

Press Statement

EMEAP Central Banks Announce the Initial Structure of the Asian Bond Fund 2

15 April 2004

The EMEAP (Executives' Meeting of East Asia and Pacific Central Banks) Group, comprising 11 central banks and monetary authorities in the East Asia and Pacific region, is pleased to issue this press release on the progress of the development of the second phase of the Asian Bond Fund initiative, or ABF2, which will invest in local currency-denominated Asian bonds.

ABF2 follows the successful launch of the first phase of the ABF initiative or ABF1 in June 2003. ABF1 is now fully invested in US dollar-denominated bonds issued by sovereign and quasi-sovereign issuers in the EMEAP economies.

The ABF initiative represents an important regional cooperation, aimed at promoting the development of bond markets in the region. The EMEAP Group believes that the developmental impact of the ABF2 will be significant. ABF2 will promote the development of index bond funds in the regional markets and at the same time, enhance the domestic as well as regional bond market infrastructure.

The EMEAP Group has completed an initial study of a variety of designs and structures for ABF2, which has resulted in the recommendation of a preliminary framework for ABF2 consisting of two components: a Pan-Asian Bond Index Fund (PAIF) and a Fund of Bond Funds (FoBF). [A chart illustrating the framework is attached.](#) It is intended that the ABF2 funds will be passively managed against a set of pre-determined benchmarks, covering local-currency bonds issued by sovereign and quasi-sovereign issuers in EMEAP economies. ABF2 is being designed in such a way that will facilitate investment by other public and private sector investors.

The PAIF is a single bond index fund investing in local-currency denominated bonds in EMEAP economies. It will act as a convenient and cost effective investment fund for regional and international investors who wish to have a well-diversified exposure to bond markets in Asia. The FoBF is a two-layered structure with a parent fund investing in a number of country sub-funds comprising local currency denominated bonds issued in the respective EMEAP economies. The FoBF country sub-funds are intended to provide local investors with low-cost and index-driven investment vehicles and at the same time give regional and international investors the flexibility to invest in the Asian bond markets of their choice.

In determining the size of ABF2, EMEAP members will be careful to limit the size of the total investment, so that it will not have any crowding out effect on private sector investors.

Individual EMEAP economies can leverage on the interest and momentum generated from the collective investment in ABF2 to further develop their domestic bond markets as appropriate. In this connection, the relevant EMEAP members will work with the relevant authorities to improve the market infrastructure by identifying and minimising the legal, regulatory and tax hurdles in their markets, thereby facilitating the creation of fixed income products in the region.

The EMEAP Group is pleased to note that other regional fora are working on various initiatives to promote

the development of the regional and domestic bond markets. The EMEAP Group believes that these initiatives share the common goal and reflect a wide support and momentum amongst the regional economies in promoting the efficiency of financial intermediation in the region through the bond markets.

The EMEAP Group continues to consult with market practitioners on the design and structure of ABF2, and will keep the market as well as the public informed of our future progress.

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