

**Guarantee for Korean Collateralized Bond Obligations (Pan-Asian Bond)
--Supporting the Creation of CDO Market
in Asia under the Asian Bond Market Initiative--**

1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) today signed a guarantee agreement for Korean collateralized bond obligations (CBO) (Pan-Asian bond). This deal is based on an agreement reached between the Governments of Japan and Korea in June this year for developing a collateralized debt obligation (CDO) market. This is part of a financial scheme under which JBIC provides a guarantee for CBO secured on corporate bonds totaling 7.7 billion yen.

2. More specifically, CBO secured on corporate bonds issued by 46 Korean small- and medium-sized enterprises (SMEs) are first structured and divided into senior and junior bonds. Then, the Industrial Bank of Korea (IBK), a Korean governmental financial institution, provides a credit facility for the senior bonds structured in this manner.^[1] Finally, JBIC-guaranteed bonds are issued in the Singaporean securities exchange as guaranteed bonds backed by this Pan-Asian bond and sold to investors in Japan and Asia (see the flow chart illustrating the scheme in the Appendix).

3. The provision of guarantees by JBIC and IBK, governmental financial institutions in Japan and Korea, enables the issuance of innovative cross-border collateralized bond obligations, thereby serving to develop the Asian capital market.

4. JBIC has been actively pushing forward the Asian Bond Market Initiative (ABMI) advocated by the Government of Japan in December 2002.^[2] In June this year, JBIC provided guarantees for baht-denominated bonds issued by Japanese local affiliates in Thailand. This second financial deal will serve to promote the ABMI by encouraging bond issues in Asia with the use of JBIC's guarantee function and by creating a CDO market.

[1] The Industrial Bank of Korea is a governmental financial institution established with capital contribution by the Government of Korea for the purpose of developing and supporting SMEs in Korea.

[2] The Asian Bond Market Initiative was launched as a measure to prevent the recurrence of the Asian currency crisis by channeling funds in the Asian region, which is characterized by a high saving rate, to investments within the region. Currently, discussions are underway among the governments of the countries of ASEAN+3 (Association of Southeast Asian Nations + Japan, China and Korea) on ways to develop and invigorate the bond markets in Asian countries.

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