

## **Guideline on ASEAN Local Currency Settlement Cooperation Framework**

### **I. Overview**

Cross-border trade and investment among ASEAN Member States (AMS) are settled primarily in the US dollar. However, the 1997 Asian Financial Crisis and 2008 Global Financial Crisis demonstrated the vulnerabilities associated with over-dependence on the US dollar in the regional economy and financial markets. Since the volume of intra-ASEAN trade and investment continues to increase, there is room for ASEAN to promote the use of local currency for trade and investment settlement within the region vis-à-vis sustainable growth and enhancement of ASEAN connectivity direction. As part of broader efforts to reduce the region's reliance on the US dollar, strengthen regional linkages, and lessen associated risks, the AMS explored the use of local currencies for regional trades, direct investments, and other similar activities. Aligned with this initiative and as part of its priorities, the ASEAN Working Committee on Capital Account Liberalisation (WC-CAL) formulated a guideline for AMS in establishing Local Currency Settlement Framework (LCSF) in order to facilitate the freer flow of trade and capital in the region.

### **II. Purpose of the Guideline**

The Guideline aims to:

1. Assist AMS in establishing LCSF based on the experience of other AMS with existing LCSF;
2. Support AMS in enhancing their policy frameworks on local currency settlement cooperation and strengthen their respective countries' resilience to external shocks; and
3. Share sound practices on LCSF establishment and implementation among AMS.

This Guideline is advisory in nature and should not be viewed as a set of binding principles or obligations among AMS. It also recognizes that each AMS has its own unique set of foreign exchange and balance of payment policies that should be taken into consideration in establishing the LCSF.

### **III. Cooperation Principles of the LCSF**

The Guideline on ASEAN LCSF encourages AMS to pursue and participate in LCSF arrangement for the purposes of facilitating trade and direct investment. Thus, the LCSF should be consistent with, and supportive of a country's specific policy environment. To ensure a consistent implementation of the framework, AMS are encouraged to adopt the following general principles in the design of its LCSF:

#### **A. Objective**

LCSF aims to reduce the region's over-dependence on the US dollar and major currencies in line with the effort to enhance regional economic and financial stability. The use of local currencies in regional cross-border settlements aims to facilitate trades and

investment flows in the region, support the development of domestic financial markets by increasing demand for regional currency, as well as promote economic stability by lowering the reliance on major currencies among AMS. Ultimately, this initiative supports the ASEAN's goal towards regional economic and financial integration and economic stability.

**B. Scope of Eligible Underlying Transaction**

The scope of eligible underlying transaction under LCSF includes real economic activities such as international trade in goods and service and direct investments. The framework may be gradually expanded to other cross-border activities such as income transfers and other type of investments, subject to the readiness of the participating AMS and mutually agreed by the partner AMS.

**C. Implementation and International Cooperation**

LCSF should be implemented in close coordination among participating AMS. The domestic laws, regulations of participating AMS, readiness of the respective economies and financial market conditions shall be taken into consideration when implementing the framework.

Furthermore, international cooperation is essential to promote the use of local currency in settlement of trades and other similar activities. It ensures the efficient administration of bilateral foreign exchanges between AMS through the possible introduction of regulatory amendments and/or flexibilities, as necessary. AMS may enter into a Memorandum of Understanding or other appropriate agreement/arrangement on LCSF to officially establish such international cooperation efforts with another AMS.

**D. Information Sharing and Dissemination**

Sharing of experiences, best practices, and challenges will guide AMS in the establishment of LCSF, or enhancement of their existing LCSF. As such, AMS are encouraged to share their knowledge, experience, and/or best practices that could support the effective operationalization of LCSF in the region. To support the implementation, AMS are encouraged to actively disseminate information relating to the operationalization of LCSF to stakeholders, including commercial banks and business entities.

**E. Key Features**

**E.1 Appointment of Banks as Cross-currency Dealers**

Participating AMS will identify and agree on a set of criteria for the selection/ accreditation of banks as appointed cross-currency dealers (ACCD).

## **E.2 Foreign Exchange Administration**

The central banks and/or monetary authorities of participating AMS may consider offering some flexibilities in their policy regimes to the appointed or ACCDs in order to promote an effective and efficient framework.

## **E.3 Direct Currency Trading**

The Central Bank or Monetary Authority of participating AMS shall allow direct trading of its currency against the currency of its counterparty AMS for the purposes and scope agreed by both participating AMS under the LCSF arrangement.

## **E.4 Direct Quotation**

Central banks or monetary authorities of participating AMS shall allow direct quotation of its currency against the currency of its counterparty AMS as published in the selected financial information platforms (e.g., Thomson Reuters, Bloomberg Terminal, participating bank website, central bank website) based on mutual agreement of participating AMS.

## **E.5 Monitoring and Surveillance Mechanism**

Implementation of LCSF should be constantly monitored by the central bank and/or monetary authority of participating AMS to ensure that settlements in local currencies are executed in an orderly and efficient manner, and that ACCDs comply with related guidelines and/or regulations. In this regard, the central banks and/or monetary authorities should:

- a. Require its ACCDs to submit regular reports relating to local currency settlements and financial services, as agreed upon by the participating AMS; and
- b. Exchange data and information on aggregate basis between participating AMS relating to local currency settlement transactions of ACCDs, including suspicions of possible non-compliance or violation of related guidelines and/or regulations by an ACCD.

## **E.6 Operational Guideline**

The implementation of LCSF should be supported by appropriate guidelines mutually agreed upon by central bank or monetary authority of participating AMS. Correspondingly, each central bank/monetary authority will develop or adjust its own domestic guidelines and/or regulations that may facilitate the operationalization of the LCSF in its country, and serve as guide in the participation/accreditation of cross-currency dealer banks.

Operationalization of LCSF should be consistent with, and supportive of, participating AMS' policy environment, particularly its foreign exchange arrangements.

**E.7 Key Performance Indicators**

The participating AMS may agree to identify or design a set of key performance indicators that will measure the effectiveness of the initiative in meeting its objectives.