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EMEAP Press Statement

EMEAP central banks announce the launch of the Asian Bond Fund 2

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 announce the launch of the second stage of the Asian Bond Fund (ABF2). Building further on the successful launch of the first stage of the Asian Bond Fund (ABF1) in June 2003, which invested in US dollar denominated bonds issued by sovereign and quasi-sovereign issuers in EMEAP economies (other than Japan, Australia and New Zealand), the ABF2 will invest in domestic currency bonds issued by sovereign and quasi-sovereign issuers in the eight EMEAP markets.

The launch of ABF2 represents a historic milestone in central banking cooperation in the region. The EMEAP Group is confident that the ABF2 Initiative will bring about significant benefits to the development of bond markets in Asia. The catalytic role that ABF2 will play in promoting new products, improving market infrastructure and minimising regulatory hurdles will help further broaden and deepen the domestic and regional bond markets and hence contribute to more efficient financial intermediation in Asia in the longer term.

The framework for ABF2, as announced by EMEAP in April 2004, comprises two components: a Pan-Asian Bond Index Fund (PAIF) and a Fund of Bond Funds (FoBF). The PAIF is a single bond fund investing in sovereign and quasi-sovereign domestic currency-denominated bonds issued in the eight EMEAP markets. The FoBF is a two-layered structure with a parent fund investing in eight Sub-funds, each of which will invest in sovereign and quasi-sovereign domestic currency-denominated bonds issued in the respective markets of the eight EMEAP economies. The PAIF and eight Sub-funds will be passively managed by private sector fund managers against a Pan-Asian bond index and relevant domestic bond indices for the eight EMEAP markets. A chart illustrating the ABF2 structure is at Annex I, and summary tables providing more details about the PAIF and FoBF Sub-funds are at Annex II.

EMEAP members' investment in the ABF2 will be around US\$2 billion, with half being allocated to the PAIF and half to the FoBF. The EMEAP Group has given careful consideration to the size of its investment so that it should neither be too large that it would crowd out private sector investors nor too small that it could not benefit from economies of scale in terms of supporting the necessary infrastructure for the Funds.

The PAIF and eight Sub-funds will be confined to investment of EMEAP central banks only in Phase 1. However, the Funds will be open to investment by other investors in Phase 2. It is intended that, subject to the approval by the relevant authorities, the PAIF will be domiciled in Singapore and initially listed in Hong Kong. Additional listing of the PAIF on other EMEAP stock exchanges will be considered at a later stage having regard to the readiness of other markets and the actual practical experience during the initial period. The eight Sub-funds will be domiciled in the respective jurisdictions and, where appropriate, listed on their respective stock exchanges.

The ABF2 will help raise investor awareness and interest in Asian bonds by providing innovative, low-cost and efficient products in the form of passively managed bond funds. In addition, the ABF2 Initiative has helped accelerate market and regulatory reforms at both regional and domestic levels to the benefit of all potential issuers and investors in the region. For example, at the regional level, some EMEAP economies are currently reviewing or changing their tax and regulatory regimes to facilitate cross-border investment. At the domestic level, some economies are actively developing the relevant regulations to list exchange-traded bond funds, which are innovative and low-cost products targeting the retail as well as the institutional investor base, in their respective markets.

Further benefits should accrue as a result of the catalytic role ABF2 will play in introducing into Asia a new set of transparent, replicable and credible bond indices, which are important market infrastructure. The EMEAP Group has been working closely with the International Index Company (formerly known as iBoxx) on a family of bond market indices drawing on price information supplied by various market participants, which enhances the impartiality and credibility of the indices. Given that the construction rules and compilation methodology will be published, these indices can easily be used, replicated or customized by private sector fund managers as benchmark indices for their fixed income products. Moreover, derivative products can also be structured around these indices.

The Bank for International Settlements (BIS) will act as the Fund Administrator for EMEAP Group's investment in ABF2. The EMEAP Group is currently in the process of finalizing the selection of fund managers, custodians and other service providers for the PAIF and the eight Sub-Funds.

Note: Contact details for the 11 members of the EMEAP Group are as follows:

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For more details see annex  