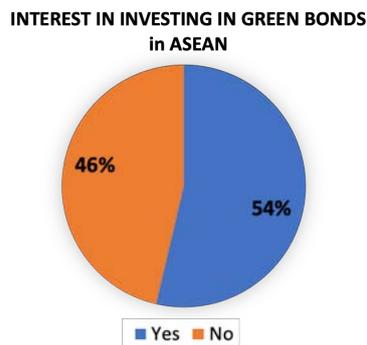
- Beyond bond market development: ABMI 2.0 -

1. Based on *the Achievements and Assessment of the ASEAN+3 Asian Bond Markets Initiative (ABMI)*, the following five pillars are considered for the next medium-term road map 2023-2026.¹ As described in the Assessment, the desirable activities for the medium-term road map may go beyond the support for bond market development. Deepening regional financial cooperation and promoting the recycling of funds under the new emerging trends such as digitalization and sustainable finance requires strategic approaches; thus, the regional initiatives and support under the new road map may go beyond bond market development.

Pillar 1: Promoting sustainable finance regionally.

2. The development of sustainable finance would enhance the recycling of funds within ASEAN+3 as investors' preference is shifting from country risk to climate risk. According to the survey conducted by Asian Development Bank (ADB), more than half of the Japanese survey respondents will consider investing in green bonds issued in ASEAN.² Previously, Japanese investors' appetite for ASEAN bonds was low due to country and credit risk and their lack of investment mandate. But as they need to find investment opportunities for green bonds, they are becoming more interested in investing in ASEAN. Likewise, a similar tendency can be observed in other ASEAN+3 economies.

Figure 1: Investors' Appetite for Green Bonds



Source: ADB survey

¹ ASEAN+3 consists of the Association of Southeast Asian Nations (ASEAN) plus the People's Republic of China (PRC), Japan, and the Republic of Korea.

² Asian Development Bank. 2022. *Green Bond Market Survey for Japan*.

<https://asianbondsonline.adb.org/green-bonds/pdf/green-bond-market-survey-japan.pdf>

3. We continue to support green, social, and sustainability bonds to cope with climate change and achieve sustainable development goals (SDGs). In addition, we may need to expand the scope of ABMI to the banking sector because, in Asia, banks can potentially be good issuers as they can structure their assets along with well-established ESG guidelines. To create pilot green, social, and sustainable bonds and finance, Task Force 1 will expand the support to the activities related to creating an enabling ecosystem for sustainable finance and helping pilot issuances.

4. One of the challenges to promoting sustainable finance is a lack of sufficient data. Green bond issuers need to demonstrate and explain the effectiveness and climate impact of their investments and activities financed by the bond issuance. Desirably, they can provide effectiveness and impact of the finance numerically. However, they may not have enough datasets to calculate the effectiveness and impact. Investors need to understand whether their investments are properly managed and effectively utilized. In addition, the increasing attention to greenwashing and corresponding regulatory enforcement risk reinforce the need for better data. Thus, they may want to trace the fund utilization and monitor the activities of the bond issuers continuously, though it is not easy at this stage. It would be necessary to identify key datasets to be disclosed and set rules for the disclosure. To this end, Task Force 2 will support sustainable finance through data gathering and benchmarking analyses to evaluate the impact of sustainable finance. It will support investors' decisions for further investments.

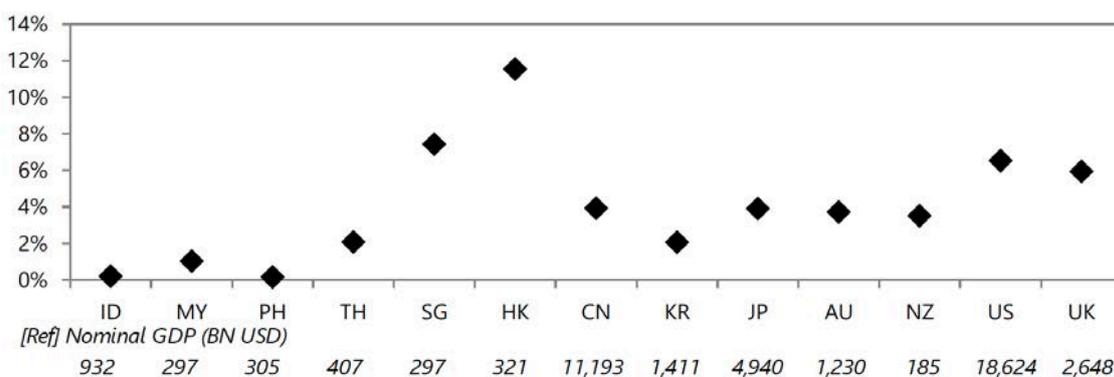
Pillar 2: Improving regulatory and market framework and creating a better foundation for cross-border transactions

5. ABMI, particularly, the ASEAN+3 Bond Market Forum (ABMF) has been working as an effective platform to discuss legal and regulatory issues among the public and private sector experts and promote standardization regionally. We will continue to promote the ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) as an enabler to standardize the bond issuance process and documentation regionally.³ Besides, AMBIF can support sustainable bond market development since it ensures continuous disclosure at the authorized listing place or registration place; hence, it will support proper disclosure by bond issuers and investors' monitoring for more transparent sustainable bond market development.

³ ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) aims to connect and standardize the region's local currency bond markets by promoting the establishment of professional-investors-only markets and standardization of documentation and bond issuance processes. AMBIF promotes cross-border issuance and investments.

6. To support the development of onshore FX hedging markets, it is necessary to support the development of a more liquid interbank market; thus, it will help create a smoother yield curve. According to the report by the Executives' Meeting of East Asia-Pacific Central Banks, or EMEAP (2018), low liquidity in the money market, particularly in local currency transactions, may be a source of low transactions in interest rate swaps, which prevents the creation of efficient FX and cross-currency swap market.⁴ The study on money markets will be conducted under ABMF.

Figure 2: Money Market Daily Turnover as a % GDP in 2016



Source: EMEAP. 2018. EMEAP Money Markets Survey Report

Pillar 3: Promoting digital transformation to integrate the ASEAN+3 financial markets

7. Standardization serves as the basis of digital transformation because the differences in data create complexity and additional costs, especially for cross-border transactions. It is necessary to consider implementing international standards or creating regional standards if there are no global standards. The promotion of standardization including technical, legal, and operational standards, remains an important objective of ABMF. ABMF should continue its efforts to promote standardization to ensure interoperability and deeper regional financial linkages. The use of technology for more efficient and effective regulatory compliance, which is referred to as RegTech, and the use of technology to improve regulatory enforcement and supervisory capability, which is referred to as SupTech, should be promoted regionally. These will reduce regulatory burden and facilitate cross-border transactions while ensuring effective regulatory

⁴ EMEAP Working Group on Financial Markets. 2018. *EMEAP Financial Markets*. <https://www.emeap.org/wp-content/uploads/2018/08/EMEAP-Money-Markets.pdf>

monitoring of cross-border transactions.

8. The use of emerging new financial technologies such as distributed ledger technology (DLT) and blockchain may change existing financial operations and landscape. In this regard, ABMF can provide a place for discussion with the private sector. It would be desirable to consider promoting digital transformation regionally to create more opportunities for new financial products and enhance cross-border financial transactions.⁵

Pillar 4: Promoting LCY liquidity provision to mitigate risk in cross-border transactions

9. Over-reliance on the USD for cross-border financial transactions may create a vulnerability because the region cannot create liquidity. As the region continues to be more integrated economically and financially, it would be desirable to shift some of the intraregional transactions to be settled on the same day as the region stays in almost the same time zone. However, as long as intraregional financial transactions are intermediated via the USD, it would not be easy to shorten the settlement cycle because the USD transactions need to be eventually settled through the United States, which is in the opposite time zone of ASEAN+3. Although the financial market infrastructures may shift to 24/7 operations, the time zone difference in human operations would likely remain, thus, shortening the settlement cycle of the intraregional financial transactions to the same day would face a big challenge if USD continues to intermediate local currencies of ASEAN+3. In addition, the same-day USD liquidity in the region would be limited; hence, an unexpected shortage of USD liquidity due to various reasons including a potential cyber-attack and system troubles may cause a disruption of financial markets that would be transmitted to the other financial markets in the region since the markets are becoming more integrated. To mitigate the problem, it would be desirable to consider a local currency cross-border collateral arrangement (CBCA) to supplement the USD liquidity to mitigate market disruption.

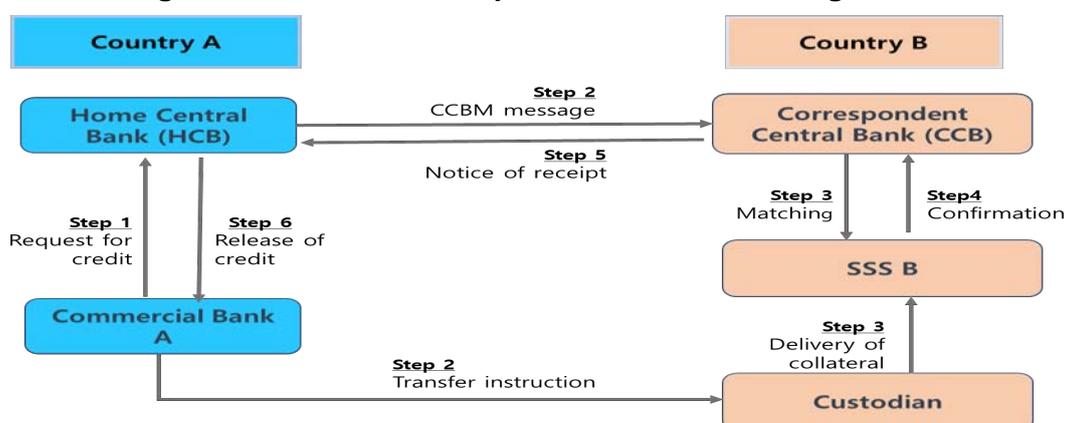
10. The Committee on Payments and Market Infrastructure (CPMI) (2022) also suggest that “Central bank liquidity bridges (CBLBs) can help reduce the cost of cross-border payments by allowing payment system participants to post collateral at a foreign

⁵ ADB has conducted the proof of concept (POC) to test DLT/Blockchain technology for cross-border delivery-versus-payment of local bonds by taking the CSD-RTGS Linkages as a model. The result of the POC will be published as a report in May 2023.

central bank to be able to draw on intraday liquidity from their home central bank.”⁶

11. Currently, the use of cross-border collateral arrangements by the central banks in ASEAN+3 is limited to an emergency.⁷ Thus, more routinely operationalized cross-border collateral arrangements such as the correspondent central banking model established by the European Central Bank may be considered (Figure 3). To this end, the Cross-Border Settlement Forum (CSIF) will conduct a study on collateral eligibility of the region’s local currency government bonds and discuss possible implementation of CBCA and CBLB.

Figure 3: Standard Correspondent Central Banking Model



Source: CPSS. 2006. *Cross-border collateral arrangements*.⁸

Pillar 5: Continued and more tailored support for LCY bond market development

12. As discussed in the Assessment of ABMI, most of the ASEAN+3 economies have succeeded in developing local currency bond markets. They could weather the negative impact of the COVID-19 pandemic by introducing various policy measures supported by local currency finance. However, there are some economies in the region which need further assistance. These economies require further assistance to recover

⁶ Committee on Payments and Market Infrastructure. 2022. *Central bank liquidity bridges for cross-border payments*. Basel. The paper suggests CBLB may be used to meet banks’ intraday payment obligations in both normal and stressed liquidity conditions, which is contrary to central bank swap lines that are generally used on a contingency basis. Thus, “CBLBs may help to lower their participants’ funding costs for intraday liquidity by reducing the need to overfund liquidity to meet their payment obligations with the aim of mitigating uncertainties about payment timing”.

⁷ Asian Development Bank. 2022. *Local Currency Collateral for Cross-Border Financial Transactions: Policy Recommendations from the Cross-Border Settlement Infrastructure Forum*. <https://www.adb.org/publications/local-currency-collateral-cross-border-financial-transactions>

⁸ Committee on Payments and Settlement Systems. 2006. *Cross-border collateral arrangements*. <https://www.bis.org/cpmi/publ/d71.htm>

from the pandemic, with more specific support to meet their economic fundamentals and situation. It is important for the region to ensure all the member economies establish well-functioning local currency bond markets. To this end, ABMI will continue to support these economies under the Technical Assistance Coordination Team (TACT) with a more tailored country-specific approach as the challenges of these economies are unique.

Annex: Proposed implementation schedules of ABMI

Task Force activities

Mid-term Road Map 2023 to 2026

Activities	Implementation Period	
	2023-2024	2025-2026
Task Force 1: Promoting Issuance of Local Currency-Denominated Bonds (People's republic of China, Thailand)		
1) Continue to expand CGIF-guaranteed bonds by collaborating with other entities including ADB		
– Focus on supporting inaugural issuances, tenor extensions, and cross-border issuances remain (Pillar 5)	√	√
– Further diversify the portfolio by adding new currencies and new products	√	√
– Undertake self-originated transactions	√	√
– Support cross-border issuances in ASEAN+3 currencies for deals with high developmental impact (Pillar 2, 4)	√	√
2) Support the development of local currency sustainable finance		
– Provide advisory support to increase the supply of sustainable finance (Pillar 1)	√	√
– Provide Knowledge support for policymakers and relevant stakeholders (Pillar 1)	√	√
– Collaborate with other TFs to support the development of local currency sustainable finance (Pillar 1, 5)	√	√
– Develop green and/or blue project catalogues for financial institutions (Pillar 1)		√

Issues to be addressed	Implementation Period	
	2023-2024	2025-2026
Task Force 2: Facilitating the demand for Local-Currency-Denominated Bonds (Japan, Singapore)		
Continue to disseminate information on LCY bond markets through AsianBondsOnline (ABO) and Annual Bond Markets Summit		
– Further improve ABO to make it more user friendly (Pillar 1, 2, 3, 4, 5)		√
– Add sustainable finance-related data for dissemination (Pillar 1)		√
– Collaborate with other TFs to support the development of local currency sustainable finance (Pillar 1, 2, 3, 5)	√	√
– Conduct benchmarking analyses for modeling sustainable impact to support sustainable finance development (Pillar 1)	√	√

Task Force 3: Strengthening Regulatory Framework (Japan, Malaysia,)		
Promote standardization and harmonization of regulations and market practices		
– Promote ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) to standardize the local currency bond markets issuance process together with CGIF (Pillar 2)	√	√
– Promote professional investors-only bond market concept to expand AMBIF markets (Pillar 2)	√	√
– Update Bond Market Guides and publish the ABMF Brief series to support standardization (Pillar 2)	√	√
– Promote standardization of FX-related regulatory reporting to improve FX monitoring capacity and reduce regulatory burden (Pillar 2)	√	
– Conduct a study on the interbank money markets in the region to develop interest rate swap markets; hence, develop onshore FX-hedging markets (Pillar 2)		√
– Promote digital transformation and conduct a study of emerging technologies to be applicable to the markets (Pillar3)		√
– Collaborate with other TFs to support the development of local currency sustainable finance (Pillar 1)	√	√
– Support the TACT to provide tailored support to the member economies (Pillar 5)	√	√

Issues to be addressed	Implementation Period	
	2023-2024	2025-2026
Task Force 4: Improving Related Infrastructure for Bond Markets (Republic of Korea, Philippines)		
Promote CSD-RTGS linkages among central banks and CSDs to promote cross-border transactions (Pillar 4)		
– Conduct a study on collateral eligibility of the region's local currency government bonds and discuss the possible implementation of CBCA and CBLB (Pillar 4)	√	√

TACT: Technical Assistance and Coordination Team (Brunei Darussalam, Lao People's Democratic Republic, Viet Nam)		
Continue with technical assistances (TA) to strengthen market foundations and address constraints to bond market development in selected member countries (Pillar 5)		
– ASEC continues facilitating the need of ASEAN Member States (AMS) for technical assistance and training workshops, as well as capacity building programs to further develop and improve their bond markets. (Pillar 5)	√	√
– ASEC and ADB will enhance coordination to increase the effectiveness of technical assistance for a more tailored approach (Pillar 5)	√	√