

CHAPTER 2

**SUPPORTING CMIM
OPERATIONS AND
DEVELOPMENTS**



One of AMRO's main functions is to improve the effectiveness and reliability of the CMIM by providing technical and analytical inputs.

The CMIM is a multilateral currency swap arrangement that serves as an emergency liquidity fund for members facing potential or actual short-term liquidity challenges, in relation to their balance of payments.

The CMIM facility includes both an IMF De-linked Portion (IDL) and an IMF Linked Portion (ILP), with the latter subject to oversight by the IMF.

In the past decade, the ASEAN+3 authorities have improved the CMIM's effectiveness in achieving its two objectives: (i) to be a regional self-help mechanism; and (ii) to supplement IMF lending.

The first has been achieved in various ways, including by multilateralizing into a single contractual agreement from a network of bilateral swap agreements; and by increasing the IDLP, underpinned by AMRO's surveillance and the conditionality framework. The ERPD Matrix framework already functions as an assessment tool for ex-ante qualification for the CMIM precautionary line, a crisis prevention facility. Local currencies can be used for CMIM crisis financing, the detailed procedures for which were partially completed by late 2021. In keeping

with the second objective, an IMF linkage has been maintained. CMIM test runs were held jointly with the IMF, bringing about an information-sharing mechanism, strengthening coordination mechanism with the IMF and the CMIM conditionality framework for the ILP.

In enhancing the CMIM's effectiveness, members have sought to balance the risk of moral hazard with the need for a strong regional self-help mechanism. Even though the CMIM's two objectives have been adequately achieved, there is always room for further enhancements, particularly as new macroeconomic challenges emerge.

The work that AMRO performs every year in this area must therefore be considered as part of a decades-long journey in the growth and evolution of the CMIM. In 2021, AMRO supported its members in the following areas:

- Adopting a new reference rate for CMIM liquidity support arrangements
- Using members' respective local currencies for the CMIM
- Deliberating on the CMIM's future direction
- Facilitating the annual CMIM test run
- Enhancing CMIM-related technical assistance to members
- Strengthening intellectual support to members

ADOPTING A NEW REFERENCE RATE FOR CMIM LIQUIDITY SUPPORT ARRANGEMENTS

The ad-hoc amendment of the CMIM Agreement, which came into effect on March 31, 2021, addressed technical preparations for the ongoing global LIBOR reform. Since 2010, the CMIM has been using a six-month US dollar LIBOR as its reference rate, in keeping with the general practice in international finance. In preparation for the phasing out of LIBOR, the CMIM members searched for an alternative reference rate and recalibrated the CMIM's legal and operational settings.

In 2021, AMRO provided technical support to members for their deliberations on this new reference rate. AMRO shared with members the discussion paper titled "A Study on the New CMIM Interest Rate Structure", in which it proposed a set of qualification criteria and evaluated the potential candidates based on them. Along with the Co-chairs from Brunei and Korea, AMRO also provided further information and analysis at the TF meetings and webinars based on the members' demands while monitoring the progress of LIBOR reform and the market's reaction to it. After members reached a consensus on the new reference rate in October 2021, AMRO also supported members in revising the CMIM Operational Guidelines, accordingly.

USING MEMBERS' RESPECTIVE LOCAL CURRENCIES FOR THE CMIM

The ad-hoc amendment provides that CMIM liquidity support in US dollars may be partly or wholly replaced with an ASEAN+3 member's local currency on a voluntary and demand-driven basis. To put this landmark achievement into practice, members updated the CMIM OG by providing detailed procedures. As a first step, members decided to focus on a case in which one member would provide its own local currency for CMIM liquidity support upon request.

The Co-chairs, with AMRO's support, reviewed the flowchart of the CMIM process and prepared detailed procedures for the use of members' own local currencies in the OG.

The newly revised OG basically aligns the local currency process with the US dollar process, while incorporating several new elements to account for the distinct characteristics of local currency contribution.

Members will continue to perform work in this area in 2022. Among other upcoming enhancements is the creation of relevant procedures for a case in which each member may provide a local currency other than its domestic local currency, in addition to the US dollar, for liquidity support under the CMIM.

DELIBERATING ON THE CMIM'S FUTURE DIRECTION

To further enhance the CMIM's operational readiness, members set aside time in 2021 to strategize its medium- to long-term direction. This is to make the CMIM more accessible, reliable and attractive to members, reflecting the original spirit of regional self-help.

FACILITATING THE ANNUAL CMIM TEST RUN

To ensure the CMIM's operational readiness, members have conducted test runs annually. Several aspects of the currency swap arrangement, including the CMIM activation process, the coordination with the IMF, and the operational procedures, have been tested consistently throughout the 12 test runs held since 2013.

Following the 2020 test run, the members, with AMRO's support, identified in 2021 technical gaps and updated the CMIM OG and the Swap Manual. The 12th CMIM test run conducted in 2021 focused on the decision-making procedures of the CMIM precautionary line through the IDLP. During the test run, AMRO supported the members in several ways, including by providing the necessary documents, coordinating activities, designing test run scenarios, and monitoring the actual test run. Substantial findings such as the expansion of financing gaps analysis and the use of self-imposed targets for market communication were identified and updated. The findings would provide flexibility to the justification of a request for the CMIM-PL IDLP and improve the accessibility of the facility.

ENHANCING MEMBERS TECHNICAL KNOWLEDGE ON CMIM MATTERS

Following a survey conducted in June 2021, when members indicated that they would benefit from seminars on technical assistance, AMRO conducted a series of seminars through November 2021. These engagements comprised of: i) an overview of the CMIM and AMRO; ii) a review of the latest amendments to the CMIM Agreement; iii) information on CMIM operational readiness; and iv) insights into the CMIM decision-making process.

Following these sessions, AMRO has managed to increase the visibility of the CMIM to new policymakers in ASEAN+3 members, and enrich their understanding of how the CMIM infrastructure is designed and implemented.

STRENGTHENING INTELLECTUAL SUPPORT TO MEMBERS

In supporting the implementation of the CMIM over the years, AMRO has devoted much effort toward supporting members in their bid to enhance the CMIM's operational readiness and effectiveness as a regional financing arrangement (RFA), alongside other layers of the global financial safety net (GFSN).

With the entry into force of the ad-hoc amendment to the CMIM Agreement in March 2021, there is a need to further refine many aspects of the CMIM. As in previous years, in 2021, AMRO extended intellectual support to members in terms of strengthening the CMIM's modalities and enhancing the CMIM's usability both for precautionary and crisis resolution purposes.

AMRO did this, among other ways, through the preparation and circulation of Staff Discussion Notes. In 2021, AMRO delivered four Staff Discussion Notes to members on potential areas of improvement of the CMIM: the CMIM's margin; the IMF conditionality and its application; the way forward between the CMIM precautionary line and IMF's precautionary facilities; and the update of bilateral swap arrangements (BSAs) in the ASEAN+3 region.

AMRO will continue to identify gaps in the current CMIM settings and propose to members potential enhancements, including in relation to other RFAs, as well as with regards to the IMF, which sits at the center of the GFSN.

