

**For information on
3 May 2012**

Legislative Council Panel on Financial Affairs

**Hong Kong's participation in the
Chiang Mai Initiative Multilateralisation Arrangement**

Purpose

This paper updates Members on the increase in the size of the Chiang Mai Initiative Multilateralisation (“CMIM”) arrangement of which Hong Kong is a participant.

Latest development

2. As Members were briefed in November 2009 (CB(1)145/09-10(06)), Hong Kong has participated in the CMIM¹, which is a regional joint-defence mechanism that provides short-term US dollar liquidity support through currency swap transactions to its participants when facing balance of payments and liquidity difficulties. Hong Kong has undertaken to commit up to US\$4.2 billion under the CMIM through the Exchange Fund, while actual contribution of funds will only be called upon as and when needed.

3. In light of the need for Asia to have stronger capability to deal with potential financial instability emanating from the European sovereign debt and banking sector difficulties, the ASEAN+3 Finance Ministers and Central Bank Governors agreed today to strengthen the crisis resolution mechanism and introduce a crisis prevention function under the CMIM. Further details are set out in their relevant joint statement (Annex).

Annex

4. Specifically, the total size of the CMIM will be increased from US\$120 billion to US\$240 billion along with a number of operational

¹ CMIM was established under the aegis of ASEAN+3 which comprises the 10 ASEAN member states (Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam) together with China, Japan and Korea.

enhancements², while the share of financial contributions and voting power of all its existing participants, including Hong Kong, will remain the same. Accordingly, Hong Kong's commitment will increase from US\$4.2 billion to US\$8.4 billion, and the amount that Hong Kong is entitled to borrow will increase from US\$2.1 billion to US\$6.3 billion.

5. Being the first regional financial safety net in Asia, the CMIM is a powerful demonstration to the markets of the determination of policy makers to promote financial stability in the region. Amidst the current immense uncertainties in the global financial system, the relevant enhancements of the CMIM arrangement are timely and necessary. It is crucial that Hong Kong, as a leading international financial centre, is part of this process, thereby contributing to and benefiting from the enhanced CMIM. Meanwhile, we shall continue to participate actively in the discussions and any decision making under the CMIM arrangement.

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² For instance, a participant would be able to borrow a higher portion of its entitled amount under the CMIM that is not tied with a financing programme extended by the International Monetary Fund. Meanwhile, a number of measures would also be introduced to facilitate better risk monitoring under the enlarged CMIM such as bi-annual reviews on the borrowing participant by an independent surveillance unit.

The Joint Statement of the 15th ASEAN+3 Finance Ministers and Central Bank Governors' Meeting

3 May 2012, Manila, the Philippines

I. Introduction

1. We, the Finance Ministers and Central Bank Governors of ASEAN, China, Japan and Korea (ASEAN+3), convened our 15th meeting in Manila, the Philippines, under the co-chairmanship of H.E. Keat Chhon, Deputy Prime Minister and Minister of Economy and Finance of the Kingdom of Cambodia, and H.E. Bahk, Jaewan, Minister of Strategy and Finance of the Republic of Korea. It was the first time that the Central Bank Governors participated in this meeting to share their expertise and experiences in strengthening the regional financial cooperation. The President of the Asian Development Bank (ADB), the Director of ASEAN+3 Macroeconomic Research Office (AMRO) and the Deputy Secretary General of ASEAN were also present at our Meeting.

2. We exchanged views on the recent global and regional economic developments and policy responses. We reviewed the progress of regional financial cooperation achieved since our last Meeting, including the Chiang Mai Initiative Multilateralisation (CMIM), AMRO, the Asian Bond Markets Initiative (ABMI), the ASEAN+3 Research Group (RG), and Future Priorities. We also discussed measures to further strengthen our regional financial cooperation in the future.

3. We strongly believe that our agreement made today on strengthening the CMIM, including doubling its total size, increasing the IMF de-linked portion, introducing the crisis prevention function, and enhancing the ABMI by adopting New Roadmap+ will serve as another important step forward to strengthen the regional financial safety net and to pursue sustainable growth in the region.

II. Recent Economic and Financial Developments in the Region

4. We are pleased to note that, despite the heightened uncertainties in the global financial markets, the ASEAN+3 region has posted steady growth so far. This was underpinned by robust domestic demand and effective intermediation function provided by financial institutions in the region.

5. We are fully aware of the potential downside risks to the region's economic performance in 2012. The prolonged sovereign debt crisis in the Eurozone could continue to weigh on ASEAN+3 economies through trade and financial channels. Inflationary pressures remain, driven, in particular, by rising oil prices. We are also well aware of the increasing volatility in

short-term capital flows and the interconnectedness of ASEAN+3 economies in intra-regional trade and financial market.

6. Under these circumstances, we are firmly determined to heighten our efforts against the impact of such potential risks, pursue appropriate macroeconomic policies, and further strengthen the regional financial safety net by effectively collaborating with AMRO, the ADB and the IMF while promoting intra-regional trade and investment.

III. Strengthening Regional Financial Cooperation

[Chiang Mai Initiative Multilateralisation (CMIM)]

7. Against this backdrop, we all committed to strengthening the CMIM as a part of the regional financial safety net, and unanimously agreed as follows:

- i) to double the total size of the CMIM from US\$120bn to US\$240bn;
- ii) to increase the IMF de-linked portion to 30% in 2012 with a view to increasing it to 40% in 2014 subject to review should conditions warrant;
- iii) to lengthen the maturity and supporting period for the IMF linked portion from 90 days to 1 year and from 2 years to 3 years, respectively; and those for the IMF de-linked portion from 90 days to 6 months and from 1 year to 2 years, respectively; and
- iv) to introduce a crisis prevention facility called “CMIM Precautionary Line (CMIM-PL).”

More details can be found in Annex 1.

8. We shall continue to engage the IMF in the areas of surveillance, financial safety net and capability development.

9. We requested the Deputies to work out necessary revisions of the current CMIM Agreement and the Operational Guidelines by the upcoming November Deputies' Meeting to reflect these agreements.

[ASEAN+3 Macroeconomic Research Office (AMRO)]

10. We re-emphasized the importance of strengthening AMRO's role as an independent regional surveillance unit in contributing to effective monitoring and analysis of regional economies, early detection of risks, swift implementation of remedial actions, and effective decision-making of the CMIM. We commended AMRO's work in the past year on its institutional setup, including establishing basic rules and regulations, initiating the secondment scheme and building a good relationship with IFIs. We were also encouraged by the successful start of AMRO's surveillance activities, including submitting periodical regional and country economic surveillance reports, conducting country consultations to eight

member countries and establishing cordial relationship with various authorities. We look forward to the continual enhancement of AMRO's organizational capacity into 2013.

11. In order for AMRO to play a pivotal role under the strengthened CMIM, we requested the Deputies to find out how AMRO's organizational capacity can be strengthened by the upcoming November Deputies' meeting. We encouraged AMRO to further enhance collaboration with relevant international financial institutions, including the ADB, the IMF, and the World Bank. We also instructed the Deputies to accelerate the preparation to institutionalize AMRO as an international organization. In this regard, we endorsed the Deputies' decisions to urge AMRO to prepare a work plan, including a concrete timeline, and Singapore to work with AMRO to come up with the first draft of the treaty. We also affirmed the importance of concluding the Host Country Memorandum of Understanding (MOU) between AMRO and Singapore to clearly define the responsibility of the Host Country. We welcomed Singapore's commitment to provide the necessary host country support which AMRO deems critical to pursue its mission as an independent surveillance unit, for example to provide budget and liquidity support, protect the member countries' data and information, and facilitate employment pass process.

[Asian Bond Markets Initiatives (ABMI)]

12. We fully took note of the role that the ABMI has played since 2003 in increasing the size of local currency bond markets, with diversified issuers and types of bonds issued. This progress under the ABMI has contributed greatly to developing efficient and liquid bond markets in the region by allowing regional savings to be used for regional investment. However, with the uncertainties lingering in the global financial market, we were of the same view that the ABMI is indispensable in preventing the occurrence of another crisis and alleviating volatility in the regional capital market.

13. We agreed to adopt New Roadmap+ in order to produce tangible and concrete outcomes going forward with the support from the ADB, and to reinvigorate the ABMI discussions as we welcome 10 year anniversary since the launch of the ABMI. Nine priorities based on the three directions in New Roadmap+ are as follows. More details can be found in Annex 2.

- i) Launching guarantee programs of Credit Guarantee and Investment Facility (CGIF);
- ii) Developing infrastructure-financing schemes (including Lao-Thai pilot project);
- iii) Fostering an investment-friendly environment for institutional investors & transmitting the ABMI knowledge to them;
- iv) Enhancing ASEAN+3 Bond Markets Forum (ABMF) activities (including Common Bond Issuance Program);
- v) Facilitating the establishment of the Regional Settlement Intermediary (RSI);
- vi) Further developing the government bond markets;
- vii) Enhancing financial access to consumers and Small and Medium Enterprises (SMEs);

- viii) Strengthening the foundation for a regional credit rating system; and
- ix) Raising financial awareness.

14. With regards to the CGIF, we welcomed the completion of the preparatory works to start the guarantee transactions and expect the CGIF to launch the initial guarantee soon. We are pleased to see the progress at the ABMF, in particular the first publication of comprehensive “ASEAN+3 Bond Market Guide,” which aims to encourage cross-border bond issuance and investment in the region’s local currency bond markets. We also took note of the progress on the ADB listing in Tokyo Pro-Bond market as a pilot project, securitization in Malaysia and Thailand, and collaboration with Association of Credit Rating Agencies in Asia (ACRAA). Furthermore, we recognized the progress made on the reassessment of the legal and regulatory feasibility for the establishment of the RSI. We encouraged further discussion on the RSI establishment and expect that the business feasibility reassessment will be accelerated and completed this year.

15. We recommended the ABMI Task Force(TF) to implement New Roadmap+ by developing a work plan and producing tangible outcomes so that we can push forward with the agreed agendas.

16. We welcomed the ABMI 10th Anniversary Seminar on 4 May in Manila, Philippines. We expect this Seminar to serve as an opportunity for us to review the achievements under the ABMI and exchange views with the private sector on the role of the ABMI in the face of changes in the global financial market.

[ASEAN+3 Research Group (RG)]

17. We appreciated the efforts made by the Research Group on three studies for 2011/2012 regarding i) dealing with commodity price volatility in East Asia, ii) the roles & functions of the banking sector in the financial system of the ASEAN+3 region, and iii) the role of the regional financial safety net in global architecture. We endorsed a study topic for the 2012/2013 Research Group activities as follows: The International Discussions on the Credit Rating Agencies and Enhancing Infrastructure to Strengthen the Regional Credit Rating Capacity in the ASEAN+3 Region. We also welcomed streamlining the process of the Research Group to ensure wider participation and enhanced interaction with researchers.

[Future Priorities of ASEAN+3 Financial Cooperation]

18. We welcomed the initial research findings on each of the three possible areas for ASEAN+3 financial cooperation: i) infrastructure financing, ii) disaster risk insurance, and iii) using local currencies for the regional trade settlement. We recognized the importance of these areas in regional economic growth and sustainability. To this end, we requested the Deputies to build on the initial findings, carry on more in-depth study and put forward

concrete policy recommendations in the next phase, with the support from the ADB and the World Bank as appropriate.

IV. Conclusion

19. We expressed our appreciation to the governments of Cambodia and Korea for their excellent arrangements as the co-chairs of the ASEAN+3 Finance Ministers and Central Bank Governors' Process in 2012. We also thanked the government of the Philippines for its warm hospitality.

20. We agreed to meet in New Delhi, India, in 2013. Brunei Darussalam and China will be the co-chairs of the ASEAN+3 Finance Ministers and Central Bank Governors' Process in 2013.

Key Points for Strengthening the CMIM

1. Strengthening Crisis Resolution Mechanism(CRM)

i) Size

- a. To double the total size of CMIM from the current US\$120bn to US\$240bn while keeping the current share of financial contributions and voting power among the member countries the same

ii) IMF De-linked Portion

- b. To increase the IMF de-linked portion to 30% in 2012 with a view to increasing it to 40% in 2014 subject to review should conditions warrant

iii) Maturity, Supporting period and Monitoring

- c. IMF linked portion: To lengthen the maturity period from 90 days to 1 year with 2 renewals, totaling up to 3 years in supporting period
- d. IMF de-linked portion: To lengthen the maturity from 90 days to 6 months with 3 renewals, totaling up to 2 years in supporting period
- e. To conduct monitoring on a bi-annual basis

iv) Name

- f. To adopt “CMIM Stability Facility (CMIM-SF)” as the name for CRM

2. Introducing Crisis Prevention Function(CPF)

i) Introduction

- a. To introduce one simplified crisis prevention facility

ii) Qualifications and Conditionality

- b. To allow Executive Level Decision Making Body (ELDMB, Deputies’ Level Meeting) to flexibly apply the 5 qualification criteria, which are stipulated below, as ex-ante qualifications and ex-post conditionality after considering the

economic reports by the requesting country and analyses by AMRO/ADB/IMF as the basis for the decision

< 5 qualification criteria >

- (i) External position and market access*
- (ii) Fiscal policy*
- (iii) Monetary policy*
- (iv) Financial sector soundness and supervision*
- (v) Data adequacy*

iii) Name

- c. To adopt “CMIM Precautionary Line (CMIM-PL)” as the name for CPF

iv) Duration of Access, Arrangement period, Maturity and Monitoring

- d. To set the Duration of Access of CMIM-PL at 6 months with 3 renewals, totaling 2 years in arrangement period
- e. To set the Maturity at 6 months for the IMF de-linked portion and 1 year for the IMF linked portion
- f. To conduct monitoring on a bi-annual basis

v) Commitment Fee

- g. To introduce the commitment fee of 0.15% to CMIM-PL, in principle

vi) Relationship with CMIM-SF

- h. The total amount that can be drawn by each member country, either for prevention or resolution purposes, should be within the maximum swap amount set aside for that country
- i. To restrict dual-drawing from both CMIM-SF and CMIM-PL
- j. To replace the CMIM-PL with CMIM-SF if any CMIM-PL recipient party is hit with crisis and needs additional support, depending on the decision made by ELDMB

ABMI ‘New Roadmap+’

1. Three Basic Directions: Prioritizing the ABMI issues and taking a step-by-step approach

- ① To produce tangible outcomes, **current and critical ongoing issues need to be further developed.** (F: Follow-up issue)
 - ② To strengthen the momentum for the ABMI discussion, **important but undiscussed issues related to bond markets should be added.** (A: Added issue)
 - ③ To meet and accommodate the changing global financial needs, including mitigation of volatility in the capital flows, **relevant issues need to be addressed.** (R: relevant issue)
- ⇒ New Roadmap+ will be subject to **periodical reviews, for example 3 years of time, to reprioritize the agendas and/or introduce new items.** Given the different pace of progress, each Task Force (TF)* is encouraged to set its own review schedule.

2. Overview of New Roadmap+

Direction 1(F)	<u>Follow-up issues that need to be addressed to produce tangible outcomes</u>
<ul style="list-style-type: none"> (1) Launching CGIF guarantee programs (TF1) (2) Developing infrastructure-financing schemes (including Lao-Thai pilot project) (TF1) (3) Fostering an investment-friendly environment for institutional investors & transmitting the ABMI's knowledge to institutional investors (TF2) (4) Enhancing ABMF activities (including Common Bond Issuance Program) (TF3) (5) Facilitating the establishment of the RSI (TF4) 	

Direction 2(A)	<u>Additional issues to be addressed to strengthen the momentum for the ABMI discussion</u>
<ul style="list-style-type: none"> (1) Further developing the government bond markets (TF2) (2) Enhancing financial access to consumers and SMEs (TF3) (3) Strengthening the foundation for a regional credit rating system(TF4) 	

Direction 3(R)	<u>New issues to be raised to meet the demands of a changing global financial market</u>
<ul style="list-style-type: none"> (1) Raising financial awareness (TF4) 	

* TF1: Promoting Issuance of Local Currency-Denominated Bond

TF2: Facilitating the demand of Local Currency-Denominated Bonds

AFMGM+3 Manila, the Philippines
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TF3: Improving Regulatory Framework

TF4: Improving Related Infrastructure for the Bond Markets

3. Timeline for New Roadmap+ categorized by Task Force

(F: Follow-up Issue, A: added issue, R: relevant issue)

Issues to be addressed	Roadmap	
	First	Second

< TF 1 >	Promoting Issuance of Local Currency-Denominated Bond (China, Thailand)	
1) Launching CGIF guarantee programs (F)	√	
2) Developing infrastructure-financing schemes (F) - Including Lao-Thai pilot project	√	
3) Developing derivatives and swap markets		√

< TF 2 >	Facilitating the demand of Local Currency-Denominated Bonds (Japan, Singapore)	
1) Further developing the government bond markets (A) - Developing repo markets and securities borrowing and lending	√	
2) Fostering an investment-friendly environment for institutional investors & transmitting the ABMI's knowledge to institutional investors (F)	√	
3) Enhancing cross-border transactions		√

< TF 3 >	Improving Regulatory Framework (Malaysia, Japan)	
1) Enhancing ABMF activities (F) - Common Bond Issuance Program	√	
2) Enhancing financial access to consumers and SMEs (A)	√	
3) Improving bankruptcy procedures related to bond transactions		√

< TF 4 >	Improving Related Infrastructure for the Bond Markets (Korea, Philippine)	
1) Facilitating the establishment of the RSI(F)	√	
2) Strengthening the foundation for a regional credit rating system (A)	√	
3) Raising financial awareness (R)		√

< TACT >	Technical Assistance and Coordination Team (Brunei, Laos, Vietnam)	
1) Facilitating technical assistances(TA) to ASEAN member countries to strengthen their capacities in the bond market	√	