

**The Joint Ministerial Statement
Of the 11th ASEAN+3 Finance Ministers' Meeting
4 May 2008, Madrid, Spain**

Introduction

1. We, the Finance Ministers of ASEAN, China, Japan and Korea (ASEAN+3), convened our eleventh meeting in Madrid, Spain, under the co-chairmanship of H.E. Vu Van Ninh, Minister of Finance of the Socialist Republic of Vietnam and H.E. Fukushiro Nukaga, Minister of Finance of Japan.
2. We exchanged views on regional economic and financial developments and policies. We also reviewed the progress of regional financial cooperation processes, including the Chiang Mai Initiative Multilateralisation, the Asian Bond Markets Initiative (ABMI), and the ASEAN+3 Research Group. We also explored ways to further enhance these initiatives.

Recent Economic and Financial Developments in the Region

3. The global economy faces a challenging period. While we remain positive about the long-term resilience of the global economy, the short-term economic prospects have weakened. Risks to the outlook come from the still unfolding events in financial markets, the potential worsening of housing and credit cycles, and inflationary pressures driven by high energy and food prices.
4. The regional economy has continued its strong growth and is forecasted to remain robust although somewhat weaker. On the other hand, we are facing risks such as further worsening of the growth prospects, vulnerability of financial markets, and continued inflationary pressure. We confirmed the importance of taking actions to ensure that economic activity continues at a sustained pace through balancing policies to deal with these risks. We also committed to accelerate and deepen structural reforms to support sustainable economic growth in the region.
5. Such recent economic developments remind us of the strong interaction between vulnerability of financial markets and the macro-economic situation. The countries in the Asian region have recorded strong growth by deepening intraregional trade of goods and services. The financial markets in Asia have become more interdependent with increasing cross-border financial transactions. In this context, we recognize the need in the region to enhance communication among authorities responsible for macroeconomic policies and financial supervision.

Strengthening East Asian Financial Cooperation

-Chiang Mai Initiative-

6. On the **Chiang Mai Initiative Multilateralisation (CMIM)**, we reiterated our commitment to maintain the two core objectives of the CMI: (i) to address short-term liquidity difficulties in the region and (ii) to supplement the existing international financial arrangements. We have been carrying out work on the key elements of the CMIM since our last Meeting in Kyoto.
7. We agreed on the importance of strengthening the robust surveillance mechanism since it is indispensable to build a credible system in ASEAN+3 to monitor the economic and financial situation of member countries. Therefore, we agreed to implement measures to strengthen the current Economic Review and Policy Dialogue (ERPD), such as increasing the frequency of the dialogues and developing a format for the provision of necessary information and data.
8. We also agreed that the total size of the CMIM would be US\$ XX billion, and that the proportion of the amount of contribution between the ASEAN and the Plus Three countries would be "YY:ZZ". We further agreed on key concepts of the borrowing accessibility, the

activation mechanism and other elements listed in Annex1. Upon a request to borrow from a member country in the scheme of the CMIM, the member countries will make the decision to lend. In order to ensure a smooth and efficient decision making, the analysis and information of the International Financial Institutions (IFIs) on the economic and financial situation of the requesting country would be utilized. Based on the progress made thus far on the key elements of the CMIM, we committed to further accelerate our work in order to reach consensus on all of the elements of the CMIM.

-Asian Bond Markets Initiative-

9. We endorsed the **New ABMI Roadmap** (Annex 2). Along with the efforts and progress made under the ABMI since 2003, the Asian bond markets have recorded remarkable growth in terms of size and diversity of issuers. Toward further development of Asian bond markets, this New Roadmap shows our renewed strong commitment to the ABMI on the occasion of its fifth anniversary.
10. First, the new ABMI Roadmap focuses on the four key areas: (1) promoting issuance of local currency-denominated bonds (e.g. infrastructure financing), (2) facilitating the demand of local currency-denominated bonds (e.g. development of the investment environment for institutional investors), (3) improving regulatory framework (e.g. regulatory harmonization by applying best practices), and (4) improving related infrastructure for the bond markets (e.g. infrastructure for securities settlement).
11. Second, new mechanism will be built in to encourage voluntary efforts by member countries, which are the key to the success of the ABMI. Each country will make periodic self-assessments of its progress. Benchmarks for this purpose will be introduced as “references for self-assessment”.
12. Third, we will promote the public awareness for the ABMI. The cooperation with the private sector is essential for the development of bond markets. In this sense, we welcomed the launch of a group consisting of private sector participants to discuss the cross-border bond transactions and settlement issues. This is the first major step of outreach to the private sector.

-Others-

13. On the **ASEAN+3 Research Group**, we appreciated the various studies made by the Research Group on relevant topics including financial integration and capital market development in the region. We endorsed three study topics for 2008/09 Research Group activities: (i) “Development of Corporate Credit Information Database and Credit Guarantee System” , (ii) “The Trend of Trade, Foreign Direct Investment, and Monetary Flows in East Asia, and its Policy Implication”, and (iii) “New Financial Products and their Impact on the Asian Financial Markets”.
14. We also welcomed the various efforts made by the **Technical Working Group on Economic and Financial Monitoring (ETWG)** and the **Group of Experts (GOE)** to strengthen regional surveillance capacity, which includes developing a format for the provision of necessary information and data.

Conclusion

15. We expressed our appreciation to the governments of the Socialist Republic of Vietnam and Japan for their excellent arrangements as co-chairs of the ASEAN+3 Finance Ministers’ Process in 2008. We also thanked the government of Spain for its hospitality and kind cooperation.
16. We agreed to meet in Bali, Indonesia, in 2009. The Kingdom of Thailand and the Republic of Korea will be co-chairs of the ASEAN+3 Finance Ministers’ Process in 2009.

Basic Agreement on the Key Elements of the CMI Multilateralisation

We agreed upon the key elements of the CMI Multilateralisation (CMIM) as follows, bearing in mind that all of elements of the CMIM are closely interrelated.

1. Basic modality

Based on the understanding that the core objectives of the CMIM are to make existing bilateral contracts among the member countries into a single contract, and to address short-term liquidity difficulties in the region through financial market transaction, we reconfirmed that the necessary liquidity would be provided to the requesting country in the form of a swap transaction of U.S. dollars and the local currency of the requesting country.

2. Size

We agreed that the size would be US\$ XX billion.

3. Amount of Contribution

We agreed that the proportion of the amount of contribution between the ASEAN and the Plus Three countries would be “YY:ZZ”.

4. Borrowing Accessibility

We agreed that each member country would have access to resources up to a multiple of its contribution. We also agreed that different multiples would be adopted for the ASEAN and the Plus Three countries respectively.

5. Activation Mechanism

We have reached a basic consensus on the key concepts and the flow of the activation mechanism.

6. Decision-making Rules

As a decision making method, we agreed that “consensus base” and “majority base” would be applied in accordance with the importance of the matter.

7. Surveillance

On strengthening surveillance, we agreed to implement measures to strengthen the current Economic Review and Policy Dialogue (ERPD), such as increasing the frequency of the ERPD meetings and developing a format for the provision of necessary information and data. In order to ensure a smooth and efficient decision making by the member countries, the analysis and information of the International Financial Institutions (IFIs) on the economic and financial situation of the requesting country would be utilized.

8. Other elements

We agreed on other various elements, including the terms of lending (interest rate and maturity would be the same conditions as those of the current CMI.).

9. Elements to be discussed

We agreed to further elaborate the remaining issues related to the key elements mentioned above and discuss other elements such as:

- Concrete conditions eligible for borrowing.
- Contents of covenants specified in borrowing agreements.

New ABMI Roadmap

I. Overview of the efforts made under the current ABMI

1. The current ABMI has been addressing four main issues: (1) Creation of new securitised debt instruments, (2) Credit guarantee and investment mechanisms, (3) Foreign exchange transaction and settlement, and (4) Rating systems. And each activity has made progress as shown in the previous Joint Ministerial Statements of the ASEAN+3 Finance Ministers Meetings.
2. Under the ABMI, significant issuance cases of local currency denominated bonds have been made by various parties including the international financial institutions (IFIs) and multinational corporations (MNCs). The issuances by these institutions are of particular importance, especially because they have brought into local currency-denominated bond markets the issuance standards and the role model for disclosure and documentation according to the international best practices, which set a precedent for other issuers to follow. Bilateral institutions have also contributed to such issuances.
3. In addition, the ASEAN+3 member countries have made its own reform efforts and progress, stimulated through dialogues and discussions under the ABMI. Such efforts range from unifying issuing authorities for government bonds and simplifying corporate bond issuance procedure to stimulate securitisation, to removing the barrier for bond issuance by domestic and foreign entities.
4. Reflecting these efforts and progress made since the endorsement of this initiative in 2003, the size to reach 2.8 times as large as that of the end of 2002, Asian local currency-denominated bond markets have achieved remarkable growth in terms of size and diversity of issuers.
5. However, we, the ABMI member countries, must bear in mind that the development of liquid and well-functioning regional bond markets, that can effectively channel regional abundant savings to the regional strong investment needs, requires perpetual efforts and that these efforts should prove seamless progress. From this viewpoint, if we overview the past activities in a critical way, we could find following shortcomings: (i) slow implementation with little tangible results observed in some projects, (ii) lack of coordination among working groups, (iii) overlapping of the roles of the Ad-hoc Support Team for the Focal Group and Focal Group. Taking these shortcomings into consideration, it is essential to examine in a comprehensive manner the issues we must address in the short and mid-term, going beyond the current focalised and localised activities and well taking into account the remaining constraints. And we need to elaborate the necessity of streamlining the ABMI's operating procedures to ensure tangible outcomes.

II. New ABMI Roadmap

[Objective]

6. The objective of this new comprehensive ABMI Roadmap (See the Attachment 1) is for

member countries to: (i) make a voluntary effort on pursuing the development of local currency-denominated bond markets, and through such effort of each member country and a concerted effort of all member countries, (ii) seek to develop more accessible regional bond market both for issuers and investors in a concerted manner.

7. This Roadmap includes various issues to be addressed that are categorised into four key areas:
 - (i) Promoting Issuance of Local Currency-Denominated Bonds (supply-side),
 - (ii) Facilitating the Demand of Local Currency-Denominated Bonds (demand-side),
 - (iii) Improving Regulatory Framework,
 - (iv) Improving Related Infrastructure for the Bond Markets.
8. Five years have past since we agreed to launch the ABMI. This Roadmap is expected to give refreshed momentum and perspective to its activities and will also serve as a navigator for the self and voluntary efforts of the member countries.

[Operating principles]

9. To achieve the above-mentioned objective, the focus should be given to produce tangible and practical outcomes, rather than ambitious but less feasible ones. In addition, we should identify what institutions are deficient in the region, devise solutions to improve the situation and finally implement the solutions through concerted efforts of the ABMI.
10. The Roadmap covers broad issues and they must be addressed in order. The ongoing activities should be steadily implemented without delay aiming at tangible results. Then, we should address the issues of which various positive results are expected for the development of the bond markets as a whole.
11. Based on this principle, the issues are classified into three tiers, as shown in the Attachment 1. The attached tentative classification into three tiers will be finalized by each Task Force (See Paragraph 13) after its establishment and be endorsed by the Steering Group (See Paragraph 14). The Roadmap would be reviewed each year and new initiatives could be added, if necessary.
12. It is also crucial to ensure voluntary efforts of member countries in developing their local currency-denominated bond markets. The development of local currency-denominated bond markets is crucially important in the efforts of promoting the regional bond market. In this regards, it should be sought to develop “references for self-assessment”, which will serve as a benchmark for the member countries. It does not mean to make it compulsory for each member country to attain to the benchmark, but just aims at promoting their voluntary effort. Each member country should periodically report, as a part of the current Self-Assessment process, its effort and progress made on the respect of these references. Through this reporting process, it is expected that each member country is more motivated, through a kind of peer pressure, to make voluntary efforts on the constraints on local currency-denominated and regional bond market development. In addition, member countries could better share their information and experiences, thus smoothing better regional cooperation. Such effort is expected to contribute to achieving the above-mentioned objective, pursuing the development of local currency-denominated bond markets and seeking to concerted development of

more accessible regional bond market both for issuers and investors.

[Organizational Structure]¹

13. To realize the above-mentioned objective, the current Working Groups will be arranged into four new Task Forces in line with above-mentioned four key areas:

Task Force 1: “Promoting Issuance of Local Currency-Denominated Bonds”,

Task Force 2: “Facilitating the Demand of Local Currency-Denominated Bonds”,

Task Force 3: “Improving Regulatory Framework”,

Task Force 4: “Improving Related Infrastructure for the Bond Markets”.

Each Task Force will pursue its activities both for the purpose of research and execution of recommendation. Therefore, the result-based orientation must be the core principle for all Task Forces’ activities. The Task Forces will also ensure the continuation and transformation of current ABMI activities in a concrete manner.

14. A “Steering Group” will be newly established, which takes over the roles of both ASTFG and FG, with more practical and efficient working and powerful decision-making. The main missions of Steering Group are as follows:

- a. To set, review and revise a comprehensive ABMI Roadmap as a whole.
- b. To oversee and provide guidance to the activities of the Task Forces, TACT and Working Team (See the following e. and Paragraph 15.) from a cross cutting standpoint.
- c. To set up a strategy to promote the public awareness for the ABMI.
- d. To monitor the progress and practicability of the studies made by Task Forces.
- e. To assign a task to an appropriate Task Force or create, if necessary, a Working Team.
- f. To promote information exchange among member countries on the local currency-denominated and regional bond market development through a self-assessment process.

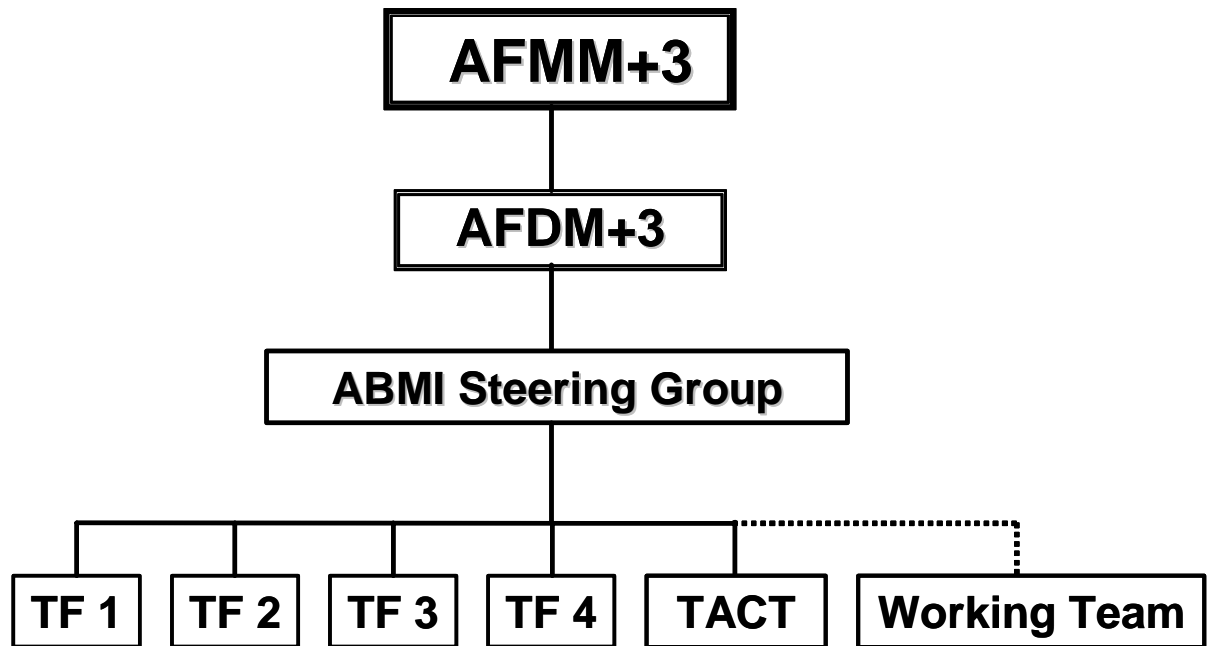
The TOR of the Steering Group will be appeared in the Attachment 2.

In order to ensure that the Steering Group works more effectively and efficiently, there should be a good communication and operation mechanism. In this regard, co-chair countries of the Steering Group and chair or co-chair countries of the Task Forces should communicate and cooperate closely.

15. The above-mentioned Working Team for execution will be set up once a general direction on institution/mechanism design is decided. It consists of some member countries which are interested in the Working Team. It has a fixed timeline, a sunset clause and other clauses specified by the Steering Group.
16. The TACT will subsist, given the importance of technical assistance in order to lessen the disparity of bond market development and enable better cooperation of member countries.

¹ The Co-chairs of the Steering Group will take the same rotation as that for the current ABMI Focal Group. As for newly established Task Forces and Working Team, the chairmanship mechanism including designation of chair or co-chairs will be discussed by the Steering Group after the endorsement of this Roadmap by the Ministers.

New Structure of the ABMI



- Under the new structure of the ABMI, ADB is expected to continue to contribute to the Steering Group, Task Forces, Working Team and Technical Assistance Coordination Team by utilizing its expertise.

New ABMI Roadmap

Issues to be addressed	Order (note)		
	First	Second	Third
<u>Task Force 1: Promoting Issuance of Local Currency-Denominated Bonds (supply-side)</u>			
1) Credit guarantee and investment mechanism	✓		
2) Promotion of Asian Currency Note Programme	✓		
3) Promoting issuance of structured finance instruments			
a) Debt instruments for infrastructure financing	✓		
b) Securitized instruments	✓		
c) Regional basket currency bonds			✓
4) Development of derivative and swap markets		✓	
<u>Task Force 2: Facilitating the demand of Local Currency-Denominated Bonds (demand-side)</u>			
1) Development of investment environment for institutional investors including private pension systems, mutual funds, collective investment scheme and insurance companies	✓		
2) Development of repo markets		✓	
3) Enhancing cross-border transactions			
a) Regulations on capital movement and foreign exchange transactions			✓
b) Taxation system for nonresidents (e.g. transaction tax, withholding tax and tax on capital gain)			✓
4) Disseminating the efforts under the ABMI to institutional investors in the ASEAN+3 countries (e.g. through roadshow, conference, update of bond market situation of each country and Asian Bond Online website)	✓		
<u>Task Force 3: Improving Regulatory Framework</u>			
1) Strengthening regulatory and supervisory framework for securities			
a) Promoting application of the IOSCO principles for securities regulations	✓		
b) Development of the listing and disclosure rules		✓	
c) Capacity building for regulators/supervisors		✓	
2) Facilitating collaboration among self-regulatory organizations in the region (including facilitating establishment of such organizations, if necessary)			
a) Promoting cooperation among regulatory/supervisory authorities		✓	
b) Achieving harmonization by applying the international best practices in the region (related to the present study “Asian Bond Standards”)	✓		
3) Improving bankruptcy procedures related to bond transaction		✓	

Issues to be addressed	Order (note)		
	First	Second	Third
4) Promoting application of accounting and auditing standards broadly consistent with international standards			✓
<u>Task Force 4: Improving Related Infrastructure for the Bond Markets</u>			
1) Infrastructure for securities settlement			
a) Promoting application of the CPSS/IOSCO recommendations for securities settlement systems	✓		
b) Facilitating discussion by private sector participants on desirable regional settlement systems (including activities under the Group of Experts)	✓		
2) Increasing liquidity of bond markets			
a) Improving trading platform		✓	
b) Disseminating and enhancing a primary dealer system for the government bonds		✓	
c) Developing and maintaining a benchmark yield curve		✓	
d) Developing/Enhancing information dissemination system for secondary bond markets (including the possibility of utilizing of self-regulatory organizations)			✓
3) Fostering credit culture			
a) Assessing the existing data related to regional currency bond markets and development of, if necessary, such data		✓	
b) Development of a credit risk database		✓	
c) Enhancing the credibility and visibility of local credit rating agencies			✓
4) Developing the professional services such as financial analysts		✓	

(note) The order will be finalized by each Task Force after its establishment and be endorsed by the Steering Group.

Terms of Reference of the ABMI Steering Group

I. Statement of Purpose

Through five-year continuous efforts, the ASEAN+3 member countries recognize the necessity of a new framework to make the ABMI more effective and efficient toward the development of the bond markets in the ASEAN+3 region. From this viewpoint, the ABMI Steering Group is hereby established.

II. Role

The Steering Group will take over the role of the ASTFG and FG, and will also have the followings as its missions:

- a. To set, review and revise a comprehensive ABMI roadmap as a whole.
- b. To oversee and provide guidance to the activities of the Task Forces, TACT and Working Team from a cross cutting standpoint.
- c. To set up a strategy to promote the public awareness for the ABMI.
- d. To monitor the progress and practicability of the studies made by Task Forces.
- e. To assign a task to an appropriate Task Force or create, if necessary, a Working Team.
- f. To promote information exchange among member countries on the local currency-denominated and regional bond market development through a self-assessment process.

In order to ensure that the Steering Group works more effectively and efficiently, there should be a good communication and operation mechanism. In this regard, co-chair countries of the Steering Group and chair/co-chair countries of the Task Forces should communicate and cooperate closely.

III. Membership

The Steering Group shall consist of the Deputies' deputies level (Deputy Director-General level) representatives of the respective ASEAN+3 member countries. The ASEAN Secretariat and ADB are also expected to participate in the discussion among member countries in order to provide it with assistance.

IV. Meeting

The Steering Group will hold regular meetings prior to the AFDM+3 twice a year. The meeting venue will be decided by the co-chairs of the Steering Group after consulting with member countries.

V. Chairmanship

The Chairmanship for each meeting will be co-chaired by an ASEAN country and a plus-3 country, following the same rotation as that for the current ABMI FG. The ASEAN Chair will follow the chairmanship of the ASEAN Finance process, and the +3 Chair will be rotated among China, Japan and Korea in alphabetical order, starting with the chairmanship of Korea in the second half of 2008. The ASEAN co-chair will act as a principal co-chair in the first half of the year. The plus-3 co-chair will assist him/her and act as a principal co-chair in the second half of the year.