



APEC Business Advisory Council

The Office of ABAC Chair 2013



2 August 2013

His Excellency

Dr. M. Chatib Basri

Chair, APEC Finance Ministers' Meeting

Minister of Finance

Indonesia

Dear Minister Basri:

On behalf of the APEC Business Advisory Council, we would like to share our key recommendations on finance and economic issues facing the Asia-Pacific region.

Global financial and market conditions have improved since our last report, providing additional support to the economy and prompting a sharp rally in risk assets. These favorable conditions reflect a combination of deeper policy commitments, renewed monetary stimulus, and continued liquidity; as a result, tail risks have been reduced, confidence has been enhanced, and the economic outlook looks brighter. However, global economic conditions remain subdued, and the improvement can only be sustained through further policy actions to address structural reforms and promote continued recovery. We are concerned about the volatile capital flows and unstable financial markets in the Asia-Pacific region, while economies require funding for growth as well as infrastructure investments. It is imperative that all economies continue to implement policies for ensuring stability and growth. This year, ABAC has prioritized the following finance-related objectives: (a) launching the Asia-Pacific Financial Forum (APFF) to assist in developing regional financial market integration and in harmonizing and optimizing regulations; (b) developing strategies to achieve balanced and innovative growth; (c) promoting public-private partnership (PPP) and infrastructure finance, and; (d) promoting practical solutions to encourage financial inclusion to benefit low-income households and small, medium and micro-enterprises (SMMEs).

Creating a Platform of Public-Private Collaboration to Develop the Region's Financial Markets. In 2012, APEC Finance Ministers welcomed ABAC's proposal to explore the creation of an Asia-Pacific Financial Forum, a regional platform for public-private collaboration to help accelerate the development of integrated financial markets. A symposium hosted in Sydney in April 2013 by the Australian Government for this purpose underscored the importance of such collaboration in promoting financial market development that supports the needs of the real economy and regional aspirations for sustained, balanced, inclusive and innovative growth. APFF can add value to ongoing initiatives under various fora by bringing the private sector to work with public officials to identify crucial gaps not yet being addressed and the unintended consequences of new regulations, as well as to help financial authorities take a more active role in shaping global financial regulatory standards. **ABAC recommends that APEC Finance Ministers endorse the launch of the APFF based on the work program priorities proposed in the report of the Sydney Symposium** (Annex to the attached Report of the Advisory Group on APEC Financial System Capacity Building). **ABAC commends the development of the Asia Region Funds Passport (ARFP) and recommends that officials increase their engagement with market participants as the initiative is progressed.**

Expanding Regional Public-Private Partnership for Infrastructure Finance. Significant amounts of savings and private sector know-how can be harnessed to help the region meet its needs for higher quality infrastructure at lower cost to taxpayers and users. However, governments need to work closely together with the private sector and multilateral institutions to provide a conducive environment. Dialogues with several economies undertaken by the Asia-Pacific Infrastructure Partnership (APIP) have highlighted key

ABAC Indonesia

Mitra Building, 2nd Floor, Jl. Jenderal Gatot Subroto Kav. 21, Jakarta 12930, Indonesia

Tel: (62 21) 2557 9888 ext. 8245 • Fax: (62 21) 2557 9889 • Email: contact@abacindonesia.org

elements: coordination and collaboration among agencies; deeper understanding of risks and which parties are best positioned to assume the various risks involved; strong, credible and creditworthy public institutions; capacity for policy reforms, planning, transactions and viability gap finance; clearly communicating priority sectors and projects; and long-term local currency finance. **ABAC recommends that APEC Finance Ministers establish a regional framework to coordinate capacity building and sharing of best practices in infrastructure finance, with the collaboration of APIP.**

Mobilizing Regional Savings for Long-Term Investments. ABAC initiated a three-year program to enhance transparency and predictability in investment flows. It will also encourage institutional savings held in sovereign wealth funds (SWFs), superannuation, insurance and others to be invested in domestic and cross border long-term infrastructure projects. Research work on this matter is being undertaken for the initial stage to examine the potential role of SWFs. ABAC will convene a dialogue in Beijing in September 2013, involving business, government officials, academia and representatives of SWFs and state-owned enterprises (SOEs). The outcomes and recommendations will be reported to the Finance Ministers as a means of enhancing investment flows in the region. **ABAC recommends that APEC Finance Ministers endorse this three-year initiative to create a framework for sharing best practices in investment as a means of mobilizing institutional savings in domestic and cross-border long-term infrastructure investments, in a transparent and market-based manner.**

Harnessing Innovation to Advance Financial Inclusion. Innovation promotes financial inclusion by significantly reducing the costs and increasing the efficiency of financial services offered to low-income households and small enterprises. The 2013 Asia-Pacific Financial Inclusion Forum hosted by the Indonesian Government and convened by ABAC and its partner institutions identified various measures that can help governments harness innovation to promote financial inclusion (for details, see financial inclusion section of the attached Report of the Advisory Group on APEC Financial System Capacity Building). **ABAC proposes that APEC economies commit to policy reforms to facilitate the delivery of mobile and branchless banking and remittances and to improve the market infrastructure, particularly payment and credit reporting systems and secured lending frameworks; and to undertake capacity building to promote innovative approaches and effective financial education and consumer protection regimes. ABAC calls for the development of government-encouraged funds-of-funds for seeding and growing a private sector-led venture capital ecosystem in the region and collaboration by interested economies and multilateral institutions with ABAC and private sector firms to initiate this process.**

Unintended Consequences of New Financial Regulations. ABAC issued two letters to APEC Finance Ministers in April 2012 and May 2013 to express increasing concerns about the extraterritoriality of new financial regulations, where the impact of certain regulations may hinder the prospects of the region's further development as a crucial engine of global economic growth. Of particular concern is the extraterritorial application of the US Dodd-Frank Act and the EU Financial Transaction Tax. **ABAC recommends that APEC financial regulators closely collaborate with each other on the monitoring and implementation of new financial regulations, in order to address the concerns over unintended extraterritorial effects for the region.**

In conclusion, we recognize that our region continues to face challenges with the current economic environment and progress will require long-term policy initiatives and structural reform, in addition to coordinated action by governments in addressing financial issues in our region. We look forward to our dialogue in Bali this coming September, where we hope to discuss the above recommendations in more details with the objective of promoting balanced, inclusive, sustainable, innovative and secure growth across the Asia-Pacific region.

Yours sincerely,



Wishnu Wardhana
ABAC Chair 2013

APEC Business Advisory Council Report to APEC Finance Ministers

The APEC Business Advisory Council (ABAC) is pleased to present its report and recommendations for the year 2013 to APEC Finance Ministers.

Global financial and market conditions in the region have improved notably on the back of deeper policy commitments, renewed monetary stimulus, and continued liquidity support through the first half of 2013. Despite reduced tail risks and enhanced confidence, global economic conditions remain subdued. IMF warns a three-speed global recovery, highlighting that the prolonged debt crisis in the euro area has spilled over and affected not only the peripheral but also several core economies. The World Bank revised down its global growth outlook, warning that the large developing economies will not experience the same boom as before and will have to focus on structural reforms to keep expanding. The recent volatility of capital flows and financial markets in the Asia Pacific region is a cause of concern. Across the region, further policy actions are required to sustain continued economic recovery.

Our recommendations and report on our activities respond to the priorities set forth by ABAC Indonesia for 2013, including the following areas:

- i) Promote Asia Pacific Financial Forum (APFF) in developing regional markets integration and address regulatory, structural, and legal reforms to promote financial market development
- ii) Develop strategies to achieve balanced growth and stronger financial integration
- iii) Promote PPP and infrastructure finance
- iv) Promote practical solutions to financial inclusion.

This report also draws from recommendations and activities of the Advisory Group on APEC Financial Systems Capacity Building (please see the Appendix to this report). The Advisory Group is an informal organization led by ABAC that serves as a vehicle for collaboration among public and private sectors and key international institutions in promoting capacity building efforts to strengthen and develop the region's financial systems. We believe that this collaboration between the public and private sectors is a key element that can ensure the success of the following initiatives.

i) Launching of the Asia Pacific Financial Forum (APFF)

The current global economic situation underscores the compelling rationale for the development of sound and integrated financial markets in the region. Given the present economic challenges facing North America and Europe, global economic recovery and the resumption of previous levels of growth will hinge on the continued rapid development of emerging markets in coming years, particularly in Asia, where savings are abundant. However, the underdevelopment of the region's financial markets, unless addressed, will pose a serious constraint to the future growth of Asia and, consequently, to regional and global economic growth.

Regional financial integration is important for the development of the region's emerging financial markets, to allow them to fully support the financing of the region's economic and social needs. As long as these markets are fragmented, it will remain difficult to attract market players to participate in a more meaningful way. Building regionally integrated

financial markets would involve three important undertakings. First, the development of most of the region's financial markets needs to be accelerated. Second, operating simultaneously in multiple markets should be made easier and less costly for market players through convergence and/or greater mutual recognition of standards, regulations and practices. Third, regulations and market infrastructure to facilitate cross-border transactions need to be developed.

In 2012, the APEC Finance Ministers welcomed ABAC's proposal to explore the creation of an Asia-Pacific Financial Forum, a regional platform for public-private collaboration to help accelerate the development of integrated financial markets. A symposium was co-organized by ABAC and hosted by the Australian Government in Sydney for this purpose in April, 2013. The Symposium was attended by 98 representatives from public and private sectors across APEC and concluded with wide support for the concept and objectives of APFF. This highlighted the importance of such collaboration in promoting financial market development to support the needs of the real economy and regional aspirations for sustained, balanced, inclusive and innovative growth. APFF can add value to ongoing initiatives under various fora by bringing the private sector to work with public officials to identify crucial gaps not yet being addressed and unintended consequences of new regulations. This would also help financial authorities take a more active role in shaping global financial regulatory standards.

The collaborative framework of APFF is envisioned to be a platform for public-private sector collaboration in:

- The development of robust financial markets across the region; the convergence of financial standards, regulations and practices; and connectivity for facilitating cross-border financial flows, to create dynamic and integrated financial markets that will support the region's sustained rapid growth; and
- Shaping global financial regulatory reforms in support of the region's financial development goals, through coordination of views on agreed areas of common regional concern and ensuring that these concerns are adequately reflected in global financial standards and regulations.

Recommendation:

- Endorse the launch of the APFF based on the work program priorities proposed in the report of the Sydney Symposium (Annex to the Report of the Advisory Group on APEC Financial System Capacity Building).

ii) Strengthening the Asia Region Funds Passport (ARFP)

ABAC notes the progress of the Asia Region Funds Passport (ARFP) initiative, which it recommended to APEC Finance Ministers in 2010. Preparations are under way to submit a framework document setting out the principles, implementation and governance of the ARFP for Finance Ministers' approval in this year's annual meeting. It is also expected to have a statement of intent signed by economies deciding to participate.

Recommendation:

- ABAC commends the development of the Asia Region Funds Passport (ARFP) and recommends that officials increase their engagement with market participants as the initiative is progressed.

iii) **Strategies to achieve balanced and innovative growth and stronger financial integration**

a) *Mobilizing Regional Savings for Long-Term Investments*

Sovereign wealth funds (SWFs) are growing in size world-wide, although relatively small in terms of total global financial assets, they exist in a number of APEC economies, including Australia, Russia, Brunei, USA, Canada, Malaysia, Singapore, China, Hong Kong China, Korea, Chinese Taipei and Chile.

Transparency about the operations of SWFs is often obscure and there is uncertainty about accountability. Some funds are invested on strategic grounds, as distinct from commercial investments; this is the cause of uncertainty in decision-making on potential investment by some recipient economies. Open market investment principles require a competitive environment for all investors, including SWFs and State Owned Enterprises (SOEs). APEC's Investment Action Plan calls for greater transparency in decision making around investment and improved dialogue between governments and businesses, including SWFs and SOEs.

To enhance investment flows across the region, ABAC is supporting an initiative involving a three-year program to encourage greater predictability and transparency in investment decision-making. An aspect of the program is to encourage institutional savings held in SWFs, superannuation, insurance and other vehicles to be invested in domestic and cross-border long-term infrastructure projects, subject to prudent investment principles. Research is presently being undertaken on the project and a dialogue involving officials, business, academia and representatives of SWFs and SOEs will be convened in Beijing in September, 2013.

The outcomes and recommendations from the Beijing dialogue will be reported back to the Finance Ministers.

Recommendation:

- Endorse this three-year initiative to enhance decision making, transparency and predictability to promote investment flows in the region and to promote a framework aimed at mobilizing institutional savings to be invested in domestic and cross-border long-term infrastructure investments that are economically viable and sustainable, in a transparent and market-based manner.

b) Asia - Latin America Financial Cooperation and Integration

Intra-regional collaboration is crucial for promoting trade among APEC economies. However, ABAC needs to consider the differences in levels of development between each of the sub-regions, even as we encourage progress toward the FTAAP through various pathways, including the TPP, the Regional Comprehensive Economic Partnership and the recently established Pacific Alliance.

Focusing on Asia-Latin America sub-regional collaboration from the view of the Pacific Alliance, Trans-Pacific economic ties between Asia and Latin America have deepened. Trade between both sides has steadily increased, mainly in terms of commodity-for-manufactured goods. Compared with the economic ties between other sub regions, the collaboration and linkage of these two markets still needs to be developed further with respect to trade in goods and services, investment and capital and financial market transactions.

ABAC notes the necessity of enhancing regional financial integration by expanding collaboration between Latin America and Asia. Unless addressed, the underdevelopment of this collaboration will pose a constraint to future growth.

Recommendation:

- Encourage closer economic ties between Latin America and Asia and enhanced policy coordination.
- Develop trade finance programs between Asia and Latin America, through collaboration with institutions such as the Asian Development Bank and the Inter-American Development Bank.

c) Unintended Consequences of New Financial Regulations

ABAC understands the importance of sound financial regulation in maintaining sustainable growth and stable financial systems. We note, however, that given the high-level of connectivity among today's markets, the extraterritorial impact of financial regulations can spread quickly, deeply and extensively across multiple financial markets.

Although ABAC has issued letters to relevant authorities highlighting the unintended consequences of new financial regulations last year, we have become increasingly concerned about the serious extraterritorial impact of new financial regulations being introduced in certain jurisdictions on market activities in the rest of the world.

We believe this to be particularly the case in the Asia-Pacific region, where the impact of such regulations on investment may hinder the prospects of its further development as a much-needed engine of growth for the global economy at this critical point in time. We are still urging the relevant authorities to address these concerns, and sent the letters highlighting the following issues to APEC Finance Ministers, G20 and the Basel Committee on Banking Supervision in May 2013:

- In relation to the potential negative impact on other markets from US Dodd-Frank Act and the EU Financial Transaction Tax, ABAC urged relevant authorities to collaborate with each other in addressing their cross-border and extraterritorial effects.
- Given the current unstable and uncertain economic circumstances, ABAC recommended careful consideration of new financial regulations to address their negative effects on trade finance.

Recommendation:

- Undertake regular global dialogues on financial regulatory and supervisory policy and support a global minimum regulatory standard, which would allow domestic authorities in the region flexibility in dealing with particular domestic circumstances.
- Consider the potential negative impact of Basel III on availability and cost of trade finance and bank lending to SMMEs. *Review the risk of Loss Given Default (LGD) and the specific impact of the regulation on SMMEs*
- Take appropriate measures to ensure that financial regulations facilitate SMMEs' access to trade finance.

d) Internationalization of Emerging Economies' Currencies

With emerging markets' growing economic importance, their currencies will play more important roles in global and regional markets, particularly for trade settlement and investment. Promoting the internationalization of their currencies could help accelerate financial and economic development in the region, reduce foreign exchange risks, and contribute to economic growth and recovery.

From the perspective that harmonization and transparency are necessary attributes for emerging economies' currencies to become truly international, two main areas where concrete measures can be adopted for promoting continued growth are improving liquidity and operations.

Recommendation:

- Promote the expanded role of emerging economies' currencies in trade and investment flows.
- Consider the following measures to improve liquidity and operations:

Liquidity: Ensure a consistent definition of eligible trades, with greater transparency and flexibility on the eligibility to conduct FX transactions at on-shore or off-shore rates; encourage more and greater cross-currency swap lines; harmonize reporting, record keeping and settlement procedures; and improve the fungibility of its liquidity pools.

Operations: Enhance straight-through-processing; enhanced platform for longer operating hours to cover various time zones and lower the amount and cost of liquidity required to support the transactions; ensure that needed market infrastructure are in

place, in conjunction with global standardisation, efficiency and a faster clearing and settlement system.

e) International Financial Reporting Standards (IFRS)

The global proliferation of International Financial Reporting Standards (IFRS) has been one of the biggest single developments in accounting over the past decade. In ABAC's 2010, 2011, and 2012 Report to APEC Economic Leaders, we expressed our strong support for adoption of IFRS throughout the APEC region as part of APEC's goal of encouraging regulatory coherence and of promoting regional economic integration. The introduction of robust and common accounting brings with it the potential to enhance development of capital markets in the APEC region, improve financial transparency and market certainty as well as to promote sustainable economic growth and increase cross-border trade. IFRS is an important means of converging financial standards, regulations and practices as well as shaping global financial regulatory reforms in support of the region's financial development goals. These objectives constitute a core component of ABAC's proposed Asia-Pacific Financial Forum (APFF), which will enhance regional public-private collaboration with the aim of helping the region develop sound, efficient and integrated financial markets.

However, ABAC has consistently voiced concerns that some of the newly-proposed accounting standards may result in potential negative business and economic impact. ABAC has noted that the improper implementation of IFRS in lease accounting will reduce the ability of businesses, particularly SMMEs, to access funding. ABAC is also concerned that IFRS for insurance contracts will subject insurance companies in the region to possible negative impacts including non-economic volatility in earnings and shareholder equity along with a lack of transparency in the reported results of insurance companies in the region. Finally, harmonized international standards for reporting revenue are in need of improvement, and as a result regulatory bodies are attempting to clarify principles for recognizing revenue from contracts with customers. ABAC is concerned that replacing all of the existing industry specific guidance with a single general principle will fail to address many unique, industry-specific matters and this is a significant step away from these rules. ABAC has an obligation to underscore at a policy level that financial regulatory standards be implemented in a way that does not impair APEC's overarching themes of Inclusive Growth.

Recommendation:

- Establish a task force to study smooth introduction of IFRS to ensure appropriate communication among IASB, FASB, APEC and ABAC and undertake an impact study on certain provisions, such as those related to lease financing and insurance contracts, and make suitable adjustments, to avoid negative business and economic impact.
- Support a dialogue between business groups and IASB/FASB as part of the proposed Asia-Pacific Financial Forum (APFF) on ways that would align IFRS principles with the interests of SMMEs and other business groups, such as insurance companies, that will be affected.

f) Enhancing the Potential of Credit Rating Agencies to Facilitate Cross-border Investment in Local Currency Bond Markets

Robust and reliable credit ratings that are comparable across markets can promote cross-border bond investments and greater market depth and liquidity. Much remains to be done to create favorable conditions for domestic credit rating agencies (CRAs), the dominant industry players in the region's emerging bond markets.

Key challenges are divergent rating practices; the technical difficulty of using domestic ratings to compare issues across borders; varying levels of development, accounting standards, disclosure practices and legal and regulatory regimes; and insufficient trust of investors in relatively young domestic CRAs.

Recommendation:

- Endorse a project to develop a regional guidebook on common basic rating methodologies and basic rating criteria for key industries and sectors with the collaboration of the Association of Credit Rating Agencies in Asia, as well as the convergence of accreditation criteria for CRAs across markets and convergence of financial standards and regulations to facilitate comparable credit ratings across markets.

iv) Promote PPP and infrastructure finance

Public-Private Partnerships have significant potential to help finance the region's enormous infrastructure needs, as well as to improve quality and lower costs of services. This requires the right environment, however, and despite continuing improvements in infrastructure-related policies, key constraints remain in many economies. These include lack of capital market depth, lack of good quality projects, inadequate regulatory frameworks and need for better understanding of allocating various types of risk between public and private sectors.

Structures enabling parties to frankly and objectively discuss the complex matters involved can help create conducive environments for successful PPPs. In 2010, ABAC initiated the Asia-Pacific Infrastructure Partnership (APIP), bringing together high-level officials, experts from multilateral bodies and private sector panelists actively involved in infrastructure projects from a wide range of relevant fields. Since its establishment, APIP has held dialogues with six economies (Mexico, Peru, Philippines, Vietnam, Indonesia and Thailand) and actively participated in five regional forums.

Dialogues with several economies undertaken by the Asia-Pacific Infrastructure Partnership (APIP) have highlighted key elements: coordination and collaboration among agencies; deeper understanding of risks and which parties are best positioned to assume each of them; strong, credible and creditworthy public institutions; capacity for policy reforms, planning, transactions and viability gap finance; clearly communicating priority sectors and projects; and long-term local currency finance.

Recommendation:

- Establish a regional framework under a multi-year initiative to coordinate capacity building and sharing of best practices in infrastructure finance, with the collaboration of the APIP.

v) **Promote practical solutions to financial inclusion**

a. Harnessing Innovation to advance financial inclusion

The past two decades have seen an expansion of financial inclusion driven by the adoption of innovations and new technologies that have significantly reduced the costs and increased the efficiency of offering financial services to low-income households, traditionally unbanked or under-banked individuals, and SMMEs.

Within the past few years, the development of mobile and branchless banking, improvements in credit information systems and risk analytics, and improvement in electronic data security have made considerable progress in developing economies. This has enabled a growing number of such households and enterprises to gain access to finance, and has expanded the prospects of improving people's standard of living and increasing the opportunities for economic growth.

In order to continuously promote financial inclusion, ABAC co-organized the 2013 Asia-Pacific Financial Inclusion Forum in Batam, Indonesia. This ongoing forum is designed to promote best practices sharing for policy, regulatory and supervisory agencies, and will enhance institutional capacities in the public and private sectors to continuously promote financial inclusion in the region's banking and securities systems. For details, see financial inclusion section of the attached Report of the Advisory Group on APEC Financial System Capacity Building.

Recommendation:

- Commit to policy reforms to facilitate the delivery of mobile and branchless banking and remittances and to improve the market infrastructure, particularly payment and credit reporting systems and secured lending frameworks; and
- Undertake capacity building to promote innovative approaches and effective financial education and consumer protection regimes.

b. Enhancing safe and reliable access to remittances

According to the World Bank, remittance flows to developing economies reached an estimated 401 billion USD in 2012, growing by 5.3 percent compared with 2011. Remittance flows are expected to grow at an average of 8.8 percent annual rate during 2013-2015 to about 515 billion USD in 2015. With growing constraints on public resources in the wake of the Global Financial Crisis, mobilizing private resources to serve financial needs of low-income households and small enterprises has become ever more important. Stronger, more balanced and more inclusive growth also requires efforts to further expand financial access through new channels, while addressing the key obstacles small enterprises face in accessing traditional sources of finance.

Remittances have great potential for promoting financial inclusion, and are expected to grow in importance in coming years. The World Bank estimates that cutting remittance transaction costs by 5% could save up to US \$16 billion per year. The region itself hosts around 7 million migrants, and this number is expected to increase considerably with the

region's growing economic integration, against a backdrop of large income differentials among economies and aging populations in the more developed economies. Remittances have nearly quadrupled since the turn of the millennium.

Recommendation

- Foster innovation by identifying best practices in developing payment systems, adopting globally accepted standards as well as introducing enhancement of services like cross border remittances, e-payments and facilitating online commerce to meet development goals.
- Enhance financial education to help migrants and their families understand the broad array of services and instruments such as savings, credit, and insurance linked to remittances.
- Collaborate with International Financial Institutions (IFIs) to link remittances to other financial products such as savings accounts, micro-loans and mortgage and business loans. Linking remittances more closely to banks and financial institutions such as microfinance institutions or savings cooperatives can promote the mobilization of savings and productive investments.

c. Undertaking Legal Architecture Reforms to Expand Finance

Well-defined legal systems with effective enforcement mechanisms expand funding and lower borrowing costs, especially for SMMEs, as well as for projects that require foreign financing, by providing a highly predictable environment that reduces non-commercial risks faced by lenders and investors. Measures in the areas of secured lending (particularly in relation to security interest creation, perfection and enforcement, floating charges and accounts receivable financing) and insolvency, where lenders and investors in the region face major issues, will significantly benefit member economies.

Recommendation:

- Endorse the documents *Elements of an APEC Model Code of Security Interest Creation, Perfection and Enforcement* to guide reforms in member economies and the *Asia Pacific Informal Workout Guidelines for Promoting Corporate Restructuring in the Region* and *Model Agreement to Promote Corporate Restructuring*.¹

d. Promoting full-file credit bureau systems

In a global economy, businesses need every advantage to stay competitive. One clear advantage is having access to the most complete information to make informed business decisions. Many economies in the region are active in promoting credit bureau systems, recognizing the need for these systems in promoting sound underwriting and credit

¹ To view these documents, please refer to the following pages on the ABAC website:

- Elements of a Model Code of Security Interest Creation, Perfection and Enforcement:
<https://www.abaconline.org/v4/download.php?ContentID=22611282>
- Asia-Pacific Informal Workout Guidelines for Promoting Corporate Restructuring in the Region and Model Agreement to Promote Corporate Restructuring:
<https://www.abaconline.org/v4/download.php?ContentID=22611283>

policies. However, in many APEC economies, credit information systems have not reached levels of development where they can play their full potential role in improve credit decisions. In other economies, credit bureaus lack full-file information on borrowers – credit information on all manner of trade lines such as bank, non-bank, credit card and installment sales debt – simply because the information systems are segmented or “siloes” along industry lines.

Credit bureaus are critical to the expansion of credit for both individuals and small businesses, since access to credit information is needed when applying modern financial technologies to credit decisions for these market segments. Credit bureaus also promote a competitive marketplace for financial service products, often resulting in more competitively priced credit for both commercial and consumer borrowers with good credit behavior. Fully transparent credit information systems will incentivize lenders to significantly expand more affordable credit to SMEs in the region. When this activity takes place across international boundaries, it is important that economies work together to ensure regulatory regimes do not hinder cross-border credit information flows.

Recommendation:

- Encourage credit bureaus to allow access to, and include information from, all qualified lenders, not only to maintain fair and competitive access, but also to improve the quality of data available for all.

e. Catalyzing Investment in Innovative Enterprises

Government and private sector collaboration is needed to establish a thriving and sustainable innovation ecosystem, with the role of government focused on mobilizing angel and venture capital through effective support programs, providing enabling environments for financing business activities across various stages of innovation, and ensuring the fundamental conditions for entrepreneurship and innovation. APEC can play a role in promoting the development of regional innovation by exploring the creation of APEC-oriented funds-of-funds that are public-private partnerships investing in private sector-led venture funds operating in the region and specializing in the various sectors where there are significant potential for innovation.

Recommendation:

- Develop government-encouraged funds of funds within APEC for seeding and growing a private sector-led angel and venture capital ecosystem in the region and collaborate with multilateral institutions, ABAC and private sector firms to initiate this process.



THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

APPENDIX TO THE ABAC REPORT TO APEC FINANCE MINISTERS

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

2013 REPORT ON CAPACITY BUILDING MEASURES TO STRENGTHEN AND DEVELOP FINANCIAL SYSTEMS

2013 REPORT ON CAPACITY-BUILDING MEASURES TO STRENGTHEN AND DEVELOP FINANCIAL SYSTEMS

Table of Contents

<i>SUMMARY OF RECOMMENDATIONS</i>	I
INTRODUCTION	1
I. CREATING A PLATFORM FOR PUBLIC-PRIVATE COLLABORATION TO DEVELOP THE REGION'S FINANCIAL MARKETS	1
II. ESTABLISHING A REGIONAL FRAMEWORK TO PROMOTE PRIVATE FINANCING OF INFRASTRUCTURE	6
III. HARNESSING INNOVATION TO EXPAND FINANCIAL ACCESS OF LOW-INCOME HOUSEHOLDS AND SMALL ENTERPRISES	8
IV. UNDERTAKING LEGAL ARCHITECTURE REFORMS TO PROMOTE FINANCE	13
V. ENHANCING THE POTENTIAL OF CREDIT RATING AGENCIES TO FACILITATE CROSS-BORDER INVESTMENT IN LOCAL CURRENCY BOND MARKETS	14
VI. CREATING A SUSTAINABLE VENTURE CAPITAL ECOSYSTEM IN THE APEC REGION	18
<i>ANNEX: CONFERENCE REPORT OF THE ASIA-PACIFIC FINANCIAL MARKET DEVELOPMENT SYMPOSIUM (10-11 APRIL 2013, SYDNEY, AUSTRALIA)</i>	

**THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM
CAPACITY-BUILDING**

**2013 REPORT ON CAPACITY-BUILDING
MEASURES TO STRENGTHEN AND DEVELOP
FINANCIAL SYSTEMS**

Summary of Recommendations

This year, the Advisory Group built upon the results of its past activities to significantly advance the agenda for developing sound and integrated financial markets, promoting private financing of infrastructure and accelerating the pace of financial inclusion. It also resumed its focus on the legal architecture governing financial transactions, the role of credit rating agencies in encouraging greater cross-border investment and the prospects for catalyzing more investment in innovative enterprises through angel and venture capital. The Advisory Group undertook a number of activities to discuss these issues. The results of these discussions are reflected in the following conclusions and recommendations.

CREATING A PLATFORM FOR PUBLIC-PRIVATE COLLABORATION TO DEVELOP THE REGION'S FINANCIAL MARKETS

In 2012, APEC Finance Ministers welcomed ABAC's proposal to explore the creation of the Asia-Pacific Financial Forum (APFF), a regional platform for public-private collaboration to help accelerate the development of integrated financial markets. A symposium hosted in Sydney by the Australian Government for this purpose underscored the importance of such collaboration in promoting financial market development that supports the needs of the real economy and regional aspirations for sustained, balanced, inclusive and innovative growth. APFF can add value to ongoing initiatives under various fora by bringing the private sector to work with public officials to identify crucial gaps not yet currently being addressed and unintended consequences of new regulations, as well as to help financial authorities take a more active role in shaping global financial regulatory standards. The Advisory Group also notes the progress of the Asia Region Funds Passport (ARFP) initiative, which it has recommended to APEC Finance Ministers in 2010.

- *The Advisory Group recommends that APEC Finance Ministers endorse the launch of the Asia-Pacific Financial Forum (APFF) based on the work program priorities proposed in the report of the Sydney Symposium (Annex).*
- *The Advisory Group commends the development of the Asia Region Funds Passport (ARFP) and recommends that officials increase their engagement with market participants as the initiative is progressed.*

ESTABLISHING A REGIONAL FRAMEWORK TO PROMOTE PRIVATE FINANCING OF INFRASTRUCTURE

Significant amounts of savings and private sector know-how can be harnessed to help the region meet its needs for higher quality infrastructure at lower cost to taxpayers and users. However, governments need to work closely together with the private sector and multilateral institutions to provide a conducive environment. Dialogues with several economies

undertaken by the Asia-Pacific Infrastructure Partnership (APIP) have highlighted key elements: coordination and collaboration among agencies; deeper understanding of risks and which parties are best positioned to assume each of them; strong, credible and creditworthy public institutions; capacity for policy reforms, planning, transactions and viability gap finance; clearly communicating priority sectors and projects; and long-term local currency finance.

- ***The Advisory Group recommends that APEC Finance Ministers establish a regional framework under a multi-year initiative to coordinate capacity building and sharing of best practices in infrastructure finance, with the collaboration of the APIP.***

HARNESSING INNOVATION TO EXPAND FINANCIAL ACCESS OF LOW-INCOME HOUSEHOLDS AND SMALL ENTERPRISES

Innovation promotes financial inclusion by significantly reducing the costs and increasing the efficiency of financial services being offered to low-income households and small enterprises. The 2013 Asia-Pacific Financial Inclusion Forum hosted by the Indonesian Government and convened through the Advisory Group by ABAC and its partner institutions and a training program hosted by the Australian APEC Study Centre at RMIT University identified various measures that can help governments harness innovation to promote financial inclusion.

- ***The Advisory Group proposes that APEC economies commit to policy reforms to facilitate the delivery of mobile and branchless banking and remittances and to improve the market infrastructure, particularly payment and credit reporting systems and secured lending frameworks; and to undertake capacity building to promote innovative approaches and effective financial education and consumer protection regimes.***

UNDERTAKING LEGAL ARCHITECTURE REFORMS TO PROMOTE FINANCE

Well-defined legal systems with effective enforcement mechanisms expand funding and lower borrowing costs, especially for SMEs, as well as for projects that require foreign financing, by providing a highly predictable environment that reduces non-commercial risks faced by lenders and investors. Measures in the areas of secured lending (particularly in relation to security interest creation, perfection and enforcement, floating charges and accounts receivable financing) and insolvency, where lenders and investors in the region face major issues, will significantly benefit member economies.

- ***The Advisory Group proposes the endorsement by APEC Finance Ministers of the documents “Elements of a Model Code of Security Interest Creation, Perfection and Enforcement” to guide reforms in member economies and the “Asia Pacific Informal Workout Guidelines for Promoting Corporate Restructuring in the Region” and “Model Agreement to Promote Company Restructuring.”¹***

ENHANCING THE POTENTIAL OF CREDIT RATING AGENCIES TO FACILITATE CROSS-BORDER INVESTMENT IN LOCAL CURRENCY BOND MARKETS

¹ To view these documents, please refer to the following pages on the Advisory Group section of the ABAC website:

- Elements of a Model Code of Security Interest Creation, Perfection and Enforcement: <https://www.abaconline.org/v4/download.php?ContentID=22611282>
- Asia-Pacific Informal Workout Guidelines for Promoting Corporate Restructuring in the Region and Model Agreement to Promote Corporate Restructuring: <https://www.abaconline.org/v4/download.php?ContentID=22611283>

Robust and reliable credit ratings that are comparable across markets can promote cross-border bond investments and greater market depth and liquidity. Much remains to be done to create favorable conditions for domestic credit rating agencies (CRAs), the dominant industry players in the region's emerging bond markets, to provide such ratings. Key challenges are divergent rating practices; the technical difficulty of using domestic ratings to compare issues across borders; varying levels of development, accounting standards, disclosure practices and legal and regulatory regimes; and insufficient trust of investors in relatively young domestic CRAs.

- ***The Advisory Group recommends that APEC Finance Ministers endorse a project to develop a regional guidebook on common basic rating methodologies and basic rating criteria for key industries and sectors with the collaboration of the Association of Credit Rating Agencies in Asia; convergence of accreditation criteria for CRAs across markets; and convergence of financial standards and regulations to facilitate comparable credit ratings across markets.***

CATALYZING INVESTMENT IN INNOVATIVE ENTERPRISES

Government and private sector collaboration is needed to establish a thriving and sustainable innovation ecosystem, with the role of government focused on mobilizing angel and venture capital through effective support programs, providing enabling environments for financing business activities across various stages of innovation, and ensuring the fundamental conditions for entrepreneurship and innovation. APEC can play a role in promoting the development of regional innovation by exploring the creation of APEC-oriented funds-of-funds that are public-private partnerships investing in private sector-led venture funds operating in the region and specializing in the various sectors where there are significant potential for innovation.

- ***The Advisory Group recommends the development of government-encouraged funds of funds within APEC for seeding and growing a private sector-led angel and venture capital ecosystem in the region and that interested economies and multilateral institutions collaborate with ABAC and private sector firms to initiate this process.***

**THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM
CAPACITY-BUILDING**

**2013 REPORT ON CAPACITY-BUILDING
MEASURES TO STRENGTHEN AND DEVELOP
FINANCIAL SYSTEMS**

Building on the core message of its previous reports, the Advisory Group continues to advocate measures to address fundamental issues underlying internal and external imbalances in advanced and developing economies that have led to the current difficult global economic situation. The Advisory Group's discussions over the past several years have led to the conclusion that ensuring continued robust global economic growth would require expanding the world economy's growth potential, particularly through increased consumption and business activity in emerging markets. Developing APEC member economies, in particular, have significant potential to turn the region into a major engine of more sustained global economic growth.

In order to do so, however, they would need to address the underlying factors that constrain growth of domestic consumption and investment. Among these are underdeveloped financial markets and institutions, in particular those that can channel savings into long-term investment; inadequate access of small enterprises and the large low-income segment of the population to financial services; and policy, institutional and financial obstacles to expanded private investment in infrastructure and innovative enterprises. Capacity building has an important role to play in addressing these constraints.

This year, the Advisory Group builds on the work of previous years that has focused on financial sector solutions to these issues. Being a platform for regional public-private sector collaboration led by the APEC Business Advisory Council (ABAC), the Advisory Group outlines its proposals in this report, which is divided into six sections: (a) creating a platform for public-private collaboration to develop the region's financial markets; (b) establishing a regional framework to promote private financing of infrastructure; (c) harnessing innovation to expand financial access of low-income households and small enterprises; (d) undertaking legal architecture reforms to promote finance; (e) enhancing the potential of credit rating agencies to accelerate cross-border investments in local currency bond markets; and (f) catalyzing investment in innovative enterprises.

I. CREATING A PLATFORM FOR PUBLIC-PRIVATE COLLABORATION TO DEVELOP THE REGION'S FINANCIAL MARKETS

In 2012, the APEC Business Advisory Council (ABAC) proposed the establishment of an Asia-Pacific Financial Forum (APFF), a regional platform for enhanced public-private collaboration to accelerate the development of robust and integrated financial markets in the Asia-Pacific. At their meeting in Moscow, the APEC Finance Ministers welcomed the idea behind this proposal and supported the holding of a symposium to explore the creation of the APFF and the Australian Treasury's offer to host the event.

The symposium was co-organized by ABAC through the Advisory Group on APEC Financial System Capacity Building and hosted by the Australian Government in Sydney on 10-11 April 2013. A total of 98 participants representing a wide spectrum of organizations in the region's public and private sectors as well as international institutions, standard-setting bodies and academic and research institutions attended the event. *(The full report of the symposium is attached as an annex to this report.)*

Participants discussed the state and evolution of Asia-Pacific financial markets, their role in the region's development agenda, and the regulatory frameworks and market infrastructure that are needed to accelerate the development and integration of these markets. Participants discussed how the proposed APFF can add value to ongoing domestic and regional initiatives, what priority issues would be useful to include in its work program, and the kind of structure and process that would be most effective in advancing its work.

In the context of the current global economic situation, governments and the private sector in the Asia-Pacific region bear a serious responsibility for the future of the global economy. While comprising roughly a third of global GDP, the region is now responsible for half of global economic growth. As the ability of traditional consumer markets in Europe and North America to continue absorbing the finished goods exports of the region's emerging markets wanes, economies in the region will need to shift away from the export-dependent economic growth model. Rebalancing toward a model that is increasingly driven by domestic and regional demand will require significant increases in domestic consumption supported by strong investment growth.

Financial markets have an important role to play in this transformation. Before they can do so, however, they need to evolve from the current structure that remains excessively reliant on bank funding to one that provides greater diversity of financing sources, with a larger role to be played by deep and liquid capital markets and institutions that can provide long-term finance, especially for infrastructure development. Financial systems also need to become more inclusive in order to economically empower larger portions of the population and create a broad-based economy that can ensure sustained economic growth.

Financial markets require strong foundations in order to develop in a sustained way and avoid instability. Sound legal and regulatory frameworks that allow markets to develop and encourage financial market players to contribute to broader economic development goals, cost-effective and efficient market infrastructure that supports intermediation, risk management and related market activities, and an environment that fosters good governance are basic requirements that need to be put in place.

In conjunction with these necessary requirements, regional financial integration – including greater competition, convergence of regulations and market practices and greater connectivity across markets and market infrastructure – will enable the region's financial markets to achieve economies of scale and greater depth and liquidity. It will enable market participants to become more efficient, innovative and competitive. It will enable households and individuals to have more and better choices for their financial services needs, including savings, insurance, investment and payments. It will enable enterprises to have better access to finance at lower costs.

Putting all these elements in place within a time frame that satisfies the urgency of the task is a great challenge that requires much cooperation among a variety of institutions and agencies and the private sector within and across economies, in collaboration with relevant multilateral and standard setting bodies and other institutions that can provide expertise. While a number

of collaborative initiatives to develop and strengthen markets such as those under the ASEAN, ASEAN+3, EMEAP and APEC frameworks are already under way, they are not yet sufficient to address all the important issues.

This is a challenge for the region, but also an opportunity for APEC to make a significant contribution. APEC can leverage its unique arrangements for close collaboration between public and private sectors, and in particular the partnership among finance ministries, ABAC and international organizations within the framework of the APEC Finance Ministers' Process (FMP). These collaborative arrangements, which have evolved over time through cooperation in various fields such as bond market development, financial inclusion and infrastructure finance, have given rise to a flexible and effective second-track approach to generating useful advice to governments that can operate without the constraints that official structures often have to contend with.

As an informal, inclusive and advisory public-private platform managed by the private sector, the APFF can focus on important issues cutting across the variety of regional and international initiatives and institutions. Through this process, APFF can help design policies that will encourage and enable market participants to direct their business and commercial activities to the development and integration of the region's financial markets. In this context, the APFF has the potential to become a bridge among many institutions and organizations that are striving toward the same goal and to facilitate synergy among them.

Participants agreed on a number of priorities for consideration as part of the proposed APFF work program. Priorities were selected based on their expected impact on the development and integration of the region's financial markets and their complementarity with ongoing initiatives and existing institutions. Participants also selected priorities that may realistically be dealt with through initiatives that could yield tangible results within a short- to medium-term time frame harnessing the Advisory Group's network and resources that are or can reasonably be assumed to be available. Following are the priority issues that emerged from these discussions:

- *Development of the region's insurance industry as a provider of long-term investments.* More efforts are needed to enable the insurance industry to play its proper role of supporting long-term financial stability, economic and infrastructure development, trade expansion and social stability and inclusion, particularly by examining more closely how regulatory requirements affect this role. Collaborative action can be helpful in developing common approaches to global regulatory, accounting and other relevant standards and regulations that discourage insurers from acting as long-term investors. Another area where efforts may be focused is promoting harmonized interpretation of macro-prudential insurance regulatory requirements, taking into account differences in characteristics, needs and levels of development among jurisdictions and recognizing the specific nature of insurance.
- *Development of retirement income policies.* This aims to respond to needs arising from demographic trends (aging) and to promote accumulation of long-term funds and their investment in government and corporate sectors and long-life infrastructure assets. Efforts should cover the range of relevant public and private institutions and structures, including sovereign wealth funds, official off-budget and on-budget structures, pension funds, insurance companies, self-funded retirement and investment in bonds and enterprise annuities. Activities should focus on providing advice on a number of key issues. These include development and funding of retirement systems. They

include suitable and practical design, structure and regulation that can foster sustainable, stable and trusted institutions, as well as support economic incentives. They should also include public-private sector financial literacy initiatives that encourage long-term savings.

- *Facilitating full-file, comprehensive and accessible credit reporting systems.* This responds to the need for promoting expanded financial access of households and small businesses in conjunction with sound, risk-based credit decisions and responsible credit behavior. Efforts should aim to help policy makers introduce full-file and comprehensive credit reporting systems and encourage the establishment and expansion of private credit bureaus. These should be done in conjunction with advice on the development of legal and regulatory frameworks to protect consumers and privacy, and converging approaches to data privacy protection and cross-border data flows that promote regional integration.
- *Improving legal frameworks for secured financing.* Measures are needed to address gaps in the legal regime for secured lending, which create disincentives for creditors to extend loans to mid-market companies, resulting in increased cost and decreased availability of credit. Addressing this requires enhanced certainty and transparency in the legal regime, through such measures as unified collateral registrations systems, elimination of hidden liens, expanded definitions of eligible collateral, and assignability of claims, among others. Focus will need to be given to improving the ease, predictability and transparency of security interest creation, perfection and netting enforcement by identifying model elements and on the basis of these, developing a secured lending model code that can help guide legal reforms in the region's economies. These will require dialogues among relevant authorities, especially those with direct responsibility over these issues, as well as capacity building to promote deeper understanding and support for legal reforms in this area.
- *Facilitating trade finance.* There is a need to address the gap in trade finance in the region arising from the scaling back of Asian operations by European banks, which are major players in this business, as a result of challenging economic conditions at home and consequent pressures on them to reduce their balance sheets, increase their capital and repatriate their assets. Work is needed to address regulatory issues, particularly minimum capital requirements that require more regulatory capital to be set aside to back trade finance transactions, affecting the availability and cost of trade finance. Attention also needs to be directed to the promotion of collaborative undertakings among the public and private sectors, multilateral institutions and regional organizations to ensure availability of adequate financial support to trade.
- *Addressing market infrastructure issues to facilitate cross-border investment flows.* Issues concerning trading, clearing and settlement infrastructure across markets in the region need to be addressed to improve efficiency and price discovery and reduce trading costs in bond and equity markets. Undertakings will need to focus on promoting cross-border investment flows with collateral, standards and platforms that can harmonize local market practices, improve the inter-operability, liquidity and connectivity of domestic and cross-border financial markets, and reduce systemic risks. The proliferation of clearing venues within the region, which threatens to increase fragmentation across markets and collateral requirements, also needs to be addressed through collective efforts to resolve differences and harmonize approaches with

respect to clearing, collateral management, trade repositories and development of electronic exchange venues.

- *Enhancing capital market integrity.* Common standards and high quality of corporate governance across economies in the region are vital for attracting investors to the region and raising funds across asset classes. This involves the development of standards for fair, transparent and predictable resolution regimes, benchmarking issuer governance standards for market entry, and improving the transparency of information for investors through a concrete undertaking to help promote consistency of accounting rules and credit culture.
- *Improving capital market quality.* Asian markets have made significant progress in this area since the Asian Financial Crisis, as proven by the limited impact that the GFC has had on the region. However, much work remains to be done to help develop corporate bond markets and expand cross-border transactions. Key issues involved in this undertaking include (a) the development of classic repo markets and hedging structures for both government and corporate bonds; (b) the development of a roadmap toward a regional funds passport through harmonization of access requirements to local markets and standardization of platforms; and (c) the development of a platform for providing standardized market information to fund managers, such as through development of indexes.
- *Responding to the extra-territorial impact of new regulations in major markets on Asia-Pacific capital market development.* Legal and policy measures that have extra-territorial impact are a source of concern across markets and asset classes in the region, and require collective efforts among governments to address their implications. This will involve discussions to identify those extra-territorial effects that significantly affect the development of the region's capital markets and develop appropriate and effective responses to cope with them at the domestic and regional levels and to initiate fruitful dialogues at the global level. Examples of these issues are the new US and European OTC derivatives rules which may encourage the withdrawal of participants from markets and negatively affect the ability of end-users to hedge risks.

Symposium participants explicitly confirmed the need for establishing the APFF. They identified the needs and aspirations of the region's economies and the ongoing processes that characterize the development of the region's financial markets. They identified the principal challenge as building the institutions and structures through which savings can be channeled into the kind of investments, particularly long-term investments, which will meet the most important needs of the region.

Participants agreed on a basic initial structure for the APFF and the cast of institutions and players who need to be involved in its development. They agreed to propose that ABAC, utilizing the Advisory Group's network, be responsible for developing its activities under the institutional structure of the APEC FMP, in collaboration with interested ministries and institutions that play important roles in the development of policies and regulations affecting the various components of financial markets.

The Advisory Group also notes the progress of the Asia Region Funds Passport (ARFP) initiative, which it has recommended to APEC Finance Ministers in 2010. Preparations are under way to submit for Finance Ministers' approval in this year's annual meeting a

framework document setting out the principles, implementation and governance of the ARFP, and to have a statement of intent signed by economies deciding to participate.

Finally, the Advisory Group discussed this year the role of valuation in financial markets. Its importance as the basis for investment decisions, measuring performance and disclosure in financial reporting has been growing, most especially since the publication of new International Valuation Standards in 2011, covering a range of asset types including intangibles, real estate, business interest and financial instruments.

The contribution of valuation to the development and stability of financial systems can be increased by addressing important challenges – a fragmented professional and regulatory landscape, the multiplicity of bodies producing regulations related to valuation and the lack of professional infrastructure and common benchmark for the profession. The Advisory Group hopes to devote more attention in the future to examining how the public and private sectors can collaborate in APEC to support the development of high quality valuation, ethical, educational and related quality assurance and disciplinary standards based on global benchmarks.

The Advisory Group recommends that APEC Finance Ministers endorse the launch of the Asia-Pacific Financial Forum (APFF) based on the work program priorities proposed in the report of the Sydney Symposium.

The Advisory Group commends the development of the Asia Region Funds Passport (ARFP) and recommends that officials increase their engagement with market participants as the initiative is progressed.

II. ESTABLISHING A REGIONAL FRAMEWORK TO PROMOTE PRIVATE FINANCING OF INFRASTRUCTURE

Promoting greater private sector participation in infrastructure is important due to the benefits of additional financing to supplement inadequate public sector resources, mobilizing the know-how and technology in the private sector to increase the efficiency of infrastructure, and creating the long-term assets to match the investment needs of aging societies. Achieving this requires generating infrastructure projects that are not only cost-effective and have significant impact on economic development, but also provide attractive risk-adjusted returns to lenders and investors.

Many of the region's emerging markets, where there is a considerable need for infrastructure to sustain economic growth, face a number of challenges in providing a conducive environment for private financing of infrastructure. The Asia-Pacific Infrastructure Partnership (APIP) was established in 2011 upon the recommendation of the Advisory Group and ABAC to provide a regional platform for collaboration among the public and private sectors and multilateral institutions in addressing these challenges and creating a favorable environment in the region for Public-Private Partnerships (PPP).

Since its establishment, the APIP has undertaken several high-level dialogues with a number of economies – with Mexico, Peru and the Philippines in 2011, Vietnam and Indonesia in 2012, and the Philippines (follow-up dialogue) and Thailand in 2013. These dialogues have highlighted several key issues. Among these are:

- lack of capacity to prepare bankable projects that can provide a robust pipeline, as well as capacity for policy reforms and planning;

- the need to better understand risks, which parties are best able to take on which risks in which sectors, and how best to allocate these risks among public, private, multilaterals and other relevant institutions;
- the need to have a transparent and efficient legal and regulatory environment that can reduce risks to the minimum possible;
- need for mechanisms to mitigate risks that the private sector cannot cover;
- lack of long-term local currency finance;
- need for more coordinated and coherent public sector approach to PPPs; and
- importance of having credible and creditworthy public counter parties

These issues revolve around three challenges: capacity, collaboration and financial markets.

- *Capacity:* In many economies, there is a need for more capacity to prepare bankable projects and a pipeline of such projects, capacity to effectively undertake long-term infrastructure planning and transactions, and capacity to improve the credibility, creditworthiness, governance and management of counter parties and institutions in the public sector.
- *Collaboration:* There is a need to bring closer together relevant parties to collaborate and dialogue in order to bridge information asymmetry and design effective solutions. These relevant parties are, from the public sector, relevant ministries, line agencies, off takers, public financial institutions and local governments. From the private sector, they include investors, lenders, operators, developers, and relevant legal and academic experts. Others are multilateral institutions, export credit and development assistance agencies, and local communities. It is important for these parties to be brought together to have a better understanding of risks and how they may be most effectively allocated and mitigated, to better design tax systems, legal and regulatory frameworks, procurement policies and land policies, and to identify the areas where resources for capacity building could be focused with maximum results.
- *Financial markets.* The lack of long-term local currency financing is a major bottleneck in a number of economies. The long-term solution to this is the development of the insurance and pension fund industries, robust legal and regulatory frameworks and market infrastructure and practices. In the meantime, multilateral institutions, export credit agencies and local institutions need to work together to make more funding available for specific projects.

APEC can make significant contributions to meeting these challenges. First, it can help establish a regional platform that can help bridge information asymmetries and help member economies design effective policies and projects. This regional platform may take the form of a regional infrastructure panel under the APEC FMP that can bring together finance ministries, relevant public sector agencies and bodies, multilateral institutions and the private sector. APEC can engage APIP to promote effective private sector participation in this regional platform, expanding its role beyond the current focus of dialogues with individual governments.

Second, APEC can help economies build capacity for long-term planning and for managing transactions through a multi-year infrastructure policy initiative under the APEC FMP. Such an initiative can provide synergy among various efforts already being or being planned to be undertaken by multilateral bodies, export credit agencies, private financial institutions and academic centers. It would also provide an opportunity to systematically share experiences among member economies and compile best practices. One important area identified as

crucial in several APIP dialogues that can be a focus of initial activities is the development of PPP centers at the domestic and regional level.

The Advisory Group recommends that APEC Finance Ministers establish a regional framework under a multi-year initiative to coordinate capacity building and sharing of best practices in infrastructure finance, with the collaboration of the APIP.

III. HARNESSING INNOVATION TO EXPAND FINANCIAL ACCESS OF LOW-INCOME HOUSEHOLDS AND SMALL ENTERPRISES

Innovation promotes financial inclusion by significantly reducing the costs and increasing the efficiency of financial services being offered to low-income households and small enterprises. The 2013 Asia-Pacific Financial Inclusion Forum hosted by the Indonesian Government and convened through the Advisory Group by ABAC, ADB Institute and the Foundation for Development Cooperation in collaboration with various partner institutions² identified various measures that can help governments harness innovation to promote financial inclusion.

The published full report of the Forum will be distributed separately to APEC Finance Ministers and other relevant officials and regulators. The following are its key messages:

Mobile and Branchless Banking. Branchless and mobile banking solve one of the key challenges for banks to drive financial inclusion by increasing their reach, lowering costs and extending the product mix to new consumers. Partnerships with third party distribution networks (agents) are critical to extend beyond the traditional branch based distribution model. Banks should explore innovative ways and alternative data to assess risk and extend lending products to the poor and the unbanked, beyond basic payments services. In order to succeed, banks must think of unique processes and systems to cater to this segment different from their traditional way of doing business.

Mobile and branchless banking is a key enabler to increase access to financial products and services and represents a significant opportunity to bank the unbanked. However, it is a multidimensional issue involving several elements such as: domestic policies for financial inclusion, financial products and services development, regulatory frameworks, cooperation amongst stakeholders and consumer perspectives. As such, the development of mobile and branchless banking services requires a holistic approach to address challenges from multiple angles and perspectives.

Mobile and branchless banking systems involve a greater number of stakeholders who are not traditionally involved with the financial sector or in providing access to the un-banked (e.g. Mobile Network Operators (MNOs), agent aggregators, payment companies, technology companies, etc). A greater effort needs to be made to include these stakeholders in the conversations and programs; and furthermore, a greater amount of coordination is required to facilitate the cooperation amongst each of the players.

Much has been done throughout the region to progress and develop mobile and branchless banking opportunities. There is a need for private actors and for policy makers to assess the environment and identify what has and has not worked well with the aim of identifying what could be “best-practice.” A “one-size-fits-all” model is not realistic, however, as the

² These included CGAP, the International Finance Corporation (IFC), the Association of Development Financing Institutions in the Asia-Pacific (ADFIAP), the Asia-Pacific Credit Coalition (APCC) and the Banking With the Poor Network (BWTP). The forum was sponsored by Citi Foundation.

needs of the poor in each economy varies significantly. Therefore each economy will have to adapt these best practices according to the local stakeholder needs.

While mobile and branchless banking represents significant opportunity to assist the poor, serious challenges remain. One crucial challenge to overcome is the number of inactive clients currently found within many cases of implementations. This is mainly due to a lack of in-depth understanding of the needs of different consumer segments within the unbanked and underserved population. By better analyzing the specific demand of these segments, banks, MNOs and other key actors would be able to customize their product value propositions and marketing approach. A greater emphasis is needed across all stakeholders on understanding the needs of the consumer in order to ensure that appropriate products are developed.

Under certain scenarios, policy makers in the government can take steps to encourage interoperability between payment schemes to encourage further scaling of the programs (e.g. Bank Negara in Malaysia spurred the establishment of “MyMobile”, an interoperable mobile financial services program which has participation from three MNOs and three banks).

Retail Payment Systems. Distribution channels, communication technology and e-money products and services will support product innovation and client and risk analysis, thus leading to new value propositions on financial services. Retail payment systems have the potential to broaden financial inclusion; however, this potential is limited to how well the needs and demands of clients are understood. Stakeholders need to put more effort into understanding the needs of their clients in order to maximize the potential impact retail payment systems have for financial inclusion.

There are currently too many independent entities operating within the retail payment space which is resulting in inefficiencies and disruptive practices. Greater collaboration is needed and stakeholders should look to each other as potential partners rather than attempting to operate independently.

Remittances. Innovation in remittances is continuing at a rapid pace, indicated by new sending mechanisms and enhanced services that are benefiting more customers. The market for mobile-based remittances is expanding with consumers becoming more accustomed to the services, a growing number of partnerships among stakeholders, and customer benefits being proven.

Financial viability of remittance related products and services is still an issue, but long-term prospects are attractive in view of the growth of the remittance market and its business potential. Flows from developed to developing economies currently predominate, but the case of Latin America shows that the share of remittance flows among developing economies are increasing. As such, significant growth of intra-regional flows should be expected in the future.

Regulatory environment, market infrastructure and customer education are major challenges for the growth and expansion of the remittances market. Innovations are providing significant benefits to migrant families through lower prices; however, the impact varies across regions with Asia, and to a lesser extent Latin America, relatively behind other parts of the world in bringing down the cost of remittances.

There is a great opportunity to harness remittances to achieve greater financial inclusion for

the unbanked and more work needs to be done to promote and enhance its benefits including: facilitating access to services, providing financial education and supporting the expansion of services of banks and other financial institutions.

More dialogue is needed between the public and private sectors to develop an appropriate policy and regulatory environment that will support the development of the remittance market. These discussions should focus on developing an understanding of the remittance environment, constraints and development needs of the market infrastructure, identifying and understanding the roles of various stakeholders and effective business models.

Financial Infrastructure: Legal Frameworks for Secured Lending. Unlocking the value of movable assets (“movables”) through financing will help to increase financial inclusion to the unserved and underserved clients, especially small and medium enterprises (SMEs). Increasing access to credit in turn achieves a greater purpose i.e. to create employment and alleviate poverty by developing a sustainable conduit for social and economic development. These will require a number of reforms to the legal system which enables secured transactions--the taking of movable assets as collateral for credit. In the unreformed economies, secured transactions reform (STR) typically entails the development or revision of secured transactions law, the establishment or improvement of collateral registry, and the development of movables-based lending practice.

Secured transactions reforms, aiming to create a more inclusive financial eco-system, can produce significant benefits including increased transparency, enforceable laws, and providing incentives to both lenders and borrowers. Throughout the process of such reforms, it is crucial to capture the perspectives of the market to ensure that the proposed reform measures are meeting the needs of lenders and borrowers so that any framework for secured financing can, indeed, lead to greater access to financial services for the unserved and under-served segments of the economies, such as rural clients, micro businesses and SMEs. These priority clients often do not have real estate collaterals that are acceptable to the lenders; but, they all have some movable assets (accounts receivable, inventory, equipment, intangible property, etc.) which can be used as the basis for borrowing.

Based on the experience of a number of APEC economies (e.g., Vietnam, China, Mexico), legal reform and the development of collateral registry alone are not sufficient to create a viable movables lending market. Among others, the government authorities and regulators can be more active in creating an enabling environment; lenders need to build up capacities in movables businesses; collateral management companies and other service providers should be developed; and some movables financing electronic platforms linking up the lenders and borrowers (including suppliers, buyers and services providers along value chains) can be set up.

Financial Infrastructure: Financial Identity and Data Flows. Traditional data taken from bank loans or retail credit is limited in that it only applies to borrowers that are already in the system. Alternative or non-traditional data provides an additional assessment angle based on the client’s reputation and makes it possible to provide identity profiling for the financially excluded through validation of consistent identity over time. By substituting reputation for collateral, basic asymmetries of lending can be overcome and lending can be expanded to many currently excluded categories. Examples of alternative data include: post payments such as energy and water utility payments, landline and wireless phone bills; remittance payments and stored value cards; prepayments on cell phones, utilities or education expenses; and agricultural production and transaction.

Establishing a financial identity has many potential benefits which could lead to significant impact on poverty alleviation through increased access to financial services. Some of these potential benefits include: decline in accounts in arrears; improving cash flow; reducing costs; increasing credit access; enabling lenders to evaluate credit risk more accurately; enhancing borrower discipline; and facilitating equitable lending to underserved communities.

When considering the options for establishing financial identity, policy makers must achieve a delicate balance that includes consumer rights and protection, creation of an environment that attracts and sustains investment and the choice between a gradual or rapid change approach. A “one-size fits all” approach is not possible and so frameworks used in other economies will need to be adapted appropriately. Policy makers should also be encouraged to be creative and take chances in addressing problems faced and ensure that they manage an appropriate balance between prudential risk and consumer protection.

Innovative Institutional Frameworks. A “best-practice” institutional framework requires both technology-driven efficiency and solutions to leverage local knowledge. This local knowledge is the strength of traditional microfinance institutions that keep close relationships with poor clients and understand their behavior.

While applying new technologies to delivery channels for inclusive financial services, less attention has been given to the development of financial products which are suitable to the poor. To achieve greater financial inclusion product development needs to be based upon further learning from the poor and their behaviors as well as possible financial viability for providers.

A holistic approach to clients’ livelihoods and linkage formulation are key elements for an innovative institutional framework. Financial services are one of the indispensable means to livelihood improvement and should be combined with other means, such as capacity building, market development and rural infrastructure, in a mutually enhancing manner. Linkage formulation refers to connectivity development among clients’ organizations such as cooperative federations, financial services providers, government agencies, private businesses and others, and among stakeholders through a value chain in an industry. These linkages are important to empower the poor and enhance their creditworthiness, to achieve a business case by scaling-up and to create affordable and reliable financial services to both poor households and MSMEs.

Consumer protection is of paramount importance within institutional frameworks, especially with technology-driven financial services which are quite new to consumers both in emerging and developed economies.

Financial Education and Consumer Protection. Financial sector complaints are on the rise. This highlights the need for common consumer protection principles. However, the current range of established principles fall short with regard to transparency and disclosures which are crucial for meeting the needs of adequate consumer protection. Thus, principles aiming to support this need to be clear and comprehensible. Furthermore, while global principles and standards for consumer protection are useful, economy specific principles are also needed to ensure that the local context is being appropriately met.

Financial education has a significant role in achieving greater financial inclusion as it enables behavioral changes of the targeted groups resulting in their capable use of financial products and services. Financial education is a life-long initiative, however, and it is

interlocked with other important aspects such as consumer protection and access.

Financial innovations require consumer protection to be dynamic, especially with regard to security of payments. There is a direct correlation between consumer protection and uptake/usage of financial innovations, particularly among low-income clients, with stronger consumer protection measures, including better redress mechanisms, resulting in increased uptake.

Regulation should not limit financial innovation, but rather should be used to create incentives to support the development of new services. The strengthening of an appropriate policy and regulatory framework will promote greater financial education and consumer protection. In this regard, regulators, consumers, and protection agencies need to be dynamic and resilient in order to respond to the rapidly changing environment, including the challenges of financial innovation that are arising from new technological developments.

The Advisory Group also supported the holding of a training program hosted by the Australian APEC Study Centre at RMIT University on best practice proposals on policy and regulatory measures to promote financial inclusion in the region's banking and securities systems, including providing support for technology and innovation, compliance with various financial regulatory requirements, consumer protection and the maintenance of financial system stability.³

Key findings of the program included the following:

- To broaden financial services, there should be more emphasis on women (and households) as account holders, particularly in Asian economies.
- Remittance flows between urban and rural centers are extremely important drivers and more work is needed to provide secure remittance services.
- Financial system regulators are generally taking a light touch to oversee electronic services and this is to be commended as it allows space for technology applications to develop and for innovation in service delivery.
- Telecommunications services regulators should provide fair and equitable access to financial service providers.
- A collaborative framework is needed in economies to ensure technology platforms provide interconnectedness between different service providers.
- Tensions between banks which wish to provide mobile network services and Mobile Network Operators who can and do, through pricing arrangements, keep banks out of the delivery system limits the reach of technology to the under-served. This tension presents a serious challenge to governments wishing to implement financial inclusion policies.
- An increasingly important aspect of public policy should be to require finance system regulators and telecom regulators to cooperate to encourage the use of technology in the delivery of financial services – a whole of government approach is required.

³ The program was funded by AusAID through the Public Sector Linkages Program. The ADBI, ADFIAP and CGAP cooperated in the design of the program. 21 participants from the Asia Pacific region attended and the course involved presenters from international organizations, business groups, academics and senior representatives of financial policy and regulatory agencies from the region.

- Regulations to handle anti-money laundering and Financial Action Task Force requirements are generally in place and the main focus now ought to be in relation to concerns on data privacy and competition practices; a key concern for consumers is data collection and the use of data by people who collect it.
- Security of customer data is vital to sustain consumer confidence in the industry.
- Agent banking is a banking strategy beneficial for geographically isolated regions to help drive down delivery costs.

The Advisory Group encourages relevant officials to study the conclusions of the training program, by visiting <http://www.apec.org.au/event2.asp?event=91>.

The Advisory Group proposes that APEC economies commit to policy reforms to facilitate the delivery of mobile and branchless banking and remittances and to improve the market infrastructure, particularly payment and credit reporting systems and secured lending frameworks; and to undertake capacity building to promote innovative approaches and effective financial education and consumer protection regimes.

IV. UNDERTAKING LEGAL ARCHITECTURE REFORMS TO PROMOTE FINANCE

As advanced economies go through an extended period of economic adjustment, the continued rapid growth of emerging markets is needed for the world economy to avoid a painful retrenchment and to continue moving toward greater prosperity. This will require among others making more finance available to enterprises, especially small- and medium scale firms that are key to job creation, as well as to infrastructure projects in developing economies.

Experience has shown that providing attractive environments for lenders and investors requires well-defined legal systems with effective enforcement mechanisms. Such systems provide a highly predictable environment that reduces non-commercial risks faced by lenders and investors and leads to lower financing costs. An important area where reforms can have a major impact on finance is commercial law, which sets the rules governing various stages of the relationship between lenders and investors, on one hand, and borrowers, on the other.

Many of the region's emerging markets stand to greatly benefit from such reforms, particularly in the areas of secured lending and insolvency regimes, which form a single integrated body of law representing the backbone of modern commercial legal systems.

Secured lending. For many mid-market companies, access to asset-based lending products is an important component of liquidity, allowing them to use inventory, movables, accounts and trade receivables and other intangibles as collateral. However, in many economies in the region, gaps in the legal regime for secured lending create disincentives to creditors to extend loans to such borrowers, resulting in increased cost of credit, or even inability to access credit, in the face of perceived risks. Promoting enhanced certainty and transparency in the legal regime, including through such measures as unified collateral registrations systems, elimination of hidden liens, expanded definitions of eligible collateral, and enabling assignability of claims, among others, can promote a more varied and affordable set of financing options for SMEs.

Insolvency and informal workouts. In the Asia-Pacific region, the number of multinational enterprises owing debts to multinational financial creditors has grown and continues to grow dramatically. There are considerable challenges presented by the difficulty of

harmonizing insolvency and reorganization laws across economies, especially in the Asia-Pacific region where different legal traditions co-exist. One way of alleviating the problem in the absence of harmonized statutes is through the development of global informal workout rules supported by the global financial community.

In 2007, the Advisory Group and ABAC endorsed a set of regional guidelines on informal workouts and a model agreement to promote corporate restructuring by informal workout developed by the ADB and supported by the region's banking industry. The guidelines and model agreement need to be updated to take into account new developments in the market. This represents an opportunity to promote the updated guidelines and model agreement for wider adoption not only within the region, but globally.

To advance work on these issues, the Advisory Group undertook to develop key elements of a Model Code of Security Interest Creation, Perfection and Enforcement to guide reforms in member economies and update the existing regional guidelines for promoting corporate restructuring and the model agreement for endorsement by APEC Finance Ministers. These documents were discussed and reviewed by legal experts in a workshop held by the Advisory Group and ABAC on 9 July 2013 in Kyoto, which examined how APEC can contribute to promoting these reforms.

The text of these documents may be viewed and downloaded from the Advisory Group section of the ABAC website.

- Elements of a Model Code of Security Interest Creation, Perfection and Enforcement: (<https://www.abaconline.org/v4/download.php?ContentID=22611282>)
- Asia Pacific Informal Workout Guidelines for Promoting Corporate Restructuring in the Region and Model Agreement to Promote Corporate Restructuring: A Model Adaptable for Use Regionally, by a Jurisdiction, or for a Particular Debtor (<https://www.abaconline.org/v4/download.php?ContentID=22611283>).

The Advisory Group proposes the endorsement by APEC Finance Ministers of the documents “Elements of a Model Code of Security Interest Creation, Perfection and Enforcement” to guide reforms in member economies and the “Asia Pacific Informal Workout Guidelines for Promoting Corporate Restructuring in the Region” and “Model Agreement to Promote Corporate Restructuring.”

V. ENHANCING THE POTENTIAL OF CREDIT RATING AGENCIES TO FACILITATE CROSS-BORDER INVESTMENT IN LOCAL CURRENCY BOND MARKETS

This year, the Advisory Group revisited its previous work on credit rating agencies in light of the new developments in the region's bond markets, including the growth of the region's credit rating industry.⁴

Credit rating systems can play an important role in promoting cross-border investment in local currency bonds across the region. Given high-quality credit ratings for bond issues that can be compared across markets with a sufficient level of reliability, investors can be encouraged to expand their bond investments in the region. This will significantly contribute

⁴ The work of the Advisory Group in this area has benefited from a recent study undertaken by the Institute for International Monetary Affairs (IIMA) as part of the ASEAN+3 Research Group on “The International Discussions on the Credit Rating Agencies and Enhancing Infrastructure to Strengthen the Regional Credit Rating Capacity in the ASEAN+3 Region”

to the development of local currency bond markets, as more investments undertaken by a wider range of investors and institutions inject more depth and liquidity into markets, which in turn will make them more attractive to more investors and thus initiate a virtuous cycle.

Under the current situation, much remains to be done to create favorable conditions for credit rating agencies to play this role in the context of the region's local currency bond markets. A number of key challenges need to be addressed, among which are the following:

- Domestic CRAs (DCRAs) are the dominant industry players in the region's emerging local currency bond markets. Divergent rating practices among DCRAs across the region, which to a large extent are also due to differences in the local environment, pose a serious problem for cross-market comparability. Major areas of divergence include default definitions, rating principles, frequency of rating reviews, transparency of rating methodology and criteria, standard of disclosure in rating reports and timeliness in rating actions.
- The local ratings currently used by DCRAs for domestic bonds are based on relative scales and not on absolute scales that are used in global ratings, which are meant to be comparable across markets. These local ratings represent relative ranking of creditworthiness within a particular market and are intended for use by investors in relation solely to their exposure to this market. This problem is exacerbated by the wide divergence among sovereign ratings of economies in the region, on which the local scale ratings are based.
- Local currency bond markets across the region differ in terms of levels of development, financial reporting standards, disclosure practices, legal and regulatory regimes and legal protection for investors. Consequently, it is very difficult for investors without a clear understanding of these differences to use credit ratings to compare the riskiness of financial instruments across these markets.
- Investors have yet to develop sufficient trust in ratings issued by most emerging market DCRAs in the region, many of which have been only established in the 1990s or later. Global credit rating agencies have accumulated more than a century of performance experience over a number of economic cycles in the advanced markets behind them. In contrast, DCRAs in the region's emerging markets are still very much in the process of developing robust and proven methodologies, as their markets and instruments have not yet been in existence for a sufficiently long period and much relevant data is not yet available.
- While local currency bond markets will need a robust and trusted credit rating industry in order to grow, the development of the credit rating industry in most of the region's emerging markets, including its viability as a business and ability to attract and retain talent is, in turn, dependent on the growth of these markets.

Addressing these challenges in a way that supports sound market mechanisms will involve a long-term evolutionary process, whose direction is still difficult to discern at this point, given the still early stage of development of financial markets and cross-border financial cooperation and integration processes and structures within the region. As the value of CRAs to investors lies in their independence to rate according to each one's stated criteria and methodology, it is important to carefully design interventions by government and public institutions in promoting the development of the credit rating industry, so as to enable CRAs

to retain such independence.

Market competition is also important in promoting a healthy industry and the continuous development and enhancement of rating methodologies and practices that will benefit investors and issuers. For this reason, it is important that measures to promote robust credit rating systems with increased cross-border investment in the region's local currency bonds in mind be designed to allow a natural evolution of the market for credit ratings, while creating conditions that would be conducive to this market's development.

Such an approach could be attained by focusing on the development of *building blocks* that will support the natural growth and evolution of robust credit rating systems. To develop such building blocks, the following recommendations are proposed:

Development of a guidebook for basic rating methodologies and basic rating criteria for selected industries and business sectors

To help DCRAAs across the region develop rating methodologies and criteria that will make their ratings more comparable, it is proposed that a project be undertaken to develop a guidebook on common basic rating methodologies and basic rating criteria that a large number of the region's DCRAAs can voluntarily adopt. The guidebook could establish minimum standards for the credit rating process and for transparency in this process, including the methodology and criteria used in formulating credit opinion. Given that rating methodologies and criteria differ with the peculiarities of each particular industry or business sector, the guidebook should address these different industries and sectors in separate chapters.

The project would best be carried out in cooperation with the Association of Credit Rating Agencies in Asia (ACRAA) and a consultant, preferably with the financial and technical support of a multilateral institution. This project could have the following components:

- A conference to identify, select and prioritize the industries and business sectors for which methodologies and criteria are to be developed.
- Compilation of published methodologies and rating criteria of ACRAA members in these industries and sectors for comparative study.
- A series of workshops, each one featuring a number of the selected industries, to focus on updating of basic knowledge of and current developments in each selected industry and sector, describing the nature and peculiarities of each industry and sector, their products and services, their markets and competition and their regulatory environment. Industry and sector experts will be invited to make the presentations with a view to making comparisons across markets. These workshops would address three principal questions:
 - What are the key drivers of viability and profitability of companies operating in the industry or sector?
 - What is the nature and peculiarities of the business risks specific to the industry or sector, and how are these translated into credit risks?
 - How are these business and credit risks mitigated or avoided?
- The output of the workshops and the published methodologies and criteria collected from ACRAA members would be used to draft a Guidebook on Basic Rating Methodologies and Basic Rating Criteria.
- The guidebook would be reviewed by a panel and editorial board including ACRAA members and relevant experts, finalized in a conference and presented for adoption by ACRAA members. It will be published, disseminated and also promoted for adoption

by other DCRAAs in the region.

Promoting convergence of accreditation criteria for CRAs across emerging markets in the region

Significant work has been done on regulatory issues related to CRAs, rating processes and practices by various international bodies such as the BIS, IMF, IOSCO and APEC. Building on these foundations, economies in the region could convene a forum for regulators to look at best practices and develop a set of minimum standards in the region for the accreditation of CRAs, which can be adopted by member economies on a voluntary basis.⁵

Economies may consider going further and develop a mechanism whereby the minimum standards could be used to issue to any CRA meeting those standards a regional designation as a regionally recognized issuer of credible and reliable ratings, providing a seal of quality that investors can rely upon. While individual governments can issue designations, consideration may be given to an independent committee of regulatory bodies' representatives across the region to issue the designation, to ensure that the same standards are used in issuing such designations and consequently, the trust of investors in the regional designation.

Promoting convergence of financial standards and regulations to facilitate comparable credit ratings across markets

⁵ Examples of criteria that may be considered are the following:

- *Structure, size and quality of organization.* This criterion is to determine the organization's capability to thoroughly and competently evaluate an issuer's credit. The quality of the rating agency's staff is the important component of the rating process. Since rating is always an opinion, the more experienced and qualified the personnel, the better the opinion quality generally.
- *Financial resources and independence.* This determines whether a CRA is able to operate independently of financial and political pressure. The financial resources of the company would determine how capable the company is to withstand economic and financial pressures. A company which is financially weak may lower its standards in order to attract more issuers who desire higher ratings. The financial health of the organization would also have a direct correlation with the quality of its analyst, since it is able to hire and retain more qualified personnel.
- *Systematic rating procedures.* This criterion ensures that there are systematic procedures and consistency of ratings across the board. Proper and systematic rating procedures would ensure that the quality of ratings produced does not vary considerably from one issue to another. A good process would also mean that the organization would not suffer too greatly from a loss of key personnel since the knowledge would have been implicitly integrated within the rating process.
- *Internal compliance procedures.* This criterion ensures that there are internal procedures to prevent the misuse of nonpublic information and to determine if these procedures are followed. Client confidentiality is extremely important in the ratings industry. Access to management accounts and inside information is necessary to construct an accurate assessment of the company risk profile. Any violation of the implicit or explicit trust that the client has on the ratings organization would have drastic impact on not just that organization but may become reflective of the entire industry as a whole. Thus this criteria helps safeguard the industry's reputation.
- *Rating scales that are comparable with other GCRAAs.* Comparable rating scales with other GCRAAs are important to avoid market confusion. To encourage cross border flows, rating comparability is important.
- *Public disclosure of rating methodology and rationale.* Rating agencies are an integral component of market development in view of the transparency they bring. It is only proper that rating agencies set an example by being transparent about their rating process. Full disclosure of the methodology and rationales serves as good start to the process.
- *Full disclosure on any possible conflict of interest.* There must be proper disclosure of possible conflict of interests. In the event that members of senior management of the rating agency concurrently holds a significant position in a clients company. This should be revealed and disclosed to the public through the rationales or any public media.
- *A proven track record via default studies.* An objective method of determining credibility of a credit rating agency is to have published default studies. Ideally, although not required, DCRAAs should aim for default rates that are comparable to the GCRAAs worldwide.
- *Independence from political pressures and ownership pressure.* It is very important the market perceives the rating agency to be independent of these pressures. Thus measures must be undertaken to push this perception to the marketplace. Rating agency management should be allowed to perform its duties without facing strong opposition from its owners who may have vested interest. Many rating agencies ensure this by having a large number of shareholders and that no one shareholder has a majority control or controls a substantial block.

Comparability of credit ratings across markets will be promoted by undertaking measures such as the convergence of financial reporting standards and disclosure rules across the region, in conjunction with the promotion of a high level of transparency and information flows from governments and firms, as well as relevant legal and regulatory regimes and legal frameworks for investor protection. Such measures would be best undertaken within a broader regional framework in order to benefit from wider engagement of investors and financial institutions both within and outside the circle of member economies.

The Advisory Group recommends that APEC Finance Ministers endorse a project to develop a regional guidebook on common basic rating methodologies and basic rating criteria for key industries and sectors with the collaboration of the Association of Credit Rating Agencies in Asia; convergence of accreditation criteria for CRAs across markets; and convergence of financial standards and regulations to facilitate comparable credit ratings across markets.

VI. CREATING A SUSTAINABLE VENTURE CAPITAL ECOSYSTEM IN THE APEC REGION

Government and private sector collaboration is needed to establish a thriving and sustainable innovation ecosystem, with the role of government focused on mobilizing angel and venture capital through effective support programs, providing enabling environments for financing business activities across various stages of innovation, and ensuring the fundamental conditions for entrepreneurship and innovation.

APEC can play a role in promoting the development of regional innovation by exploring the creation of APEC-oriented funds-of-funds with a view to spurring the development of sustainable venture capital systems. The funds-of-funds is envisioned to be public-private partnerships that leverage government and private investments through investment in private sector-led venture funds operating in the region and specializing in the various sectors where there are significant potential for innovation.

The premise for APEC-oriented funds-of-funds is based on the following:

- Effective support programs and enabling environments are necessary to finance business activities across various stages of innovation, and to ensure the fundamental conditions for entrepreneurship and innovation in key sectors of the various economies.
- The overall financing ecosystem includes angel and venture capital in the early stages, progressing to bank and trade financing as companies emerge. An effective overall ecosystem can play an important role in the development of local, regional and global innovation; however, angel and venture capital frameworks are at present relatively underdeveloped in most APEC economies. Developed venture ecosystems have established funds specializing in the various sectors of the economy and technological innovation critical for driving innovation and technological progress.
- Evidence suggests that sustainable angel and venture capital could considerably benefit from close cooperation between government and the private sector, along with government support in seeding the development of a private sector led venture capital ecosystem that can then specialize in the key economic sectors and technological innovations needed in the APEC region.

Following are basic principles that may be considered in establishing an APEC-oriented fund-of-funds:

- Government support is used to create a fund-of-funds and to leverage contributions from multilateral development banks, commercial banks, private funds and investors and large corporations.
- To seed, secure and incentivize private sector participation, government funds should allow for upside leverage allowing the private sector to buy out government funding at a reasonably attractive interest rate and to provide downside protection, such as by offering to take a major portion of any losses.
- Increased participation from institutional investors, endowments and corporations into venture capital should be encouraged through the establishment of privately managed funds-of-funds that can select portfolios of individual venture funds to invest in.
- To ensure healthy competition, the goal should be to operate a number of funds-of-funds throughout the APEC region.
- Fund managers should be selected by an experienced selection committee based on past experience in managing a funds-of-funds and through the use of requests for proposals.

The Advisory Group recommends the development of government-encouraged funds of funds within APEC for seeding and growing a private sector-led angel and venture capital ecosystem in the region and that interested economies and multilateral institutions collaborate with ABAC and private sector firms to initiate this process.

ANNEX

**THE ASIA-PACIFIC FINANCIAL MARKET
DEVELOPMENT SYMPOSIUM**

10-11 April 2013

Four Seasons Hotel, Sydney, Australia

CONFERENCE REPORT

THE ASIA-PACIFIC FINANCIAL MARKET DEVELOPMENT SYMPOSIUM
10-11 April 2013
Four Seasons Hotel, Sydney, Australia

Table of Contents

<i>EXECUTIVE SUMMARY</i>	1
INTRODUCTION	3
ASIA-PACIFIC FINANCIAL MARKETS: CURRENT STATE AND EVOLUTION IN A GLOBAL AND REGIONAL CONTEXT	3
FINANCIAL MARKET DEVELOPMENT AND CONNECTIVITY IN THE CONTEXT OF THE REGION'S DEVELOPMENT AGENDA	11
DEVELOPING THE REGION'S FINANCIAL INFRASTRUCTURE	14
REGULATORY ISSUES IN PROMOTING ASIA-PACIFIC FINANCIAL MARKET DEVELOPMENT AND CONVERGENCE	21
THE LANDSCAPE OF ASIA-PACIFIC FINANCIAL POLICY AND REGULATORY INITIATIVES: CHALLENGES AND OPPORTUNITIES FOR COLLABORATION	25
PRIORITIES FOR ASIA-PACIFIC FINANCIAL MARKET DEVELOPMENT COOPERATION	29
THE STRUCTURE AND PROCESS OF REGIONAL PUBLIC-PRIVATE FINANCIAL MARKET COLLABORATION	32
THE WAY FORWARD	35
<i>SYMPOSIUM PROGRAM</i>	38
<i>PARTICIPANTS</i>	45
<i>LIST OF ABBREVIATIONS</i>	48

THE ASIA-PACIFIC FINANCIAL MARKET DEVELOPMENT SYMPOSIUM
10-11 April 2013
Four Seasons Hotel, Sydney, Australia

EXECUTIVE SUMMARY

In 2012, the APEC Business Advisory Council (ABAC) proposed the establishment of an Asia-Pacific Financial Forum (APFF), a regional platform for enhanced public-private collaboration to accelerate the development of robust and integrated financial markets in the Asia-Pacific. At their meeting in Moscow, the APEC Finance Ministers supported the holding of a symposium to explore the creation of the APFF. The symposium was co-organized by ABAC and hosted by the Australian Government in Sydney on 10-11 April 2013. The following is a summary of its key outcomes.

The Asia-Pacific region today faces the challenge of transforming its economic growth model from one that remains considerably dependent on consumer demand in Europe and North America to one that is increasingly driven by domestic and regional demand. This transformation will require significant increases in domestic consumption supported by strong investment growth. It will require efforts to address poverty, environmental issues and aging, expanding infrastructure and facilitating competitiveness, innovation and growth of small and medium enterprises.

Financial markets have an important role to play in this transformation. However, they need to evolve from the current structure that is still heavily reliant on bank lending to one that provides greater diversity of financing sources, with a larger role for deep and liquid capital markets and institutions that can provide long-term finance and respond to the needs of aging populations. Financial systems need to become more inclusive in order to empower the majority of households and enterprises and create broad-based economies that can ensure the region's sustained growth.

Financial markets require strong foundations in order to develop in a sustained way. Sound legal and regulatory frameworks that allow markets to develop and encourage financial market players to contribute to broader economic development goals, cost-effective and efficient market infrastructure that supports intermediation, risk management and related market activities, and an environment that fosters good governance are basic requirements that need to be in place.

Regional financial integration is important for Asia-Pacific financial markets to achieve economies of scale and greater depth and liquidity. It is important to enable market participants to become more efficient, innovative and competitive. It is important to enable households and individuals to have wider choices for their financial services needs, and enterprises to have better access to finance at lower costs. Enhanced regional coordination will help strengthen the foundations and cohesiveness of the region's financial markets.

Participants of the symposium identified the principal challenge as building the institutions and structures through which savings can be channeled into the kind of investments – particularly long-term investments – that will meet the region's most important needs. To do so, policy makers and regulators in the region must address a number of policy, regulatory and market infrastructure issues that are behind today's relatively complex, fragmented and

inefficient regional financial market structure. They must also play a more active role in shaping global financial regulatory standards and codes to ensure that these enable financial markets to contribute to the region's development goals.

These tasks present a great challenge that requires cooperation among a variety of public and private sector entities across economies, in collaboration with relevant multilateral and standard setting bodies and other institutions that can provide expertise and capacity building support. While a number of collaborative initiatives to develop and strengthen markets are already under way, more needs to be done to address all the key issues, involving these various stakeholders.

APEC can make a significant contribution by creating an informal, inclusive and advisory public-private platform for collaboration in developing the region's financial markets. This platform, the APFF, can focus on important issues to help identify measures that will enable market participants to more effectively direct their commercial activities to support the development and integration of the region's financial markets, and complement ongoing regional and international initiatives and enhance synergy among them.

Symposium participants reached a consensus on priorities that could be included in an initial APFF work program. Selected based on their expected impact on the region's financial markets, complementarity with ongoing initiatives, and suitability for yielding tangible results within a short- to medium-term time frame while harnessing ABAC's existing networks and available resources, these priorities are as follows:

- development of the region's insurance industry as a provider of long-term investments;
- development of retirement income policies;
- facilitating full-file, comprehensive and accessible credit reporting systems;
- improving legal frameworks for secured financing;
- facilitating trade finance;
- addressing market infrastructure access, repatriation and financial market issues to facilitate cross-border investment flows;
- enhancing capital market integrity;
- improving capital market quality; and
- responding to the extra-territorial impact of new regulations in major markets on Asia-Pacific capital market development.

The APFF also contemplates work of a continuing nature to deepen understanding among public sector institutions, business, standard setting bodies, multilateral organizations, academia and other relevant stakeholders of significant policy and regulatory issues and proposals and their impact on financial market structures in the region.

Participants agreed on a basic initial structure for the APFF. They agreed to propose that ABAC be responsible for developing its activities under the institutional structure of the APEC FMP, in collaboration with interested ministries and institutions that play important roles in the development of policies and regulations affecting the various components of financial markets. They noted the importance of supporting this collaboration with efficient and targeted capacity building initiatives. It is hoped that the APEC Finance Ministers will favorably consider these outcomes and the work program based on them that will be presented by ABAC at their 20th Annual Meeting in Bali.

THE ASIA-PACIFIC FINANCIAL MARKET DEVELOPMENT SYMPOSIUM
10-11 April 2013
Four Seasons Hotel, Sydney, Australia

CONFERENCE REPORT

INTRODUCTION

In 2012, the APEC Business Advisory Council (ABAC) proposed the establishment of an Asia-Pacific Financial Forum (APFF), a regional platform for enhanced public-private collaboration to accelerate the development of robust and integrated financial markets in the Asia-Pacific.¹ At their meeting in Moscow, the APEC Finance Ministers welcomed the idea behind this proposal and supported the holding of a symposium to explore the creation of the APFF and the Australian Treasury's offer to host the event.

The symposium was co-organized by ABAC through the Advisory Group on APEC Financial System Capacity Building and hosted by the Australian Government at the Sydney Four Seasons Hotel on 10-11 April 2013. Over a hundred participants representing a wide spectrum of organizations in the region's public and private sectors as well as international institutions, standard-setting bodies and academic and research institutions attended the event.

Participants discussed the state and evolution of Asia-Pacific financial markets, their role in the region's development agenda, and the regulatory frameworks and market infrastructure that are needed to accelerate the development and integration of these markets. Participants discussed how the proposed APFF can add value to ongoing domestic and regional initiatives, what priority issues would be useful to include in its work program, and the kind of structure and process that would be most effective in advancing its work.

The discussions in the symposium reflected broad support across economies, sectors and institutions for the APFF concept and the potential value of such a platform in helping build the financial markets that are needed for the region to attain its development objectives. Participants agreed on a number of priorities for consideration as part of the proposed APFF work program. They also agreed on an initial structure and process for the Forum. This conference report describes the outcomes of these discussions.

ASIA-PACIFIC FINANCIAL MARKETS: CURRENT STATE AND EVOLUTION IN A GLOBAL AND REGIONAL CONTEXT

The fundamental role of financial markets is to sustain the health and development of the real economy by soundly and efficiently channeling savings to productive investments. Are Asia-Pacific financial markets effectively playing this role? The short answer is no; they remain inadequate in serving the needs of the real sector. While the region's economic structure has undergone a steady transformation in the wake of rapid growth, its financing structure has not substantially changed, remaining heavily reliant on the banking system, which still accounts for almost 60 percent of total financial assets.

¹ The genesis of this proposal was considered at the *Forum on the Asia-Pacific Financial Markets Integration Project* that was organized by ABAC, the Advisory Group on APEC Financial System Capacity Building and the Australian APEC Study Centre at RMIT University on 13 March 2012 in Melbourne, Australia.

Continued growth of the region's developing economies will require greater financial depth and a much larger role for capital markets, particularly fixed income markets, which are the major sources of funding in most advanced economies.² Emerging markets' financial depth (as measured by the ratio of debt and equities to GDP), which remains far below that of advanced economies, has been declining since the Global Financial Crisis (GFC).³

This situation is reflected in a number of trends:

- While accounting for a major portion of the world's population and an increasing share in global economic activity, emerging markets' share of the world's financial assets remains small compared to the G-4 (US, Eurozone, Japan and UK), where around 70 percent of the world's total financial assets are concentrated.⁴
- The bulk (around 86 percent) of emerging markets' foreign investment flows to developed economies. Of these, slightly more than half are central bank assets.⁵
- Emerging markets continue to receive a much smaller share of global capital inflows (less than a quarter of the cumulative total of US\$31.1 trillion from 2007 to mid-2012), of which only 16 percent were invested in equity and bond markets (more than half of these capital inflows were in the form of foreign direct investment). In comparison, 41 percent of capital inflows to advanced economies flowed into equities and bonds.⁶ Among all regions, emerging Asia has the lowest percentage of foreign ownership of equity and debt securities.⁷

Viewed against the backdrop of stagnant global financial assets and declining cross-border capital flows (especially lending) since 2007,⁸ the lack of sound and efficient financial markets poses a serious problem for developing APEC economies. With rapid demographic change, urbanization and a rising middle class, they face a growing need to finance physical and social infrastructure, business activities and consumption growth and to provide the

² Debt securities' share of financial assets amount to 49 percent in advanced markets, compared to only 27 percent in emerging markets. Source: *McKinsey Global Institute Financial Assets Database*.

³ Debt and equities as of mid-2012 amounted to 408 percent of GDP on average in advanced economies, compared to only 226 percent in China and 151 percent in other emerging Asia. While emerging markets' share of total global GDP has increased rapidly from 28 to 38 percent from 2007 to mid-2012, their share of global financial assets has remained stagnant and increased only from 16 percent to 19 percent, based on *McKinsey Global Institute Financial Assets Database* and McKinsey Global Institute analysis.

⁴ Andrew Sheng, *Issues on APEC Financial Architecture in a Global and Regional Context* (presentation delivered at the forum). Data based on *IMF Global Financial Stability Report* and the author's own calculations.

⁵ Total foreign investment from developing economies in 2011 amounted to US\$14.4 trillion, see Sheng. Data based on *McKinsey Global Institute Bilateral Foreign Investment Database* and McKinsey Global Institute analysis.

⁶ Sheng, *Issues on APEC Financial Architecture in a Global and Regional Context*. Data sourced from *IMF Balance of Payments*, Institute of International Finance and McKinsey Global Institute analysis.

⁷ Figures for 2011 are 53 percent for Western Europe (35 percent intra-Europe), 29 percent for Central/Eastern Europe and the CIS, 23 percent for North America, 23 percent for Latin America, 17 percent for other developed economies, 14 percent for Middle East and North Africa and 8 percent for Emerging Asia, see Sheng. Data based on *McKinsey Global Institute Financial Assets Database*, *IMF Balance of Payments* and McKinsey Global Institute analysis.

⁸ Compound annual growth rate of global financial assets considerably slowed from 8.1 percent during 2000-07 to 1.9 percent during 2007-2Q12. Figures for the stock of global foreign investment assets are 17 percent during 2000-07 and 2 percent for 2007-11. Total capital flows declined by 6.6 percent during 2007-11, of which cross-border lending accounted for about half of the total drop, see Sheng. Data for global financial assets based on *McKinsey Global Institute Financial Assets Database* and analysis. Data for global foreign investment assets based on *IMF Balance of Payments* and McKinsey Global Institute analysis.

opportunities to invest savings safely and profitably in long-term assets.

In this context, development of Asia-Pacific financial markets is crucial to addressing imbalances underlying present economic problems. Rebalancing involves efforts to address mismatches and gaps at the domestic level (e.g., maturity and currency mismatches, current account, fiscal and social gaps) and at the international level (e.g., imbalances in trade and capital flows). However, it requires adequate understanding of complex network effects of inter-connectivity and inter-dependence, as well as the trade-offs involved between efficiency, stability and equity.

Financial market development involves a number of key elements for building institutions:⁹

- people (shared values, beliefs, ownership, knowledge and experience, mind sets);
- property rights (fair and efficient judiciary, fair enforcement, low transactions costs, ownership);
- knowledge intensity (information access, learning, experience and education);
- standards (FSF core standards, IOSCO regulatory standards, corporate governance, transparency);
- codes, rules and laws (tax codes, accounting and auditing rules, disclosure laws);
- processes and procedures (vertical and silo processes, horizontal coordinating processes, interconnectivity and inter-operability);
- structure (efficiency, robustness and adaptability); and
- institutional design (incentives and governance).

Financial infrastructure in the region's emerging markets continues to lag behind that of advanced economies. Improvements are needed in both the infrastructure for property rights (judiciary and arbitration panels, laws and regulations, standards, corporate governance and risk management processes) and financial hardware (payment systems, clearing and settlement systems, custodians and registries and telecommunications network systems).

Much remains to be done to deepen long-term institutions that can finance long-term infrastructure and enable the real sector to deleverage, as well as promote liquidity in bond and financial derivatives markets. Greater involvement of private equity, sovereign wealth funds, pension funds and insurance companies is needed to meet economies' huge future financing requirements and help them avoid the recurrence of maturity and currency mismatches that have led to the Asian Financial Crisis.

This is particularly important in light of Asia's rapidly aging population, especially in Japan, China and the Newly Industrialized Economies (NIEs), where fertility rates have gone below the level of most advanced economies in Europe. Faced with an inevitable surge of retirees, the region needs to urgently develop its pension systems and insurance and mutual fund industries. As this coincides with the region's growing need for long-term funding, this has become a priority area that requires the development of a blueprint for action and cooperation across relevant public and private sector institutions and agencies.

In the meantime, there is a need for a deeper understanding of how regulations affect the capacity of current bank-dominated financial systems to continue funding the region's shift toward a domestic and regionally-driven engine of growth. There is a need to better understand the impact of regulatory capital and liquidity requirements and limits on leverage not just on systemic stability but also on trade finance, SME funding and long-term lending for infrastructure. All these are critical to the growth of emerging markets, particularly in the

⁹ Sheng, *Issues on APEC Financial Architecture in a Global and Regional Context*.

context of avoiding synchronized global economic slowdowns and vicious cycles progressively choking off lending to SMEs.

Financing the future growth of the region's emerging economies will require reforms to facilitate structural adjustment. It will require the adoption of technology and innovation to effectively respond to the consequences of an aging population and its impact on government budgets. Adaptive business models are needed for financial systems to take full advantage of new growth trends in the region such as urbanization, rising incomes, growing cross-border business, innovation, new trade corridors and new payments opportunities that can help expand access to finance.

The region needs to seize these opportunities to create financial systems that can better serve the real sector through improved risk management, resource allocation, financial access and capacity to fund innovation and growth. In order to do so, it is important to overcome the "collective action trap" – the challenge posed to domestic regulators by regulatory structures that operate in silos and the lack of international systems to effectively deal with global markets that have complex feedback mechanisms.

Fortunately, the foundations for regional financial market development have been laid in the wake of the Asian Financial Crisis and continue to be steadily developed and deepened. Although development has been uneven and financial market integration continues to lag behind the region's trade integration, significant progress has been achieved, which enabled Asia-Pacific economies to remain resilient in the face of the GFC and the Eurozone Crisis.

Financial fundamentals have been strengthened, as is evident in the levels of foreign exchange reserves, reduction of short-term external debt, improved macroeconomic policy frameworks and enhanced financial sector regulation and supervision. Higher capital adequacy and lower non-performing loan ratios indicate improved soundness of Asian banks. Most jurisdictions in the region have completed implementation of Basel II. Many have completed or are in the process of publishing the final rules for Basel III, and have macro-prudential policy measures in place to address pro-cyclicality and ensure systemic oversight.

Regional financial and economic cooperation has advanced significantly in three key areas:

- *Macroeconomic and financial stability:* The Chiang Mai Initiative, established in 2000 as a network of bilateral swap arrangements to help economies to manage regional short-term liquidity problems, has been expanded in 2012 into a US\$240 billion multilateral currency swap arrangement (CMIM) among members of the Association of Southeast Asian Nations, China, Japan and South Korea (ASEAN+3). The grouping's economic review and policy dialogue (ERPD) process has been integrated with this regional liquidity support facility, which is supported by a regional macroeconomic surveillance unit, the ASEAN+3 Macroeconomic Research Office (AMRO).
- *Bond market development:* The Asian Bond Markets Initiative (ABMI) was launched by ASEAN+3 in 2003 to help develop deep and liquid local currency bond markets in Asia, better intermediate domestic savings and address currency and maturity mismatches. In 2010, the Credit Guarantee and Investment Facility (CGIF) was established to promote the development of local currency corporate bond markets through the provision of credit guarantees for local currency bonds issued by investment grade companies in the ASEAN+3 economies. In the same year, the ASEAN+3 Bond Market Forum (ABMF), involving both public and private sector experts, was also established to help harmonize market practices and regulations related to cross-border bond transactions. Through the Executives' Meeting of East Asia Pacific Central Banks (EMEAP), the region's central

banks also initiated the first and second Asian Bond Fund (ABF1 and ABF2) projects.

- *Infrastructure finance*: In 2012, ASEAN members and the ADB established the ASEAN Infrastructure Fund (AIF) with an initial equity capital of \$485.2 million that will be augmented with hybrid long-term bonds. The AIF is designed to support priority projects in the Master Plan on ASEAN Connectivity. It seeks to help mitigate particular risks and encourage greater private sector interest in PPP projects.

In addition, APEC has identified ways to enhance structural reform processes and supports them through targeted institutional capacity building initiatives.

Over the past 20 years, more businesses in the region's emerging markets have learned to access finance through the banking system and equity markets, as measured by the ratio of private credit and market capitalization to GDP. However, their corporate bond markets remain generally underdeveloped relative to loan and equity markets, though modest gains have been made in a few economies, particularly Korea and Malaysia.

Various measures indicate that Asia-Pacific financial market integration is generally making progress, albeit slowly.

- The region presents a mixed picture with respect to capital account openness. In general, more developed economies maintain high levels of openness, while most developing economies continue to exhibit low levels or have become less open since the early 1990s.¹⁰
- In the region's emerging markets, ratios of external assets and liabilities to GDP have steadily risen over the past 20 years, led by Hong Kong and Singapore.
- Intra-regional holdings of equity and debt securities have risen, but remain at relatively low levels. Portfolio investment flows out of and into developed economies in Asia are still largely dominated by the US and Europe. There is more diversity in the case of developing economies, where the NIEs and China have increased their share of investment flows.
- Measured by the ratio of financial services to total service exports, financial services trade openness in the region is gradually rising as incomes grow.
- Co-movements of prices in capital markets indicate some progress in financial integration within Asia over the past decade.¹¹ This has been more pronounced in the case of equity markets. There was convergence in bond markets until the GFC but Asian bond yields have diverged thereafter, although there has been some recent convergence within subregions, such as among middle-income ASEAN economies and within Northeast Asia.¹²

The need for greater regional financial cooperation is growing as emerging economies feel the impact of advanced economies' massive monetary easing in the wake of recent crises. Concerns have focused on the potential for large-scale capital inflows, upward pressure on their currencies and impacts on goods and asset price inflation, as well as the dangers of their

¹⁰ Based on data from the index developed by Menzie D. Chinn and Hiro Ito (the Chinn-Ito Index). See http://web.pdx.edu/~ito/Chinn-Ito_website.htm.

¹¹ Prices for assets that have similar expected risk-adjusted returns are expected to converge as a result of capital flows and arbitrage. As a result, co-movement of these prices is used as an indicator of financial integration.

¹² ADB, *Asian Economic Integration Monitor* (March 2013), p. 21.

sudden reversal. These developments call for stronger macroeconomic management and monitoring of financial sector soundness, macro-prudential policy measures, building up of foreign exchange reserves and strengthening of global and regional financial safety nets.

This underscores the importance of financial architecture to ensure stability, at both the domestic and international levels. Among measures being considered to strengthen the regional financial architecture are continued enhancement of the CMIM, AMRO and ERPD, expansion of the CGIF and AIF, and the establishment of a regional corporate bond fund, sub-regional infrastructure funds, a regional funds passport scheme, a regional bond settlement and clearing system, and a regional financial stability dialogue in Asia.

Asian economies are looking to greater regional financial cooperation, as they begin to feel the effects on financial market infrastructure, trading and investment of policy and financial regulatory measures that are being put in place globally and outside the region. These include Basel III, the Dodd-Frank Act (DFA), the European Market Infrastructure Regulation (EMIR), the U.S. Foreign Account Tax Compliance Act (FATCA) and the EU Financial Transaction Tax (FTT), among others.¹³

Several of these have significant extraterritorial effects on the region's financial markets.

¹³ Following are a number of key regulatory measures and their impact:

- **Dodd-Frank Act:** It will affect financial institutions and central counterparties (CCPs), particularly through the introduction of centralized clearing of standardized over-the-counter (OTC) derivatives and new record keeping and reporting requirements and stricter oversight and inspection. These new requirements are expected to result in a greater need to connect to multiple clearing houses, locking up of capital in default funds, increased need for collateral, higher capital requirements and increased demand for reporting.
- **European Market Infrastructure Regulation (EMIR):** This mandates central clearing for standardized contracts and risk mitigation standards for non-centrally cleared contracts. Its impact on financial institutions and CCPs are expected to be similar to that of Dodd-Frank.
- **Central Securities Depository Regulation (CSDR):** This was introduced to ensure the role of CSDs, carrying out core functions, as a systemically vital part of the market infrastructure and will particularly affect CSDs and custodians. It is expected to improve efficiency and automation through harmonization and enhance governance in the case of CSD business models but also to increase costs during the implementation phase and have an impact on costs and operations for ICSD business models.
- **Target-2 Securities (T2S):** Affecting the settlement layer of the market infrastructure and custodians, T2S aims to provide a standardized platform for cross-border and domestic processing of securities transactions in the Eurozone and to reduce cross-border settlement costs. While facilitating automation through settlement harmonization, it is expected to result in additional costs and risks during the implementation stage, which could take several years.
- **Basel III:** This will increase risk-weighted assets on OTC transactions and capital and liquidity requirements for financial institutions and encourage greater use of risk-based pricing.
- **Markets in Financial Instruments Directive II:** Focused on high frequency/algorithmic trading, this was introduced to enhance pre- and post-trade transparency, promote the establishment of organized trading facilities and encourage the movement of derivatives onto electronic platforms. It is expected to increase reporting and regulatory oversight for financial institutions, limit the trading of eligible derivatives to regulated trading venues and impact internal systems and processes that will need to meet requirements on transparency and changes to market structure.
- **Alternative Investment Fund Managers Directive (AIFMD):** Particularly affecting hedge funds, depositaries and prime brokers, this was introduced to promote greater transparency and better investor protection. A key feature is the requirement for each Alternative Investment Fund to appoint a depositary. It is expected to impact prime brokers through depositary liability when the depositary demands indemnification for asset loss risk.
- **Foreign Account Tax Compliance Act (FATCA):** This subjects financial institutions to a new disclosure and withholding regime and requires the investor's custodian bank to carry out identification of shareholders. It is expected to significantly increase regulatory reporting requirements and entail significant system changes for financial institutions, in addition to its extra-territorial impact, in particular through the need to prove an entity is not a US entity.
- **Financial Transaction Tax (FTT):** This especially affects the trading layer of the market infrastructure. Its potential implications include reduction of the volume of executed trades in Europe (particularly high-frequency trading), reporting with respect to tax identification, and settlement. The EU Finance Ministers gave clearance in January 2013 for this to be put into law in 11 EU member economies. Shortly thereafter, industry groups in the US expressed serious concerns to the EU regarding its extra-territorial effects.

Source: Deutsche Bank Direct Securities Services, as presented by Mr. Boon-Hiong Chan, *Adjusting to the New Normal: Asia-Pacific Themes* (February 2013)

EMIR requires non-EU central counterparties (CCPs), including those clearing cash securities, to apply for recognition by the European Securities and Markets Authority (ESMA) in order for branches of EU banks and investment firms to benefit from the preferential risk weighting for exposures to them under Basel III as implemented by the EU. AIFMD affects all non-EU managers of funds to be marketed in its jurisdiction, regardless of whether the fund is based within or outside the EU. The FTT will apply to transactions between financial institutions, including funds that are distributed outside the EU (such as UCITS, which is distributed in Asia). FATCA requires non-US financial institutions to report to the US Internal Revenue Service information on US account holders, withholding tax on US sourced dividends and interest, income and gross proceeds.

These new measures will bring intended benefits, such as improved oversight, risk mitigation, transparency and reduction of certain costs (e.g., settlement costs through Target-2 Securities). However, they are also bound to have consequences on costs, risks, capital and reporting requirements and changes to internal systems and market structure that could impact Asia-Pacific economies' domestic and regional goals and aspirations, especially in developing their capital markets. It is expected, for example, that capital requirements will, in time, begin to increase constraints on bank credit and effective working capital management and raise the cost of capital.

The momentum behind Asia-Pacific financial integration is growing, as most economies in the region are too small to develop deep and liquid capital markets on their own. This is also being facilitated by a number of factors.

- The first is the progress of broader regional economic integration efforts. Several major trade initiatives are being undertaken – the Trans-Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP), the ASEAN Economic Community and the Pacific Alliance, which will have an impact on the regional financial supply chain. Business opportunities are being regionalized as a consequence of continuing economic integration within Southeast Asia and Greater China.
- The second is the emergence of various new regional initiatives following the launch of the ABMI and ABF. Examples are the Asia Region Funds Passport (ARFP) under APEC, the ASEAN+3 Bond Market Forum, the ASEAN Capital Markets Forum (ACMF), the ASEAN Exchanges Link, ASEAN Banking Integration Framework (ABIF), mutual recognition of funds between China and Hong Kong, the Euroclear-Malaysia-Hong Kong international bond settlement platform and the Euroclear-Hong Kong-JPM Chase tri-party repurchase platform.
- The third is the development of the Chinese renminbi (RMB) as a potential quasi-regional currency with the prospects of future RMB liberalization and further expansion of trade with Southeast Asia. RMB offshore centers have been established in Hong Kong, Chinese Taipei, Singapore, Malaysia, London and Paris. The Qualified Foreign Institutional Investor (QFII) and RMB QFII (RQFII) quotas and investment destinations for the Insurance Qualified Domestic Institutional Investor (QDII) program have been expanded. Pilot schemes are in place allowing RMB lending to overseas related companies by Shanghai-based companies that can settle RMB-denominated invoices, direct RMB lending out of Hong Kong for registered projects in mainland special economic zones, and simplified RMB cross-border payments.
- The fourth is the changing landscape of stock exchanges in the region. New developments include the merger of the Tokyo and Osaka stock exchanges, the

establishment of the Pilot ASEAN Exchanges Link, the launch of cross-trading between the Singapore and London Stock Exchanges and the spread of new trading technologies, such as the new securities trading platform of the Shenzhen Stock Exchange and Direct Market Access (DMA) launched by Singapore. Monopolist exchanges are also being opened up to competition by alternative trading venues, which have significantly driven up the cost of trading in the USA and Europe. For example, alternative trading systems in South Korea will now be able to compete against Korea Exchange although with some important restrictions.

- The fifth is the deepening of the region's fund industry, which has benefited from recent measures related to short-selling, collateral management, securities borrowing and lending, investor protection and market practice regulation. Some examples are the new guidelines on disclosure in Singapore, various regulatory and disclosure requirements across Asia-Pacific markets, CSDs expanding into securities borrowing and lending, fund mutual recognition initiatives under APEC and ASEAN and between Hong Kong and China, relaxation of market entry requirements for domestic hedge funds in Korea, opening up of open-ended mutual fund industry in Vietnam and the recent update of China's Securities Investment Law.

These trends are capturing the interest of US and European institutional investors and fund managers. However, attracting more intra-regional portfolio investments will require measures that will bring down the costs of investing in Asian markets (currently much higher than in the US and Europe), particularly as a regional portfolio. Such measures would include harmonizing market access requirements, legal documentations and withholding tax regimes; developing much-needed financial market infrastructure, and expanding the domestic institutional investor base, particularly through the growth of insurers and pension funds.

Much work remains to be done on the technical side with respect to bond markets. Among these are the development of classic repo and futures markets to facilitate market making and hedging tools to promote liquidity through the use of derivatives, including bond futures and interest rate swaps, promoting better corporate governance, bringing down withholding and transaction taxes and developing legal systems to better protect creditors and investors. As policy makers and regulators design new policies and regulations in response to these needs, greater coordination among them and the involvement of market participants, as well as coordinated market-led initiatives, will be needed.

The basic foundations underpinning financial markets in many economies, especially the legal, policy and institutional frameworks, need to be strengthened and further developed. Problems faced by many advanced economies today also underscore the importance of sound macroeconomic, monetary and structural policies, fiscal and market discipline, open markets, transparency and good governance, which would help emerging markets in the region effectively and efficiently channel savings to investment. The process of regional financial market development and integration will be gradual, especially given the region's diversity, but this can be significantly accelerated through close collaboration between the public and private sectors.

Active collaboration between Asian and Latin American emerging markets will benefit their efforts to develop their financial markets through the sharing of valuable experiences. In Latin America, the Pacific Alliance (*Alianza del Pacífico*) formed by Chile, Colombia, Mexico and Peru, is pursuing the goals of free trade and economic integration, with a view to expanding relations with Asia. With a combined nominal GDP exceeding US\$2 trillion (larger than India's) and exports of about U.S.\$ 545 billion in 2012 (larger than MERCOSUR's), this

market-oriented Latin American grouping represents an important potential partner for Asia.

At the moment, Chile, Colombia and Peru have integrated their stock markets into the Mercado Integrado Latinoamericano (MILA), which Mexico is set to join and become the largest stock market in Latin America. Particular areas where Pacific Alliance economies are interested in seeking further collaboration include reduction of taxes on the financial sector (such as financial transactions and capital gains taxes), improving the ease of doing business, promoting cross-border flows of capital and promoting sound and robust financial regulatory and supervisory regimes.

The breadth, complexity and inter-relationship of these cross-cutting issues, their importance and the large number and diversity of relevant players at domestic and international levels require a “grand process.” Such a process is needed to overcome barriers to closer collaboration among agencies and institutions that have traditionally operated independently of each other. It requires the closer integration of finance with the overall process of economic development planning. It requires effective public-private sector consultative and collaborative mechanisms.

FINANCIAL MARKET DEVELOPMENT AND CONNECTIVITY IN THE CONTEXT OF THE REGION’S DEVELOPMENT AGENDA

Financial market development is not an end in itself. Financial systems serve broader economic goals, and consequently, need to be developed with the attainment of these goals in mind. Charting the future of Asia-Pacific financial markets will need to begin with the question: what is the region’s development agenda?

Most economies in the region have experienced unparalleled growth over the past several decades, driven by private capital inflows and exports to the consumer markets of North America and Europe. This growth was sustained through the expansion of global supply chains and innovations that kept enterprises competitive in the face of rising wages and prices that came with growing affluence. However, this also created domestic and global imbalances that became more pronounced over time.

The global economy has now reached a turning point, where the development model that has served the region well in the past is no longer viable. Asia-Pacific economies will need to depend more on domestic demand in order to avoid the “middle income trap”¹⁴ and achieve sustained economic growth. Very much related to this is the need to address poverty, environmental issues and aging, which are key challenges for many economies in the region.

Meeting these needs requires the expansion of physical and social infrastructure. It requires facilitating competitiveness and innovation and the growth of small and medium enterprises. It requires promoting domestic consumption and the development of the services sector. It requires ensuring that the needs of the growing elderly population are met. It requires providing the environment to enable lower-income households (particularly those in rural areas) to narrow the income gap, while mitigating the impact of development on the environment and promoting sustainable practices. Much of the region’s development agenda thus revolves around balanced, inclusive, sustainable and innovative growth.

From a global perspective, accelerating economic growth in Asia-Pacific emerging markets on the basis of this development agenda is crucial to the healthy development and stability of

¹⁴ Middle income trap refers to a situation where an economy grows to reach a certain income level but fails to move beyond it as a result of declining competitiveness vis-à-vis lower-cost producers due to rising labor costs in conjunction with an inability to compete with more advanced economies in higher-value products.

the world economy. It offers a way to sustain global economic growth while enabling advanced economies to attend to the urgent business of bringing down high debt levels in both public and private sectors. It promises to help fix the imbalances that have resulted from divergent patterns of consumption and trade in developed and emerging markets and ensure more balanced trade flows in the future. Development of capital markets and bankable infrastructure project pipelines in the region's developing economies can greatly expand the range of assets where savings from anywhere can be productively and profitably invested.

Such a development agenda has certain implications on the direction of financial market development in the Asia-Pacific region.

- First, the region's economies must develop deeper and more liquid financial markets, including local currency corporate and municipal bond markets. This would require regulations that support greater liquidity, a more diverse issuer base and an institutional and retail investor base that is able to take and manage a wide variety of risks. It would require the development of financial market infrastructure and markets for hedging instruments.
- Second, efforts are needed to make financial systems more inclusive and sustainable. This would involve measures to enable financial institutions to expand their services to the financially unserved and underserved, including lower-income households, women, young people and micro-enterprises. It would also involve addressing barriers to expanded financing of small and medium enterprises, including trade finance, as well as encouraging investment in environmentally friendly products and services.
- Third, attention needs to be focused on infrastructure finance and the development of the institutional investor base, including the insurance and pension and mutual fund industries. Multilateral institutions and governments need to provide facilities that can assist the development of infrastructure markets at their early stages, such as through funding of project development and mitigating risks that the private sector is unable to assume. Infrastructure provides a valuable opportunity for capital to migrate from banks to fixed income markets, supporting the development of capital markets. Economies need to develop regulatory frameworks that can facilitate the channeling of foreign and domestic capital into infrastructure and frameworks for domestic and international bankers, investors and fund managers to collaborate in funding large projects. The public sector needs to improve its capacity to develop a pipeline of bankable projects and create a more favorable environment for PPPs, including simplified tax regimes and regulations and credit enhancement to mitigate default risks.
- Fourth, economies need to actively pursue regional financial integration to help realize economies of scale and create larger, more competitive and more liquid markets, which can offer better opportunities for risk diversification and attract investors, issuers and financial intermediaries to the region. This would require promoting greater cross-border connectivity and convergence of regulations and market practices.
- Fifth, policies and regulations that promote growth by allowing more leeway for risk-taking and providing greater liquidity to markets need to be balanced by measures to ensure continued financial stability. This requires greater capacity on the part of regulators and closer cross-border collaboration among regulatory authorities and policy makers, to strengthen financial systems against domestic instability and spillovers from markets outside the region.

The experience of Hong Kong provides some insight on key factors behind the development

of a regional financial center.

- The first is a business environment that facilitates the free flow of capital. In addition to a favorable tax policy and structure, consistency and transparency in applying rules have played an important role in promoting confidence in the market by investors, who need to know the rules of the game.
- The second is connectivity. Hong Kong is fully connected to both the global market and China and so has become a key intermediary between China and the rest of the world. In particular, it was able to develop an offshore RMB market and gained access to a large amount of liquidity.
- The third relates to macro risk policies. Hong Kong has earned the confidence of global investors by following international standards related to macro-prudential policies.

Within the broader region, Southeast Asian emerging markets are taking the lead in efforts to achieve greater financial development and integration. With a large and relatively young population,¹⁵ ASEAN has significant potential for long-term growth. It has achieved major strides in regional trade integration, and is now looking at more deeply integrating its financial markets. ASEAN members have committed to integrate their financial markets under the Roadmap for Monetary and Financial Integration of ASEAN and the ASEAN Economic Community Blueprint. More than four-fifths of these commitments have already been achieved to date.

Much work remains to be done, as ASEAN financial markets are more integrated with global markets than with each other, and capital markets in most of these economies remain small relative to the banking sector. Significant reforms were undertaken in the wake of the Asian Financial Crisis, but capital market liquidity in most markets remain limited, major gaps in regulatory capacity persist, market infrastructure is inadequate to provide connectivity, and opportunities for risk diversification are insufficient. Southeast Asia's fragmented capital markets remain vulnerable to spillovers from markets outside the region.

ASEAN is beginning to move forward on three fronts to achieve regional financial integration among member economies, but there are many challenges.

- The first is financial services liberalization through the ASEAN Banking Framework, which will allow ASEAN banks that meet specific qualifications to gain access to markets in member economies. This poses challenges to domestic regulators, who will need to improve capacity to harmonize banking regulations, better coordinate among themselves and establish critical infrastructure for regional banking market integration.
- The second is capital market integration. ASEAN has already agreed to develop common disclosure standards and a common prospectus framework to facilitate securities offerings across markets. The stock exchanges of Thailand, Malaysia and Singapore are undertaking a linkage project that the Philippines is currently working to join. The grouping is also collaborating on the mutual recognition of collective investment schemes. The ABMI has already produced significant results for government bond markets, but the development of corporate bond markets is still at a very early stage.
- The third is capital account liberalization. An assessment of capital account regimes indicates that there remain various restrictions on capital flows, mostly on outflows. While all member economies (with the exception of Myanmar) have adopted Article VIII

¹⁵ The median age in ASEAN is 27, compared to 45 in Japan, 41 in the EU and 35 in China.

of the International Monetary Fund (IMF) Articles of Agreement, many regulators have remained cautious and continue to maintain various payment restrictions related to their current accounts, as well as on offshore use of currencies, external borrowing and lending in their own currencies and on the ability of investors to hedge foreign currency risks.¹⁶

An important challenge for financial integration is reconciling the existence of various initiatives involving different sets of participants. A flexible approach that identifies the set of participants that can most effectively work together on a particular initiative, is non-binding and allows for pathfinder initiatives is more likely to produce positive results. Given that finance occupies a highly political space, it is also important to have a better understanding of the political situation in each economy at the outset, develop an appropriate sequencing process and consider the holders of political capital as a key audience.

Finally, success in this undertaking requires substantial capacity building. While many institutions are undertaking such initiatives, these remain inadequate to meet the region's great needs and ambitious goals. Closer coordination among institutions, innovative approaches that maximize the possibilities of new technologies, and a process that combines benchmarking with the sharing of best practices offer promising ways forward to advance along the process of regional financial market development and integration.

DEVELOPING THE REGION'S FINANCIAL INFRASTRUCTURE

Financial infrastructure, defined broadly for purposes of this report as “the set of institutions that enable effective operation of financial intermediaries,”¹⁷ is an important aspect of any effort to develop robust and integrated financial markets. Indeed, many of the obstacles to greater depth and liquidity of capital markets, financial inclusion, regional financial integration, infrastructure funding and financial market stability stem from underdeveloped financial infrastructure. Addressing these inadequacies is an important task where regional public-private collaboration could make significant contributions.

Credit reporting systems

Good credit reporting systems provide lenders the accurate and credible information they need to reduce lending risks, and thus play important roles in expanding access to credit. Lenders' inability to accurately infer the risk profile of borrowers often causes low-risk borrowers to face high interest rates that act both as a disincentive for them to borrow and as subsidies for high-risk borrowers. These rates price many low-risk borrowers out of the market. On the other hand, high-risk borrowers receive subsidies and are thereby drawn into the market. Average prices go up to reflect the disproportionate presence of high-risk borrowers, resulting in higher delinquency rates and leading lenders to ration loans.

In presenting information about potential borrowers to lenders, credit bureaus allow interest rates to be fine-tuned to reflect the risk of individual borrowers, leading to lower average interest rates, greater lending through reduced rationing and lower rates of delinquency and default. However, the extent to which these results are achieved depends on the structure of

¹⁶ See also Asian Development Bank and ASEAN, *The Road to ASEAN Financial Integration: A Combined Study on Assessing the Financial Landscape and Formulating Milestones for Monetary and Financial Integration in ASEAN* (Manila 2013).

¹⁷ Definition provided by the International Finance Corporation (IFC) (http://www.ifc.org/wps/wcm/connect/Industry_EXT_Content/IFC_External_Corporate_Site/Industries/Financial+Markets/Financial+Infrastructure/).

credit reporting, bureau ownership and the type of information reported.¹⁸

Various studies¹⁹ have concluded that full-file (including both negative and positive information) and comprehensive (containing both financial and non-financial data) credit reporting systems, especially where private credit bureaus are involved, produce the best results with respect to enabling lenders to more accurately judge borrowers' risks and expand lending to traditionally disadvantaged clients such as lower-income borrowers, women, ethnic minorities and young people.

The introduction of full-file and comprehensive credit reporting systems will need to go hand in hand with the development of the legal and regulatory framework to protect consumers and privacy by defining key procedures, such as the type of information that can be collected, the rights of data subjects (access, notification, dispute resolution and redress), acceptable uses of information, data security requirements and obligations of credit bureaus, data furnishers and data users.²⁰ In addition, a number of technical issues also need to be addressed.²¹

Cross-border data flows can play an important role in regional economic and financial integration. Currently, credit records cannot be used across jurisdictions, making it difficult for migrants to access financial services. Overcoming this challenge will require the development of common approaches to data privacy and data protection and increasing trust in the robustness of legal and regulatory frameworks and their enforcement among economies

¹⁸ In this context, distinctions between the following need to be made:

- **Negative-only reporting versus full-file reporting.** Negative-only reporting is the reporting of only negative information, or adverse payment data on a consumer, such as defaults, delinquencies, collection, bankruptcies and liens. Full-file reporting is the reporting of both negative information and positive information, which includes information on the timeliness of payments, including whether payment was on time, indeterminately late or delinquent, payment information which contains the payment date relative to the due date, oftentimes also data on account type, lender, date opened, inquiries, debt, and can also include credit utilization rates, credit limit and account balance.
- **Segmented versus comprehensive reporting.** Segmented reporting is a system in which only data from one sector, e.g., retail or banking, are contained in reports. Comprehensive reporting is a system in which payment and account information, are not restricted by sector and contains information from multiple sectors, e.g., utilities payments.
- **Public versus private credit bureaus.** Although there is no theoretical reason why a public bureau cannot behave like a private one, there are practical reasons. Public bureaus have been set up largely and primarily for supervisory purposes, to monitor the safety and soundness of the financial sector and determine whether reserves are sufficient, rather than primarily to facilitate greater and sustainable lending. Private bureaus, by contrast, are set up to ease lending, and the reasoning behind the data collection by private bureaus lies primarily in reducing information asymmetries and to improve risk assessment in lending. By this account, private bureaus are complements to public bureaus.

¹⁹ There has been extensive research on credit reporting encompassing three generations of studies. The first generation (WorldBank, IDB, Pagano and Jappelli) explained how the existence of credit bureaus increases private sector lending and lowers national financial sector risk. The second (Barron/Staten, IDB, Miller and Galindo) confirmed that comprehensive data leads to wider lending but lower default rates than negative only data, and that wider lending is particularly beneficial to small business. The third generation (Information Policy Institute) established that broader participation by lenders and comprehensive data improves financial performance. Michael Turner and Robin Varghese, *Economic Impacts of Payment Reporting Participation in Latin America* [Political and Economic Research Council], May 2007.

²⁰ The OECD *Guidelines on the Protection of Privacy and Transborder Flows of Personal Data* (<http://www.oecd.org/internet/ieconomy/oecdguidelinesontheProtectionofPrivacyandTransborderFlowsOfPersonalData.htm>) and the US Federal Trade Commission (FTC) *Fair Information Practice Principles* (<http://www.ftc.gov/reports/privacy3/fairinfo.shtm>) provide useful reference points for developing legal and regulatory frameworks.

²¹ There are four key domains that remain important irrespective of variations in methods and technical wherewithal as well as changes in technology. These are: (a) data formatting standards (common standards of reporting make it easier to collect and use information and allow portability of data across borders); (b) identity verification (to help in matching information, improving accuracy and protection against financial identity fraud); (c) data security; and (d) disaster recovery (preservation of the information to help preserve the financial structure). APEC Business Advisory Council, *2009 ABAC Report to APEC Finance Ministers*.

in the region.

Legal frameworks for secured lending

Secured lending is the major source of funding and liquidity for SMEs. Transparency and predictability of rules in this area are important for secured creditors to have confidence in the legal system's ability to protect their interest in collateral. The greater this confidence, the less they need to price for the risk of legal uncertainty, and the more credit they are able to provide borrowers at lower cost. Recognizing this reality, a number of APEC economies have already undertaken reforms to strengthen the legal architecture for secured lending.²²

A key issue is how to allow debtors in secured transactions to make effective use of movable assets and receivables as collateral. The IFC estimates that about \$9.3 trillion worth of property in developing economies is not being used productively as a consequence of non-existing or poorly functioning collateral laws and registries. Without laws allowing use of such assets as collateral and public registries for the protection of interests in these assets, lenders will remain reluctant to take a security interest in debtors' movable assets such as raw materials and inventory or accounts receivable and unable to expand financing for SMEs, most of which do not have real estate to use as collateral.

Improving the legal regime for secured lending in the region will entail the adoption of reforms. Examples of gaps that need to be addressed are lack of an exclusive security interest registry, which may lead to "hidden lien" and similar issues; unclear perfection rules or lack of coverage of certain types of collateral (movables, receivables, intellectual property), the absence of blocked or pledged account security, untested or non-transparent legal systems, treatment of floating charges and lack of broad licensing authority for commercial lending.

A few APEC economies have some of the best practices on secured lending regimes and creditor protection in the region as well as predictable secured lending regimes that provide a clear and exclusive system for filing broad classes of collateral and perfecting security interests. These can serve as models for policy reforms. While a number of economies have introduced or modernized key aspects of property registration, collateral laws and bankruptcy codes in recent years, structural impediments remain to certain degrees. Secured transaction law reform should aim for a more uniform, exclusive, and transparent system that can enable lenders to make more informed risk decisions.

Financial information services

Reliable financial information helps markets attract investment, facilitates the efficient flow and allocation of capital, and lowers costs for market participants. Confidence in financial information is fostered through greater transparency and disclosure, which enable the collection of high quality data that in turn can reduce information asymmetry and promote market efficiency.

Promoting regional financial integration will entail agreement on common measurements of risk and harmonization of documentation, including warrants and covenants. Stable, transparent and predictable regulatory and legal information is also important to facilitate deeper understanding by investors of different markets in the region. Establishing a regional platform for promoting the provision of high-quality financial information on a range of markets (e.g., municipal bond markets), such as through facilitating dialogues on disclosure and transparency among relevant officials and market participants, and the collection and

²² These include Japan's Perfection Law (2000), China's Personal Property Law reforms (2006) and Korea's Act on Security over Movable Assets and Receivables (2012).

dissemination of this information is an example of a possible undertaking that can be considered a low-hanging fruit.

The availability of reliable financial information is also important for credit rating agencies (CRAs), which play a key role in the development of bond markets in the region. Credit ratings provide a system that facilitates comparisons across sectors, industries and regions, and they provide investors with a comparative tool to gauge credit risks, which in turn enable issuers to access a broader base of local and cross-border funding. Providing an environment that is favorable to competition among and independence of credit rating agencies and a market-driven development of the industry will also help the region develop financial markets.

Payments and settlements systems

The technical architecture of the financial industry includes payments market infrastructure consisting of settlement systems for banks' wholesale and retail customers, as well as securities exchanges, matching utilities, clearing houses, central counterparties, central securities depositories and international securities depositories. For the region to have healthy and secure financial markets, their messaging platforms and services must be able to process transactions among their users efficiently, safely and reliably.

With high growth of demand for investment and trade and the need to expand access to financial services to hundreds of millions of currently unserved and underserved customers, the Asia-Pacific region will need systems that can scale up quickly and allow for new services to be incorporated easily in terms of technology and operations. Not addressing this need will result in market infrastructure becoming a bottleneck for liquidity in a market that requires ever higher levels of automation.

For regulators to be able to perform their tasks properly, market infrastructures need to be transparent in how they handle transactions with their users. They need to be able to serve both domestic and foreign players in their markets, especially in emerging markets, where access to capital is the key to growth. Developing a harmonized, efficient and less risky payment system environment will support regional integration and growth in trade and investment. By not having to invest in different systems and processes for each market in which they operate, financial institutions and other market players can focus on innovation and delivering value and services to their corporate and retail customers. Seamless connectivity across markets will enable capital to flow smoothly throughout the region.

There are two areas where APEC could fill important gaps and support the development of robust market infrastructure in the region.

- *Automation.* The first is helping market infrastructures in developing economies adopt systems and practices that are aligned with their other counterparts in the region and promote automation. Automation involves less errors and risks; provides greater capacity and ability to cope with peak days; allows for a greater number of participants; and promotes transparency, good governance, improved regulatory and internal reporting and scalability. This can be accomplished by (a) taking the best practice and systems developed in the collaborative space by the financial community and promoting their adoption in emerging markets; (b) helping local communities develop capacity to implement international standards and systems that address local and regional characteristics and needs; and (c) applying lessons learned to develop robust domestic market infrastructures that are accessible to both domestic and foreign players, reduce

risks and costs and comply with evolving regulation.

- *ISO 20022 standards.* Institutions in a few of the region's economies, notably Australia and Japan,²³ are taking the lead globally in using the new ISO 20022 standards as they look at innovation in real-time payments. ISO 20022 offers a number of advantages, including local language support, flexibility across all business needs, use of the Extensible Markup Language (XML) format, and being self-evolving and community-driven. It offers a future-proof global standard for the financial services industry that can allow APEC's technical substructure to scale up with maximum automation and cost efficiency. If adopted across the region, it could provide a model for interconnected and inter-operable markets around the world.

OTC Derivatives Clearing

OTC derivatives are used by firms to manage balance sheet liabilities and cash flows as well as hedge various economic risks, such as interest rate and foreign exchange risks (interest rate derivatives take up around 80 percent of all OTC derivative transactions). The regulatory landscape for these instruments has been changing through new rules such as those being introduced by the G20, the Basel Committee, CPSS, IOSCO, the European Union (Markets in Financial Instruments Regulation or MiFIR and EMIR) and the US (DFA) in the wake of the GFC.

Major features of the new regulatory landscape include the requirement for standardized OTC derivatives contracts to be traded on exchanges or electronic trading platforms, cleared through central counterparties (CCPs) and reported to trade data repositories. Non-centrally cleared contracts are to be subject to higher capital requirements. Rules are also mandating the margining of uncleared trades and the trading of swaps that are subject to clearing on designated contract markets or swap execution facilities, among others. To be added to these are the extraterritorial impact of DFA and EMIR on other markets.

Taken together, these new regulations that were intended to improve transparency in the market, mitigate systemic risk and prevent market abuse are expected to also result in higher costs and wider bid-offer spreads and make certain trades difficult. Asia faces the risk of growing fragmentation as a multiplicity of clearing systems emerge to handle transaction volumes that are much smaller than those in Europe and North America (Asia ex-Japan represents only around 4 percent of global interest rate derivatives turnover).²⁴ The additional costs are likely to be passed on to the end users, significantly increasing the cost of their hedging activity..

A related issue is the extraterritorial impact of DFA, MiFIR and EMIR requirements on liquidity needed by Asian financial institutions with significant transactions in global currencies, as these result in considerable registration, compliance and administrative costs of

²³ These are the Reserve Bank of Australia (RBA) and the Japan Securities Depository Center (JASDEC).

²⁴ BIS, *Triennial Central Bank Survey: Interest Rate Market Turnover Activity in 2010*. As argued by the International Swaps and Derivatives Association (ISDA), with Australia, Japan, China, Hong Kong, South Korea and Singapore establishing clearing houses, a number of concerns are emerging, which include:

- growing legal, regulatory and financial arbitrage and reduced netting opportunities;
- reduced trading activity as global market participants limit their clearing house memberships, regulators require trades to be cleared through their respective local clearing houses and cost of funding increases with differing eligible collateral requirements; and
- legal credit and operations resources being spread too thinly among too many clearing houses to support the development of the clearing business in the region or a large number of simultaneous clearing house member defaults.

trading swaps with US and European banks. While firms may find ways to go around these requirements (e.g., not exceeding de minimis swaps transactions volume thresholds, changing how swap transactions are booked, trading through overseas affiliates or subsidiaries registered as swap dealers), such practices may only make financial markets more complex, less efficient and less integrated.²⁵

The emergence of multiple CCPs in the region mandated to clear OTC derivatives contracts, with varying regimes for protecting clients against insolvency of clearing members and different documentation requirements and time frames for mandatory clearing, is an issue that can pose challenges to the development and integration of Asia-Pacific financial markets. Responding to these challenges will require the development of standardized documentation solutions that can work across CCPs and products and structures that can promote standardization, flexibility and simplicity.

In the context of promoting greater connectivity across financial markets in the region, regulators and policy makers will need to have a regional platform for discussions to complement those that are taking place under the G20 framework. The CPSS-IOSCO standards provide the best foundation for developing clearing systems in the region that will be attractive to companies.²⁶ However, the lack of trust among regulators in the robustness of arrangements in each others' jurisdictions remains a major challenge, which should be addressed by initiatives to promote deeper understanding and mutual recognition of clearing arrangements among regulators.

Both US and European regulators have required that for their respective regulated banking entities to participate in clearing houses outside their common jurisdictions, these clearing houses must, in the US case, register with the Commodity Futures Trading Commission (CFTC) as a Derivatives Clearing Organization (DCO), or in the European case, apply for recognition by ESMA as compliant with EMIR. It remains to be seen which Asia-Pacific CCPs will apply to obtain US and European recognition. There is now heightened risk of significant impact to market liquidity, at least in the short run, if US and European banks are compelled to pull out of specific markets because they are not allowed by their home regulators to take part in mandatory local clearing services implemented in accordance with these local jurisdictions' G20 commitments.²⁷

The BCBS/IOSCO proposed mandatory margining of uncleared swaps will also have a disproportionate impact on the Asia-Pacific region. In seeking to make uncleared swaps more expensive than cleared swaps to trade in order to promote more clearing, the proposal does not take into account the conclusions of cost-benefit analysis, which indicate that clearing houses are not interested (and should not be interested) in providing clearing services for all types of swaps due to volume or risk profile considerations and that uncleared swaps are actually crucial hedging products for end users. Foreign exchange hedging products make up a significant proportion of the unclearable products and are extensively used across Asia.

Cross currency swaps, in particular, have been singled out by the IMF as playing a crucial role in the hedging of offshore borrowing used to fund the growth of Asia's real economy. The proposed imposition of two-way initial margin on these trades, on top of increased Tier 1

²⁵ For a more detailed discussion, see Keith Noyes, "Asia rules rift," *The Markit Magazine* (Autumn 2012), pp. 29-31.

²⁶ Committee on Payment and Settlement Systems (CPSS) and Technical Committee of the International Organization of Securities Commissions (IOSCO), *Principles for financial market infrastructures* (April 2012).

²⁷ For a more detailed discussion, see Keith Noyes, "CCPs", *Asia Risk Magazine* (April 2013), pages 69-71.

capital requirements and Basel credit valuation adjustment charges, threatens to increase hedging costs significantly.²⁸ The voices of the “Group of Five” regulators (Australia, Canada, Hong Kong, Japan and Singapore) that have tried to push back against mandatory initial margining for these products have not prevailed, and it now appears likely that the phasing in of the initial margin requirements will begin for the largest financial institutions by mid-2015.

Securities Exchanges

Three important trends are shaping the future of securities exchanges all over the world. The first is the emergence of new exchange models driven by regulatory and technological changes, which will lead to more intense competition among exchanges. The second is the move toward the multi-product and vertically integrated model of exchanges, which supports improved balance sheet and investment capacity. The third trend is the continuation of efforts to merge exchanges.

Exchanges in the region face significant challenges in responding to these trends. The Australian Securities Exchange (ASX) provides a case study of how to develop a globally connected, multi-product and vertically integrated exchange.

- The ASX’s experience indicates that the need to respond to changing regulatory and competitive environments is a continuous process that never ends.
- To continue growing under present market conditions, it sees the need to pursue the development and delivery of new products and services, and has started a number of initiatives, including clearing of OTC derivatives, collateral management, the introduction of a new managed funds service, revisions to listing rules to facilitate listing of SMEs and the establishment of a program to promote more research on smaller listed firms.
- The ASX is also undertaking efforts to improve its links to global capital markets, including collaboration with other exchanges to improve liquidity, reduce costs and broaden the products available to customers.

Building the regional bond market infrastructure

Promoting greater connectivity will help accelerate the development of local currency bond markets in the region. Given the diversity of development stages among markets in the region, a key challenge is how to develop a regional platform that will have wider benefits across economies. Policy makers and regulators need to consider three important ingredients of a successful strategy:

- First, it is important to build a foundation of robust, deep and liquid domestic bond markets. This requires more intensive efforts under existing initiatives to develop liquid secondary markets through the expansion of the investor and issuer base and wider availability of hedging and risk management tools, as well as the development of corporate bond markets.
- Second, additional efforts are needed to expand local participation in domestic bond markets, in particular by local companies, SMEs and retail investors.

²⁸ “Australian banks lobby for reduced margin on cross-currency swaps”, *Asia Risk* 29 May 2013. <http://www.risk.net/asia-risk/news/2271187/australian-banks-lobby-for-reduced-margin-on-crosscurrency-swaps>.

- Third, the region will need to develop a common overarching market infrastructure that can reduce transaction costs and facilitate cross-border capital flows by reducing credit and foreign exchange risks.

REGULATORY ISSUES IN PROMOTING ASIA-PACIFIC FINANCIAL MARKET DEVELOPMENT AND CONVERGENCE

As regulation plays a central role in the development of financial markets, it is important to look at the current situation and future trends, with respect to the twin objectives of building sound and efficient financial markets and promoting convergence and connectivity among them. How the region's policy makers and regulators are responding to the challenges related to the ongoing reform of global financial regulatory standards and the extra-territorial impact of new policy and regulatory measures in key global markets will also be relevant to the realization of these objectives.

Capital Markets

One of the most important developments in the financial regulatory space in recent years has been the introduction of various regulations designed to address the excessive risk-taking in North American and European markets that has led to the GFC. While the lessons of the GFC need to be adequately understood and sufficiently considered by Asian policy makers and regulators as they shape the domestic and regional regulatory landscape, they also need to consider the need for financial regulations to support the region's growth objective and the need to encourage healthy risk-taking with this in mind.

Two examples of key issues whose impact regulators and policy makers in the region need to address are the following:

- *Impact of Basel III on bank activity in capital markets.* As of April 2013, final Basel III rules were already in force in 11 Basel Committee member jurisdictions, 5 of which were in Asia (Australia, China, Hong Kong, Japan and Singapore), even as the US and the EU, which had to consider the impact of new regulations on their large and deep capital markets, are aiming to implement the rules not earlier than January 2014. Regulators in the region's developed and emerging markets, however, will need to carefully review the potential impact of Basel III on the future development of their capital markets, especially due to its impact on the activities of banks, which are dominant players in the region's financial markets. This includes the impact on banks' roles as lenders and investors, where for example enhanced capital requirements with respect to certain financial instruments are likely to induce them to reduce risk-taking activities. This also includes the impact on Asian banks' ability to expand their role as key market intermediaries, as their counterparts in the US and European markets have previously done, including for instance in the development of asset-backed securities markets, with the implementation of rules that would discourage them from providing assets to be securitized, as well as from engaging in broker-dealer activities.
- *Margin requirements for uncleared swaps and their impact on long term funding.* With the aim of reducing systemic risk and promoting central clearing, the Basel Committee and IOSCO have proposed a policy framework imposing initial margin and variation margin requirements for non-centrally cleared derivatives. The imposition of gross-base initial margin requirements will significantly increase the cost of swaps between banks, which are expected to be passed on to end-users, including issuers. As

cross-currency swaps are used as a principal tool for funding through capital markets in Asia, including long-term funding for infrastructure, the negative impact of this rule, if implemented, would be considerable. Most banks in Asia, which use the standardized calculation method to determine collateral needed for initial margin requirements, stand to have reduced access to global markets vis-à-vis banks using the model method that involves less margin calls. Regulators in the region need to work together to reshape the rule, such as, for example, through the replacement of the initial margin requirement by a combination of capital and variation margins.

Insurance

The development of the insurance industry is of great relevance due to the role it can play in channeling more of the region's savings to investment in long-term assets and in reinforcing financial stability. Insurers play an increasing role in the area of social security and retirement income, which has a long-term nature. Regulations can help enable insurers play this role more effectively and, in addition, contribute to the development and integration of the region's emerging markets by facilitating cross-border investment. Inappropriately designed, however, regulations could have the opposite effect. As policy makers and regulators debate far-reaching changes to insurance regulation in the wake of the GFC, a number of proposals are causing concern about their impact on the future role of the industry.

- *Macroprudential surveillance – differentiating insurers from banks.* While monitoring of systemic risk occupies the central place in the case of banks, which form part of the settlement system, it needs to take into account the different roles that insurers play in the overall financial system. Insurers provide stability to the system as long-term investors in bank shares and debt while using derivatives as a fundamental tool of efficient risk management. However, insurers use derivatives mainly for purposes of hedging and efficiency of their investment strategies, and thus behave differently from other market participants who use derivatives for short-term speculation. Consequently, macroprudential surveillance needs to take into account the different nature of insurers' interactions with banks and with financial markets, where systemic risk monitoring may focus on credit default swaps among potentially systemically risky activities in the case of the former and speculative derivatives in the latter.
- *IFRS 4 and insurers' long-term business and investments.* The adoption of International Financial Reporting Standard 4 (on insurance contracts) or IFRS 4 would have a significant impact on the insurance industry and the broader financial system in the region. While there are jurisdictions where short-term investment-type products are dominant, such as in the UK and Australia, long term protection products constitute the large part of the market in most of Asia, (as well as in the USA and Continental Europe). In the latter case, the use of fair value accounting for insurance contracts would significantly increase volatility affecting company valuations and insurers' access to capital, and encourage insurers to shift away from long-term protection business and subsequently long-term assets – which the region needs to develop – toward short-term and investment-type products that transfer more risks to customers. Insurers will also be encouraged to refrain from investing in assets other than fixed income, which would have negative effects on the economy.
- *Impact of economic risk-based solvency regimes on insurers' role in the financial system.* An analysis by the BIS of the impact of Solvency II in Europe illustrates the kind of unintended consequences implementation of economic risk-based solvency

regimes could have on the industry. Solvency II requirements²⁹ would make it more costly for insurers to maintain long-term business and to hold structured products, long-term corporate bonds and equity-like instruments, and lead to certain portfolio shifts. Such portfolio shifts could result in insurers reducing their exposures to corporate bonds and banks as well as to long-term assets and retreating from their roles of providing long-term risk capital, which may amplify procyclicality in the financial system and market.

- *Consequences of applying Basel III rules to insurance.* Various participants have argued that applying Basel III rules designed for banks to insurance would have a number of unfavorable systemic consequences. Applying the capital deduction rule would encourage insurers to exit from bank shares and subordinated loans, which will also affect banks' ability to enhance their Core Tier 1 capital, and undermine insurers' role as long-term institutional investors and contributor to financial stability. Applying Basel III requirements to deduct overseas investment in financial institutions from insurers' solvency margins would discourage the continuation of such overseas investment and hinder insurers from supporting global financial stability and development of emerging markets.

In shaping and implementing global standards, policy makers and regulators in the region will need to have a deep understanding of products, markets and roles that firms play in their respective economies' insurance sectors, and view these in the context of the region's needs and financial market development goals. Opportunities to deal with these issues within a regional framework are emerging as global standard setting bodies increasingly accept the need for regional discussions and expand their regional-level activities, especially in the Asia-Pacific region. Policy makers, regulators, standard setters and the private sector will need to collaborate closely in creating regulatory frameworks that will enable insurers to contribute to the goals of developing the region's long-term investor base and expanding cross-border investment.

The banking industry

As banks play dominant roles in intermediation in most of the region's financial systems, Asia-Pacific banking regulators face the challenge of promoting financial sector development to help sustain economic growth amidst challenging times for the global economy. At the same time, they need to ensure the continued soundness of their banking systems as they become more integrated into a global economic and financial system that is going through a turbulent period. Learning lessons from the Asian Financial Crisis, banking regulators in the region have generally been able to create an environment where banks, with a few exceptions, have been able to provide sufficient liquidity to the economy and avoid the failures of their North Atlantic counterparts.

Asian banking regulators have raised their profile in global regulatory fora, particularly the BCBS. Today, seven Asian economies (Australia, China, Hong Kong, Indonesia, Japan, South Korea and Singapore) are full members of the Committee and actively participate in its

²⁹ These are the requirements for assets to be marked to market, for liabilities to be discounted at risk-free rates, and for insurers to hold capital against risks on both asset and liability sides to deal fully (with a 99.5% probability) with unexpected losses over a period of one year. Committee on the Global Financial System (CGFS), *Fixed income strategies of insurance companies and pension funds: Report submitted by a Working Group established by the Committee on the Global Financial System* (CGFS Papers No. 44, July 2011).

discussions. Having gone through a major crisis and initiated reforms that have allowed their economies to withstand much of the impact of the GFC, Asian banking regulators are respected by their peers for their views and are in a position to influence the direction of global regulatory reforms.

Asian jurisdictions are also moving quickly to implement Basel III ahead of many advanced economies. Most Asian BCBS members are already fully implementing Basel III, several with higher minimum capital requirements. Asian regulators are working on the implementation of the additional requirements (application of capital surcharges and policies on recovery and resolution planning) for globally and domestically systemically important banks (G-SIBs and D-SIBs) and the minimum leverage ratio. Most Asian BCBS members and other Asian jurisdictions have already announced their intention to implement the liquidity coverage ratio and the net stable funding ratio, with some adjustments to domestic characteristics.

Concerns are being raised, however, on the future impact of tighter banking regulations in the region. At present, most Asian banks do not need to make significant adjustments to meet new regulatory capital requirements, already having traditionally higher capital buffers and less reliance on debt or hybrid capital compared to US and European banks. There is also currently no immediate stress on funding and liquidity in both emerging and developed markets in Asia.

In a few years' time, however, Asian banks' balance sheets may need to expand considerably in order to support the continuation of strong economic performance, where lending typically grows faster than deposits. With high capital and liquidity ratios required under Basel III (especially for systemically important banks), without well-developed securitization markets where bank assets could be offloaded, and with foreign banks deleveraging and retreating from Asia, the region's banking system may find itself under considerable strain to finance continued growth.

Need for regional public-private dialogue on regulatory issues

The preceding discussions underscored the importance of strengthening the capacity of regulators in the region's emerging markets to effectively respond to a rapidly changing economic and financial landscape, both in terms of reshaping domestic regulatory frameworks and helping shape relevant global regulatory standards. Much remains to be done to promote a deeper understanding of the implications of current trends such as demographic changes, urbanization and technological developments on the requirements for financial regulations and appropriate regulatory approaches for the banking, insurance and securities markets that take into account their respective roles in the financial system and their interconnectedness.

A deeper understanding of developments in the market is also important for regulators to better prepare themselves to avert future crises, which are likely to be different from previous ones, and avoid the error of "fighting yesterday's wars." Recent experiences of governments and financial institutions that have followed established regulatory requirements and scored high on various measures of soundness going into crisis underscore the danger of falling into complacency and over-reliance on standard regulatory frameworks to maintain financial stability. A deeper understanding of the market will enable regulators to create and maintain an environment that fosters good governance and risk management practices.

The region's regulators are already actively involved in the work of global standard-setting bodies. However, they will need to be even more proactive as it becomes necessary for the impact on financial systems and regulatory requirements of rapid changes occurring in the

region to be reflected in the further development of global standards. Recent developments already point to the impact of new regulatory standards on such areas as trade finance and insurance, and it is expected that more unintended consequences that need to be addressed will become apparent as the region's financial markets and their various components continue to evolve in coming years.

A platform for regional dialogue that involves both the public and private sectors will be useful in promoting a deeper understanding of how markets are developing and of the unintended consequences of regulations on financial institutions – on their ability to play their proper roles in the economy and to appropriately manage their risks and govern themselves – as well as on the development and integration of financial markets. Aside from promoting effective design and enforcement of regulations, it can also help the region's regulators deal with technical issues, effectively contribute to the global standard-setting process, and respond to the extra-territorial impact of regulations emanating from other jurisdictions.

THE LANDSCAPE OF ASIA-PACIFIC FINANCIAL POLICY AND REGULATORY INITIATIVES: CHALLENGES AND OPPORTUNITIES FOR COLLABORATION

As mentioned earlier in this report, numerous efforts have been underway in the region, at both domestic and international levels, to develop various aspects of financial markets since the Asian Financial Crisis. A number of these have already produced significant results, such as healthier banking systems and larger government bond markets. A multiplicity of regional and international bodies is involved in parallel initiatives, which have grown in number and scope over the years.

As financial systems develop and become more complex, and as this process accelerates in response to rapid economic growth, capacity building needs are also set to increase. At a time of growing constraints on public resources, identifying priorities and ways to achieve synergy becomes ever more important. This requires an adequate understanding of the financial system as a whole and the interconnections among its various components.

The financial system has long outgrown the traditional role ascribed to it as the “handmaiden of industry,” and instead has proven itself to be at the center of the economic process, providing the key functions that sustain it. These include pooling financial resources for investment, clearing and settlement of payments, transferring financial resources through time and space, managing risks, providing information (financial prices) for efficient financing, and resolving incentive issues. An effective financial system is one that is able to perform all these functions well.

It is widely acknowledged that market forces complemented by enabling public policy are the key to efficient financial markets and to their continued development, which is driven by innovation. Market forces may, however, be distorted or impeded by various factors such as deficiencies in property rights, barriers to entry, taxes, inadequate information, particular regulations and corruption, among others. Markets may also be impeded from developing by certain outcomes of historical evolution, such as when bank intermediation becomes the dominant source of funding in an economy and the market depth and liquidity that bond markets need to develop are not there. These are areas where policy initiatives can play an important role in financial market development.

Financial markets are complex structures with multiple components that may each be crucial for a market to function. To be successful, policy makers will need to identify these crucial

components where issues need to be addressed and prioritize policy initiatives accordingly. The following are typically important components to consider in prioritizing initiatives:

- Information and disclosure (credit rating agencies and credit bureaus)
- Stakeholder rights and protection (investor protection, creditor rights, corporate insolvency regimes, deposit insurance)
- Access to finance, financial deepening and financial security (financial inclusion, microfinance, SME finance, financial literacy, remittances, retirement provision)
- Market development (bond markets, OTC markets, clearing and settlement systems)
- Cross border convergence and connectivity (funds passport, mutual recognition for securities issuance, stock exchange integration through cross-listings and others, financial services trade)
- Financial stability (prudential regulation and supervision, resolution arrangements)
- Insurance
- Infrastructure finance
- Public sector finance and treasury management

Due to the complexity and interconnectedness of financial markets, it would be advisable for governments to consider undertaking occasional strategic-level reviews of ongoing policy and regulatory initiatives. These reviews must look at the impact of these measures on the development of the financial sector as a whole, identifying gaps and follow-up actions or new initiatives that may be needed. Such reviews are best undertaken by policy makers and regulators together with relevant market participants and experts from international organizations, standard-setting bodies and academic institutions, and supported by research and measurement of progress. In view of the objective of regional integration of financial markets, a regional platform such as the APFF that has the potential to gather relevant players together could play a useful role.

A cursory review of ongoing regional financial initiatives would indicate that important gaps are being addressed, but much work remains to be done. The pursuit of regional financial market integration in the Asia-Pacific is an important element that supports and complements efforts to develop domestic markets. Given their relatively small size taken individually, the region's economies stand to reap many benefits from facilitating the movement of capital between those with savings and those that require financing across the whole region. These benefits would include reduced costs of capital and improved ability to manage and hedge financial risks for businesses across the region.

An ideal pan-regional system of efficient capital flows would have the following characteristics:

- Savers can invest across the region's capital market through regional intermediaries.
- Regional competition reduces intermediation costs.
- Regional borrowers have access to regional capital markets.
- Regional regulators define and agree on the scope of their oversight.

The current reality, however, may be described as a relatively complex, fragmented and inefficient regional financial market structure, with the following characteristics:

- Local savers mainly have access to products offered in their own local markets.
- Barriers prevent the expansion of direct cross-border retail intermediation between the region's savers and markets; intermediation remains instead mostly conducted indirectly through established global financial centers. The situation with respect to institutional intermediation is better, but by no means totally unimpeded.

- Inefficient intermediation limits the product choice of investors from within the region.
- Borrowers mainly have access to their local markets and meet their additional borrowing needs from established global debt markets rather than from the region.
- Cross-border financial intermediation within the region continues to be subject to significant impact of extra-territorial regulations.

Moving towards more integrated financial markets would require pursuing four development objectives: (a) broad market development; (b) improving market infrastructure; (c) regional financial stability; and (d) recycling regional savings. These issues are being addressed by a number of overlapping regional efforts. Among these are the following:

- Asian Bonds Online (initiated 2004): (a) and (b)
- ADB Global Medium-Term Note Program (2005): (a) and (d)
- Asian Bond Funds 2 (2005): (a), (b) and (d)
- Chiang Mai Initiative Multilateralization (2009): (c)
- Asian Bond Market Initiative (a) and (b)
- ASEAN+3 Macroeconomic and Research Office: (2010), (c)
- Credit Guarantee and Investment Facility (2010): (a) and (d)
- ASEAN+3 Bond Market Forum (2011): (a) and (b)
- ASEAN Infrastructure Fund (2012): (a) and (d)

Continued efforts can help address major obstacles to greater integration of financial markets. The following are a few examples:

- *Asia Region Funds Passport (ARFP) Initiative*. Proposed by the Australian Financial Centre Forum in 2009 and recommended to APEC Finance Ministers by ABAC in 2010, the ARFP is being undertaken on a pathfinder basis under the APEC Finance Ministers' Process. It is geared toward improving market integration by expanding cross-border intermediation of financial products among participating economies. The ARFP focuses on retail markets, which through collective investments promise to grow into a major component of capital market activity, driven by regional economic growth, the region's high savings rates, demographic trends and growing affluence and household investment activity. At present, cross-border fund registrations in Asia-Pacific markets are dominated by UCITS (Undertakings for Collective Investment in Transferable Securities) fund products domiciled and regulated in European jurisdictions. By developing a system of mutual recognition of fund products among different jurisdictions that will allow products to be offered to investors across the region, the ARFP aims to promote greater intra-regional intermediation of financial products.
- *Asian Bond Funds (ABF)*. An initiative sponsored by EMEAP, the ABF has advanced considerably since its beginning, particularly in promoting private sector participation. ABF2 aims, among others, to help enhance investor choice through a series of efficient market access funds, some of which are structured as exchange-traded funds (ETFs). It is composed of a pan-Asia regional fund and eight single-market funds covering China, Hong Kong, Indonesia, South Korea, Malaysia, the Philippines, Singapore and Thailand. In providing an alternative market access choice for investors, these funds, which are available to the public and can be cross-listed, help enhance market intermediation within the region. The focus of regulators' attention is now moving on from the quantity side of bond market development to the quality side, with transparency of pricing and regulations becoming the next key concerns. The success of ABF, ABMI and related initiatives in promoting the growth of government bond markets now needs to be followed by efforts

to develop repo markets as a next step to take advantage of the availability of government bonds that can be used as collateral.

- *ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF)*. Developed under the ABMF, the AMBIF will be an arrangement under which a bond issuer in any participating economy could issue bonds in any other participating locations with one standardized set of, or expedited procedure for, documentation and information disclosure. The home regulator and host regulator are assumed to mutually recognize bond issuance approval done by the others or closely cooperate to approve bond issuance in an expedited manner. To address regulators' concerns on investor protection, AMBIF only focuses on the professional market segment where professional investors, but not retail investors, are participating.

The experience with ongoing initiatives so far highlights the potential of mutual recognition among the region's regulators as one promising way forward to advance financial integration. Examples of initiatives that focus on mutual recognition are the ARFP (for the unlisted collective funds market), the AMBIF (for local currency bond issuances) and the China-Hong Kong initiative for mutual recognition of collective funds. However, the great diversity among economies, especially with respect to widely varying levels of development and quality of regulation and oversight, poses challenges for regional financial market development and integration.

The existence of a number of overlapping regional fora and institutions involved in various initiatives poses another challenge. These include ASEAN, ASEAN+3, APEC, PECC, EMEAP, ADB, the World Bank, IDB, IFC, IMF, the FSB Regional Consultative Group for Asia and the IOSCO Asia-Pacific Regional Committee, among others. There is considerable potential for duplication of efforts across different fora and institutions, which can be minimized through greater coordination with the help of regional platforms such as the APFF.

An important consideration for the success of such a regional public-private platform is whether it presents a clear value proposition in the context of the multiplicity of regional efforts already being undertaken. A number of key requirements need to be fulfilled. One is that the platform should provide concrete mechanisms to achieve tangible outcomes. Another is that it should have established processes that can facilitate effective participation from public and private sectors and other relevant parties. A third is that it can be harnessed to provide regulators a clearer understanding of what works on the ground and of practical and politically feasible ways forward to expand the role of market forces and competition in financial services sectors.

The APFF can complement ongoing efforts in several ways. One is by focusing on important issues that are not yet being adequately dealt with under existing initiatives. Region-wide accounting standards convergence, remittances and insurance are examples of such issues. Another way is by collaborating directly with ongoing initiatives in a way that adds value with different focus and perspectives. Examples of initiatives that APFF could benefit from are the works of ABMF and ACMF on documentation standards, clearing and settlements and automation. The APFF would likely be able to add the most value in areas that require collaboration among governments and regulatory authorities, private sector, multilateral institutions and standard-setting bodies, as well as in areas that are regional rather than purely domestic in scope, such as standardization of regulation and market practices.

The APFF can add value to ongoing regional efforts especially because of its potential for

bringing in the private sector to actively collaborate with the public sector, which is an element that is not yet well-developed in many of the ongoing initiatives. Such collaboration can be particularly helpful in moving discussions forward on such issues as mutual recognition of regulatory arrangements where mechanisms to address risks have to be effectively designed. It can also help the public sector identify and prioritize capacity building needs. Experiences of economies such as Australia indicate the usefulness of public-private dialogue in addressing such issues. The successful experience of supervisory colleges in helping financial regulators to deepen their understanding of issues they face in common in discussions with financial institutions also underscores the potential of APFF in promoting similar beneficial outcomes on a wider scale.

A regional platform for public-private sector dialogue would provide valuable opportunities for finding practical solutions that take important concerns of both sides into consideration. Discussions to find pragmatic and widely acceptable solutions to tax and regulatory arbitrage issues in relation to regional funds passport arrangements, for example, could help expand support for ongoing initiatives. Regulators can benefit from regular discussions with the private sector on latest market developments that can provide early warning of overheating in certain markets as well as a clearer understanding of the market implications of policy options.

PRIORITIES FOR ASIA-PACIFIC FINANCIAL MARKET DEVELOPMENT COOPERATION

Symposium participants held intensive discussions on priorities that may be considered for inclusion in an initial APFF work program. Discussions were conducted both in smaller groups that looked at issues affecting the development of banking, insurance and capital markets and in a plenary session that looked at these issues with respect to their interconnections and importance for the financial system as a whole.

These discussions took into consideration the outcomes of previous sessions of the symposium that are described in the preceding sections of this report, particularly with respect to the context provided by the current state and evolution of financial markets, the underlying regional development agenda, the state of financial infrastructure development, the key regulatory issues affecting the development of Asia-Pacific financial markets and the current landscape of regional policy and regulatory initiatives and cooperation to develop and integrate the region's financial systems.

Priorities were selected based on their expected impact on the development and integration of the region's financial markets and their complementarity with ongoing initiatives and existing institutions. Participants also selected priorities that may realistically be dealt with through initiatives that could yield tangible results within a short- to medium-term time frame harnessing ABAC's existing networks and resources that are or can reasonably be assumed to be available. Following are the priority issues that emerged from these discussions:

1. **Development of the region's insurance industry as a provider of long-term investments**. More efforts are needed to enable the insurance industry to play its proper role of supporting long-term financial stability, economic and infrastructure development, trade expansion and social stability and inclusion, particularly by examining more closely how regulatory requirements affect this role. Collaborative action can be helpful in developing common approaches to address issues in global regulatory, accounting and other relevant standards and regulations that discourage insurers from acting as long-term

investors. Another area where efforts may be focused is promoting harmonized interpretation of insurance regulatory requirements, taking into account differences in characteristics, needs and levels of development among jurisdictions and recognizing the specific nature of insurance.

2. **Development of retirement income policies**. This aims to respond to needs arising from demographic trends (aging) and to promote accumulation of long-term funds and their investment in government and corporate sectors and long-life infrastructure assets. Efforts should cover the range of relevant public and private institutions and structures, including sovereign wealth funds, official off-budget and on-budget structures, pension funds, insurance companies, self-funded retirement and investment in bonds and enterprise annuities. Activities should focus on providing advice on a number of key issues. These include development and funding of retirement systems. They include suitable and practical design, structure and regulation that can foster sustainable, stable and trusted institutions, as well as support economic incentives. They should also include public-private sector financial literacy initiatives that encourage long-term savings.
3. **Facilitating full-file, comprehensive and accessible credit reporting systems**. This responds to the need for promoting expanded financial access of households and small businesses in conjunction with sound, risk-based credit decisions and responsible credit behavior. Efforts should aim to help policy makers introduce full-file and comprehensive credit reporting systems and encourage the establishment and expansion of private credit bureaus. These should be done in conjunction with advice on the development of legal and regulatory frameworks to protect consumers and privacy, and converging approaches to data privacy protection and cross-border data flows that promote regional integration.
4. **Improving legal frameworks for secured financing**. Measures are needed to address gaps in the legal regime for secured lending, which create disincentives for creditors to extend loans to mid-market companies, resulting in increased cost and decreased availability of credit. Addressing this requires enhanced certainty and transparency in the legal regime, through such measures as unified collateral registrations systems, elimination of hidden liens, expanded definitions of eligible collateral, and assignability of claims, among others. Focus will need to be given to improving the ease, predictability and transparency of security interest creation, perfection and netting enforcement by identifying model elements and on the basis of these, developing a secured lending model code that can help guide legal reforms in the region's economies. These will require dialogues among relevant authorities, especially those with direct responsibility over these issues, as well as capacity building to promote deeper understanding and support for legal reforms in this area.
5. **Facilitating trade finance**. There is a need to address the gap in trade finance in the region arising from the scaling back of Asian operations by European banks, which are major players in this business, as a result of challenging economic conditions at home and consequent pressures on them to reduce their balance sheets, increase their capital and repatriate their assets. Work is needed to address regulatory issues, particularly minimum capital requirements that require more regulatory capital to be set aside to back trade finance transactions, affecting the availability and cost of trade finance. Attention also needs to be directed to the promotion of collaborative undertakings among the public and private sectors, multilateral institutions and regional organizations to ensure availability of adequate financial support to trade.

6. **Addressing market infrastructure access, repatriation and financial market issues to facilitate cross-border investment flows.** Issues concerning trading, clearing and settlement infrastructure across markets in the region need to be addressed to improve efficiency and price discovery and reduce trading costs in bond and equity markets. Undertakings will need to focus on promoting cross-border investment flows with collateral, standards and platforms that can selectively harmonize market access and repatriation practices, improve the inter-operability, liquidity and connectivity of domestic and cross-border financial markets, and reduce systemic risks. The potential proliferation of derivatives clearing venues within the region, which threatens to increase fragmentation across markets and collateral requirements, also needs to be addressed through collective efforts to resolve differences and harmonize approaches with respect to clearing, collateral management, trade repositories and development of electronic exchange venues.
7. **Enhancing capital market integrity.** Common standards and high quality of corporate governance across economies in the region are vital for attracting investors to the region and raising funds across asset classes. This involves the development of standards for fair, transparent and predictable resolution regimes, benchmarking issuer governance standards for market entry, and improving the transparency of information for investors through a concrete undertaking to help promote consistency of accounting rules and credit culture. The absence of or significantly reduced and harmonized withholding taxes or tax reclaim procedures will also further investor interest including intra-regional flows.
8. **Improving capital market quality.** Asian markets have made significant progress in this area since the Asian Financial Crisis, as proven by the limited impact that the GFC has had on the region. However, much work remains to be done to help develop corporate bond markets and expand cross-border transactions. Key issues involved in this undertaking include (a) the development of classic repo markets to facilitate market making and hedging structures for both government and corporate bonds, including bond futures, interest rate swaps and credit default swaps; (b) the development of a roadmap toward a regional funds passport through harmonization of access requirements to local markets and standardization of platforms; and (c) the development of a platform for providing standardized market information to fund managers, such as through development of indexes.
9. **Responding to the extra-territorial impact of new regulations in major markets on Asia-Pacific capital market development.** Legal and policy measures that have extra-territorial impact are a source of concern across markets and asset classes in the region, and require collective efforts among governments to address their implications. This will involve discussions to identify those extra-territorial effects that significantly affect the development of the region's capital markets and develop appropriate and effective responses to cope with them at the domestic and regional levels and to initiate fruitful dialogues at the global level. Examples of these issues are the new US and European OTC derivatives rules which may encourage the withdrawal of participants from markets that are still in the development phase and negatively affect the ability of end-users to hedge risks.

It was also proposed that the APFF contemplate work of a continuing nature to deepen understanding among public sector institutions, business, standard setting bodies, multilateral organizations, academia and other relevant stakeholders of significant policy and regulatory issues and proposals and their impact on financial market structures in the region.

THE STRUCTURE AND PROCESS OF REGIONAL PUBLIC-PRIVATE FINANCIAL MARKET COLLABORATION

The Asia-Pacific has a long history of regional financial cooperation that is leading toward greater regional financial integration.³⁰ This cooperation intensified after the Asian Financial Crisis, with ASEAN and the ASEAN+3 becoming focal points.³¹ In Latin America, the newly established Pacific Alliance included financial cooperation in its agenda. In addition to regional organizations, a host of international standard setting bodies, multilateral institutions, private sector organizations and institutions involved in capacity-building are also actively involved in various regional activities.³²

While much has been accomplished, the region still continues to struggle to meet its funding needs (particularly in terms of financing infrastructure, trade and small enterprises) and to achieve the convergence and connectivity that can accelerate market development. More capacity is needed to help ensure that international standards and their implementation effectively facilitate the strengthening and development of financial markets in the context of local and regional characteristics. Unlike Europe, with its supranational institutions, the region continues to rely on a variety of overlapping and independently managed undertakings to advance the development of financial markets.

While the region is not foreseen to develop European-style frameworks, a platform may be established to bring together those institutions, organizations and undertakings geared to the development and strengthening of the region's financial markets. Such a platform would need to be designed to complement and support these ongoing efforts. Its objective would be to help promote greater synergy, identify and address gaps, build institutional capacity and accelerate the evolution of regional cooperation toward greater consistency and coherence.

To fulfill these requirements, the platform will need to have the following characteristics:

- *Informal.* Activities should be organized in the form of informal workshops, conferences, discussions and capacity building activities for policy makers and regulators. Participation should be voluntary.
- *Advisory.* Its role is not to formulate standards and regulations but to evaluate them, nor create market infrastructure, but to examine them and identify ways to promote

³⁰ Examples are the work of SEANZA (est. 1956), SEACEN (est. 1966), EMEAP (est. 1991) and the APEC Finance Ministers Meeting (started 1994).

³¹ These include the Asian Bond Markets Initiative, the Asian Bond Fund, the ASEAN+3 Bond Market Forum and the Implementation Plan for ASEAN Capital Markets Integration under the ASEAN Economic Community, among various others.

³² The IMF, BIS and IASB have regional offices attending to regional concerns. IOSCO and FSB have active regional groups, while the World Bank Group is undertaking a large number of activities related to the development of financial markets in the region. The ADB and IDB are undertaking programs especially focused on their respective regions, including those undertaken for individual economies and those that support regional cooperation efforts. Among international financial industry organizations that are actively involved in discussions related to financial market development and regulatory issues are the Institute for International Finance (which has a regional office), the Asia Securities Industry & Financial Markets Association (ASIFMA), the Asian Bankers' Association (ABA), the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) and its Latin American counterpart the Asociación Latinoamericana de Instituciones Financieras para el Desarrollo (ALIDE), the Asian Pacific Bankers Council (APBC), the Federación Latinoamericana de Bancos (FELABAN), and a host of regional associations representing various parts of the financial sector such as the credit rating, business information, credit bureau, insurance and various other industries. Various APEC study centers, e.g., in RMIT University, and academic and research institutions, e.g., those in the PECC network, are involved in discussing, developing and promoting capacity building initiatives to strengthen regional financial systems.

coherent development, convergence and connectivity of markets.

- *Inclusive.* It should engage all relevant public and private entities whose activities have significant impact on the development and integration of the region's financial markets and promote institutional capacity to achieve those objectives.

APEC has tremendous potential to serve as vehicle for catalyzing the development of such a platform. While its membership does not encompass all economies in Asia and Latin America, it includes the most significant economies and financial markets in the world outside Europe. The most important aspect that makes APEC suited to play such a role, however, is its success in engaging the private sector and capacity building institutions, through ABAC, in its structure and processes.

As the APFF has no specific precedent, an initial structure and process could be established, to be reviewed and revised as necessary in due course as its value and contribution are demonstrated, with a first review to be scheduled sometime within the next two years. With this in mind, the initial structure should be simple, flexible and capable of further evolution. The following features of the APFF, which adopts some features from another ABAC initiative, the Asia-Pacific Infrastructure Partnership (APIP),³³ may be considered:

- General Institutional/Reporting Arrangements: The APFF would be a policy initiative managed by ABAC in partnership with interested economies and IFIs under the APEC Finance Ministers' Process (FMP). ABAC will report regularly to the APEC FMP on progress and outcomes and make presentations as needed at SFOMs, Finance and Central Bank Deputies Meetings, AFMMs and relevant events organized under the APEC FMP. Outcomes will also be conveyed to specific international organizations or standard setting bodies as needed. AFMM and relevant international bodies can adopt and incorporate recommendations emerging from APFF into their respective statements, work and activities.
- Coordination: ABAC will volunteer to coordinate activities, in partnership with any other interested institutions or ministries. It will utilize the Advisory Group on APEC Financial System Capacity Building, which is chaired by ABAC and is the vehicle through which it collaborates with IFIs/MDBs/SSBs, public sector bodies and financial industry/private sector organizations. The Advisory Group regularly meets four times a year and can convene workshops, conferences or any additional meetings as needed.
- Participants: Participation in APFF activities would be open to the following and any other relevant institutions deemed appropriate by AFMM, FCBDM and SFOM:
 - *Government officials:* Interested finance ministries, central banks and financial regulatory authorities and agencies from APEC economies. Non-APEC

³³ The APIP provides a model for bringing together high-level officials, experts and private sector advisory panelists from a wide range of relevant fields. It utilizes ABAC's private sector network of experts selected for their knowledge of and experience and active engagement in infrastructure projects from a wide range of relevant fields, including the asset management, commercial banking, investment banking, engineering, property development, information technology, legal and consulting sectors. To date, the panel has over 60 members, including current and former ABAC members, chief executives and chairmen of major companies, and other senior executives, legal practitioners and consultants with extensive experience in infrastructure. Activities, which involve the Asian Development Bank, the Inter-American Development Bank, the International Finance Corporation, the World Bank and the ASEAN Infrastructure Fund, include dialogues with high-level officials of interested individual governments as well as regional discussions on infrastructure.

ASEAN+3 and Pacific Alliance member economies may also be invited as deemed appropriate.

- *IFIs/MDBs/SSBs/IOs*: Experts and representatives from ADB, IDB, WB, IFC, IMF, FSB, OECD, BIS, BCBS, IOSCO, IAIS, IASB, APEC Secretariat, APEC PSU, ASEAN Secretariat, ASEAN Infrastructure Fund and Pacific Alliance Secretariat, particularly those directly involved in regional financial cooperation activities and initiatives.
- *APFF Private Sector Panel*: ABAC will invite representatives/experts from financial industry and private sector and international organizations, relevant major firms and academic/research and capacity building institutions to join a regional panel and make themselves available, as their normal duties permit, to participate in dialogues, workshops and relevant activities under the APFF.³⁴
- Logistics and Funding: For the initial period of its establishment, activities will be organized and funded similarly as current AFMM policy initiatives. Interested economies and/or international and capacity building institutions will be invited to host activities under the work program. Sponsorships will be solicited as appropriate. Participants not covered by sponsorships or project funding will be responsible for financial arrangements to cover their own travel and accommodations.
- Review and Further Development: A review of the initial APFF structure and process will be undertaken by ABAC and interested participating institutions within 2 years. Based on this review, directions for further development will be discussed with APEC Senior Finance Officials and APEC Finance Ministers.

The suitability of an informal, advisory and inclusive structure for a public-private platform like the APFF is borne out by the experience of the ABMF, which has contributed significantly to advancing harmonization of bond market regulations and practices and the development of clearing systems under the ASEAN+3 framework. As harmonization of various aspects of markets is a complex task that can take time to accomplish, the establishment of the APFF could help accelerate this process across the region.

The APFF could play a role in promoting peer reviews of economies' progress in advancing the development, convergence and connectivity of their financial markets, by providing a forum through which these can be discussed with the participation of both public and private sectors, international organizations and regulators and officials from a wide range of economies. It could also promote initiatives to help build capacity of policy and regulatory agencies in the region.

While regional financial cooperation may appear to be a crowded field, there is a space where APEC through the APFF can play a useful role. APEC can add value to the regional integration processes that have so far been largely focused on the Asian side of the Pacific

³⁴ Examples of such institutions include a number who are regular collaborators of ABAC under the Advisory Group on APEC Financial System Capacity Building: the Asia-Pacific Credit Coalition (APCC), Asia Securities Industry & Financial Markets Association (ASIFMA), Asociación Latinoamericana de Instituciones Financieras para el Desarrollo (ALIDE), Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), Business Information Industry Association Asia Pacific, International Valuation Standards Council (IVSC), Federacion Latinoamericana de Bancos (FELABAN), Pacific Economic Cooperation Council (PECC), the Australian APEC Study Centre at RMIT University, the Institute for International Monetary Affairs (IIMA) and the Society for Worldwide Interbank Financial Telecommunication (SWIFT), among others.

Ocean, due to its wider heterogeneity. Developed economies can also benefit from such collaboration to address issues such as infrastructure development.

While APEC began its existence as a body focused mainly on trade issues, it has progressively evolved first through the inclusion of behind-the-border issues in its agenda and now through the growing importance of cross-cutting third-generation issues, where finance is at the center. As APEC continues to evolve, it is likely that the APEC Finance Ministers will play a larger role in the future. It is also likely that financial regulators will need to be increasingly involved and coordination with regional groupings of key international organizations such as the FSB will become increasingly useful as the need grows for specialized expertise related to the development and stability of financial markets. These developments underscore the importance of informal structures like the APFF where useful discussions among relevant players can be easily organized.

The lack of a proper regional financial forum in the Asia-Pacific that involves both public and private sectors has limited the progress of financial market integration, even in areas that involved mainly the private sector, such as in bilateral cross-border merger efforts among stock exchanges. A regional mechanism through which broader experiences can be shared and opportunities for useful undertakings and reciprocal arrangements across financial markets can be discussed with decision-makers can help accelerate the process of regional integration.

THE WAY FORWARD

In the context of the current global economic situation, governments and the private sector in the Asia-Pacific region bear a serious responsibility for the future of the global economy. While comprising roughly a third of global GDP, the region is now responsible for half of global economic growth. As the ability of traditional consumer markets in Europe and North America to continue absorbing the finished goods exports of the region's emerging markets wanes, economies in the region will need to shift away from the export-dependent economic growth model. Rebalancing toward a model that is increasingly driven by domestic and regional demand will require significant increases in domestic consumption supported by strong investment growth.

Financial markets have an important role to play in this transformation. Before they can do so, however, they need to evolve from the current structure that remains excessively reliant on bank funding to one that provides greater diversity of financing sources, with a larger role to be played by deep and liquid capital markets and institutions that can provide long-term finance, especially for infrastructure development. Financial systems also need to become more inclusive in order to economically empower larger portions of the population and create a broad-based economy that can ensure sustained economic growth.

Financial markets require strong foundations in order to develop in a sustained way and avoid instability. Sound legal and regulatory frameworks that allow markets to develop and encourage financial market players to contribute to broader economic development goals, cost-effective and efficient market infrastructure that supports intermediation, risk management and related market activities, and an environment that fosters good governance are basic requirements that need to be put in place.

In conjunction with these necessary requirements, regional financial integration, including greater competition, convergence of regulations and market practices and greater connectivity across markets and market infrastructure, will enable the region's financial markets to achieve

economies of scale and greater depth and liquidity. It will enable market participants to become more efficient, innovative and competitive. It will enable households and individuals to have more and better choices for their financial services needs, including savings, insurance, investment and payments. It will enable enterprises to have better access to finance at lower costs.

Putting all these elements in place within a time frame that satisfies the urgency of the task is a great challenge that requires much cooperation among a variety of institutions and agencies and the private sector within and across economies, in collaboration with relevant multilateral and standard setting bodies and other institutions that can provide expertise and capacity building support. While a number of collaborative initiatives to develop and strengthen markets such as those under the ASEAN, ASEAN+3, EMEAP and APEC frameworks are already under way, they are not yet sufficient to address all the important issues.

This is a challenge for the region, but also an opportunity for APEC to make a significant contribution. APEC can leverage its unique arrangements for close collaboration between public and private sectors, and in particular the partnership among finance ministries, ABAC and international organizations within the framework of the APEC Finance Ministers' Process. These collaborative arrangements, which have evolved over time through cooperation in various fields such as bond market development, financial inclusion and infrastructure finance, have given rise to a flexible and effective second-track approach to generating useful advice to governments that can operate without the constraints that official structures often have to contend with. The effectiveness of these arrangements have been enhanced by institutional capacity building programs.

As an informal, inclusive and advisory public-private platform managed by the private sector, the APFF can focus on important issues cutting across the variety of regional and international initiatives and institutions. Through this process, APFF can help design policies that will encourage and enable market participants to direct their business and commercial activities to the development and integration of the region's financial markets. In this context, the APFF has the potential to become a bridge among many institutions and organizations that are striving toward the same goal and to facilitate synergy among them.

Going forward, the region will need to consider the lessons from the recent past, when rapid economic growth and expansion of trade masked underlying imbalances that eventually led the global economy to where it is today. The APFF will need to focus on the most important, basic and urgent issues that will promote the development of financial markets to help correct these imbalances and set the Asia-Pacific and global economies on the right path to growth. These issues include finding the right balance between innovation and regulation for financial stability and consumer protection, identifying common principles for development of financial markets, improving coordination among regulators and market players, and achieving synergy between regulatory reform and the pursuit of other economic policies.

The challenges facing the financial sector are growing as the needs of the real economy continue to outpace the ability of financial markets to provide greater access to finance and funding for infrastructure and developments in these markets outpace the ability of policy makers to adjust regulations to new realities. In order to realize the vision of Asia fully becoming an engine of global economic growth in this century, the regulatory frameworks and market infrastructure need to be put in place that will enable Asian economies to grow on strong and stable foundations.

APFF has the potential to contribute to attaining this goal, but in order to do so, it needs to have efficient structures, access to resources and mechanisms for coordination and collaboration with relevant authorities and organizations. It can draw lessons from the experience of successful international organizations, in addition to the experiences of ABAC and the Advisory Group on APEC Financial System Capacity Building.

In conclusion, the discussions during the Symposium explicitly confirmed the need for establishing the APFF. They identified the needs and aspirations of the region's economies and the ongoing processes that characterize the development of the region's financial markets. They identified the principal challenge as building the institutions and structures through which savings can be channeled into the kind of investments, particularly long-term investments, that will meet the most important needs of the region. Participants reached consensus on the priority issues that must be dealt with in order to build such institutions and structures and determined that the APFF has a proper role to play in dealing with these issues.

Participants agreed on a basic initial structure for the APFF and the cast of institutions and players who need to be involved in its development. They agreed to propose that ABAC be responsible for developing its activities under the institutional structure of the APEC Finance Ministers' Process, in collaboration with interested ministries and institutions that play important roles in the development of policies and regulations affecting the various components of financial markets. They noted the importance of supporting this collaboration with efficient and targeted capacity building initiatives. It is hoped that the APEC Finance Ministers will favorably consider these outcomes and the work program based on them that will be presented by ABAC at their 20th Annual Meeting in Bali.

SYMPOSIUM PROGRAM

ASIA-PACIFIC FINANCIAL MARKET DEVELOPMENT SYMPOSIUM

10-11 April 2013

Four Season, Sydney, Australia

Tuesday, 9 April 2013

18.00-20.00

WELCOME DRINKS

Studios 1 and 2, Level 2, Four Seasons Hotel

Informal Welcome

Mr Jim Murphy, Executive Director, Markets Group, Australian Treasury

Mr Amin Subekti, Executive Director, APEC Business Advisory Council

Wednesday, 10 April 2013

9.30-10.00

REGISTRATION AND COFFEE

Foyer outside Ballroom 2

10.00-10.30

WELCOME AND INTRODUCTION

Ballroom 2

Introduction

Mr David Pilling, Asia Editor, Financial Times

Welcome to Country

Ms Donna Ingram, Representative from the Metropolitan Local Aboriginal Land Council

Welcome

The Hon Bill Shorten MP, Minister for Financial Services and Superannuation and Minister for Workplace Relations

Mr Mark Johnson AO, Chair, Australian Financial Centre Task Force and ABAC Member

10.30-12.00

SESSION 1: OVERVIEW OF ASIA-PACIFIC FINANCIAL MARKETS: CURRENT STATE AND EVOLUTION IN A GLOBAL AND REGIONAL CONTEXT

Ballroom 2

Synopsis

This session will identify the key characteristics of, and differences between, financial markets in the Asia-Pacific and review their development in the context of their role in promoting balanced, inclusive, sustained and innovative growth. It will identify how financial market development and connectivity in the Asia-Pacific can support real economic growth in the region and help address global imbalances. It will also discuss the current state of cross-border trade in financial products and services in the region, compared to financial markets in Europe and the US.

Moderator

Mr David Pilling, Asia Editor, Financial Times

Speakers

Mr Andrew Sheng, President, Fung Global Institute

Dr Masahiro Kawai, Dean and CEO, Asian Development Bank Institute

Panelists

Mr Boon-Hiong Chan, Director and Head, Market Advocacy APAC, MENA, Global Transaction Bank, Deutsche Bank AG

Mr Mark Austen, Chief Executive Officer, Asia Securities Industry and Financial Markets Association

Mr Francisco Garces, Member of the Board, Banco de Chile

Mr Donald Kanak, Chairman, Prudential Corporation Asia

Key issues

Session to focus on the following issues:

- Discuss current market developments in regional economies in the context of promoting balanced, inclusive, sustained and innovative growth.
- Highlight differences in financial market development between economies in the region.
- Identify the level of financial market connectivity in the Asia-Pacific and how this differs from more homogenous, integrated financial markets in Europe and the US.

12.00-13.00

LUNCH

Ballroom 1

13.00 -14.30

SESSION 2: FINANCIAL MARKET DEVELOPMENT AND CONNECTIVITY: DEFINING A DEVELOPMENT AGENDA FOR THE ASIA-PACIFIC REGION

Ballroom 2

Synopsis

This session will draw on the discussions in Session 1 to explore how policy-makers and regulators aspire to shape future market and regulatory structures to promote financial market development and connectivity.

Moderator

Mr David Pilling, Asia Editor, Financial Times

Speakers

Mr Bindu Lohani, Ranking Vice President, Asian Development Bank

The Hon Cesar V. Purisima, Secretary, Department of Finance, Philippines

Panelists

Mr Eddie Yue, Deputy Chief Executive, Hong Kong Monetary Authority

Mr William Streeter, Head of Debt, Middle East, Emerging Markets (MEEMA), Asia, Hastings Funds Management

Mr Tony Lythgoe, Head, Financial Infrastructure, Advisory Services, International Finance Corporation

Dr Firdaus Djaelani, Chief Executive of Non-Bank Financial Institutions

Supervisor, Indonesia Financial Services Authority (FSA)

Key issues

Session to focus on the following issues:

- Discuss how greater market connectivity and regulatory convergence can be achieved to strengthen the region's economic and financial future.
- What common goals policy makers in the region share and how a regional approach could help to achieve these.
- Explore the risks associated with deeper integration and how these can be mitigated.

14.30-15.00

COFFEE BREAK

Foyer outside Ballroom 2

15.00-16.00

SESSION 3: DEVELOPING THE REGION'S FINANCIAL MARKET INFRASTRUCTURE

Ballroom 2

Synopsis

This session will focus on the role of financial market infrastructure in supporting development and connectivity.

Moderator

Mr David Pilling, Asia Editor, Financial Times

Panelists

Mr Steve Sargent, President and CEO, GE Australia and New Zealand

Dr Bandid Nijathaworn, Chairman, Thai Bond Market Association

Dr Min Ye, Managing Director, Regional Head, Asia-Pacific, Moody's Asia Pacific Limited

Mr Keith Noyes, Regional Director, Asia-Pacific International Swaps and Derivatives Association, Inc.

Ms Beth Smits, Head of Corporate Affairs, Asia-Pacific, SWIFT

Mr Elmer Funke Kupper, Managing Director and CEO, ASX

Key issues

Session to focus on the following issues:

- Explore the current state of financial market infrastructure in emerging markets (with respect to recording, clearing, and settling payments, securities, derivatives and other financial transactions), as well as issues related to the market infrastructure for lending, financial information (credit reporting and credit rating systems) and derivatives markets.
- Discuss the role of financial market infrastructure in enabling greater connectivity across markets and the challenges for the region in this regard.

16.00-17.00

SESSION 4: REGULATORY ISSUES IN PROMOTING ASIA-PACIFIC FINANCIAL MARKET DEVELOPMENT AND CONVERGENCE

Ballroom 2

Synopsis

This session will review the actual and potential impact of current and planned global financial regulatory standards on the achievement of the region's financial market development goals and aspirations (including

what positive impacts can be strengthened, what unintended consequences need to be addressed and what gaps need to be filled). It will also discuss how the region can contribute more effectively to the future evolution of sound and efficient global financial regulatory standards that will promote balanced, inclusive, sustained and innovative growth.

Moderator

Mr David Pilling, Asia Editor, Financial Times

Panelists

Mr Toru Otsuka, Managing Director, Group Strategy and Executive Office, Nomura Holdings, Inc.

Mr Douglas Barnert, President and CEO, Barnert Global Ltd

Dr John Laker AO, Chairman, Australian Prudential Regulation Authority

Key issues

Session to focus on the following issues:

- Examine the impact of financial regulations on financial markets and operations of financial institutions.
- Discuss the challenges faced by the region's developing economies in designing appropriate regulations to develop stable and efficient financial systems.
- Identify key regulatory issues that need to be addressed to promote the development of a robust and diversified investor base and liquid capital markets in the region.

17.45-18.50

HARBOUR CRUISE TO DINNER

Campbell Cove Wharf to Kirribilli

19.00-21:00

DINNER

Royal Sydney Yacht Squadron

Speaker

Mr Glenn Stevens, Governor, Reserve Bank of Australia

Thursday, 11 April 2013

8.00-9.30

BREAKFAST SESSION 5: REGIONAL FINANCIAL POLICY AND REGULATORY INITIATIVES: WHAT NEEDS TO BE ADDRESSED, WHAT IS BEING ADDRESSED, WHERE ARE THE GAPS AND OPPORTUNITIES FOR COLLABORATION

Galleries 1, 2 and 3, Level 2

Synopsis

A conversation over breakfast: this session will discuss existing processes aimed at developing Asia-Pacific financial markets, including those being progressed through ASEAN and ASEAN+3, with the aim of identifying lessons learnt from those processes and potential gaps.

Moderator

Mr David Pilling, Asia Editor, Financial Times

Speakers

Professor Kevin Davis, Professor and Research Director, University of Melbourne and Australian Centre for Financial Studies

Mr Hon Cheung, Managing Director, State Street Global Advisors

Panelists

Mr Atsushi Takeuchi, Head of Center for Monetary Cooperation in Asia, International Department, Bank of Japan

Mr Nik Hasyudeen, Executive Chairman, Audit Oversight Board, Securities Commission Malaysia

Mr Jim Murphy, Executive Director, Markets Group, Australian Treasury

9.30-10.00

COFFEE BREAK

Foyer outside Galleries 1, 2 and 3

10.00-11.30

SESSION 6: BREAKOUT GROUP DISCUSSIONS: PRIORITIES FOR ASIA-PACIFIC FINANCIAL MARKET COOPERATION

Galleries 1, 2 and 3, Level 2

Synopsis

This breakout session will examine gaps in the existing framework for promoting Asia-Pacific financial market development with respect to particular market segments and in doing so define a possible focus for an Asia-Pacific Financial Forum.

Group Leaders:

Lending

Dr Eli Remolona, Chief Representative, Bank for International Settlements, Representative, Office for Asia & the Pacific

Mr Graham Hodges, Deputy Chief Executive Officer, ANZ Banking Group Ltd

Capital markets

Ms Belinda Gibson, Deputy Chairman, Australian Securities and Investments Commission

Insurance

Mr Makoto Okubo, General Manager, International Affairs, Nippon Life Insurance Company

Mr Mike Wilkins, Managing Director and Chief Executive Officer, Insurance Australia Group

Key issues

Session to focus on the following issues with respect to particular market segments:

- Identify major regulatory impediments, infrastructure needs or policy settings that currently impede the development of national markets and cross-border trade in financial products and services.
 - How can those impediments be addressed without undermining legitimate regulatory objectives (such as financial stability and consumer protection)?
- Discuss existing efforts to encourage regional financial market connectivity

and reduce regulatory barriers to cross-border transactions and identify any key gaps.

- Examine the impact of recent international regulatory developments on business and on regulatory convergence in the Asia-Pacific.
 - In the future, how can international regulatory developments be shaped to better reflect Asia-Pacific concerns and needs?

11.30-12.00

COFFEE BREAK

Foyer outside Ballroom 2

12.00-13.00

SESSION 7: ASIA PACIFIC FINANCIAL FORUM: DEFINING THE FOCUS

Ballroom 2

Synopsis

This session follows from Session 6. The breakout groups will report back on the outcomes of their sessions, followed by a plenary discussion of priorities for Asia-Pacific financial market cooperation which a new forum could assist to address.

Moderator

Mr Anthony Nightingale, ABAC member and Director, Jardine Matheson Holdings Ltd.

Panelists

Mr Sean Henderson, MD, Head of Debt Capital Markets for Aus/NZ, HSBC

Mr. Francisco Garcés, Member of the Board, Banco de Chile

Mr Nik Hasyudeen, Executive Chairman, Audit Oversight Board, Securities Commission Malaysia

Key issue

Session to focus on the following issue:

- Identify and prioritize major contributions that a new forum could make in facilitating financial market development which serves regional economic and social needs.

13.00-14.30

LUNCH

Ballroom 1

14.30-15.30

SESSION 8: CURRENT REGIONAL FINANCIAL COOPERATION IN THE ASIA-PACIFIC: IMPLICATIONS FOR STRUCTURE AND PROCESS OF REGIONAL PUBLIC-PRIVATE FINANCIAL MARKET COLLABORATION

Ballroom 2

Synopsis

This session will discuss practical but important matters associated with creating a new forum including structure, representation, reporting and its relationship to the APEC Finance Ministers' Process and other ongoing regional financial cooperation initiatives.

Moderator

Dr Julius Caesar Parreñas, Advisor on International Affairs, Bank of Tokyo-Mitsubishi UFJ, Ltd.

Speaker

The Hon Mahendra Siregar, Vice Minister of Finance, Ministry of Finance of the Republic of Indonesia

Panel

Mr Ichiro Oishi, Director, Research Division, International Bureau, Ministry of Finance, Japan

Dr Alan Bollard, Executive Director, APEC Secretariat

Mr Yogan Rasanayakam, Managing Director, AFS/WIB Partnership, Westpac Banking Corporation

Key issues

Session to focus on the following issues:

- Examine the mechanisms which currently exist to enhance public-private collaboration in matters of regional financial market development.
 - What does successful collaboration look like? How can it be achieved?
 - How can duplication of work being undertaken in other fora be avoided?
- Discuss how the Asia-Pacific Financial Forum could be designed in terms of structure, representation, reporting and its relationship to the APEC Finance Ministers' Process and other ongoing regional financial cooperation initiatives.

15.30-15.45

COFFEE BREAK

Foyer outside Ballroom 2

15.45-16.45

SESSION 9: THE WAY FORWARD

Ballroom 2

Synopsis

This session will summarize the key ideas and conclusions from the previous sessions' discussions and seek consensus on the way forward.

Moderator

Dr Martin Parkinson PSM, Secretary, Australian Treasury

Panel

Dr Masahiro Kawai, Dean and CEO, Asian Development Bank Institute

Mr Yoshihiro Watanabe, Advisor, Bank of Tokyo-Mitsubishi UFJ, Ltd.

Madame Lili Wang, Executive Director and Senior Executive Vice President, Industrial and Commercial Bank of China

Mr Stephen Allen, Chief Risk Officer, Macquarie Group Limited

Concluding Remarks

Mr. Mark Johnson AO, Chair, Australian Financial Centre Task Force and ABAC member

16.45-17.00

Closing Remarks

The Hon Wayne Swan MP, Deputy Prime Minister and Treasurer

PARTICIPANTS

1. Mr Joseph Abraham, President Director/CEO, PT Bank ANZ Indonesia
2. Ms Arlyana Abubakar, Deputy Director, Bank Indonesia
3. Mr Stephen Allen, Chief Risk Officer, Macquarie Group Limited
4. Mr Mark Austen, CEO, Asia Securities Industry & Financial Markets Association (ASIFMA)
5. Mr Anthony Baker, Asian Development Bank
6. Mr Douglas Barnert, President and Chief Executive Officer, Barnert Global Ltd.
7. Mr Paul Binsted, Chair, Finance Sector Advisory Council
8. Mr Keith Birch, Managing Director, Head of Compliance, Goldman Sachs Australia
9. Dr Alan Bollard, Executive Director, APEC Secretariat
10. Mr Wayne Boyd, New Zealand Member, APEC Business Advisory Council
11. Mr Herfan Brilianto Mursabdo, Deputy Director, Ministry of Finance, Republic of Indonesia
12. Ms Anna Buduls, Australia Member, APEC Business Advisory Council
13. Mr Boon-Hiong Chan, Director and Head, Market Advocacy APAC, MENA, Global Transaction Bank, Deutsche Bank AG
14. Mr Harvey Chang, Chairman, TVBS TV Network
15. Ms Pearly Chen, Chief Staffer, Finance and Economics Working Group, APEC Business Advisory Council
16. Mr Hon Cheung, Managing Director, State Street Global Advisors
17. Mr Thomas Clark, Executive Counsel /Government Relations, GE International Inc.
18. Ms Emma Cunningham, Communications Manager, Westpac Institutional Bank
19. Mr Ben Cushman, Financial Attache for Southeast Asia, U.S. Department of the Treasury
20. Professor Kevin Davis, Professor and Research Director, University of Melbourne & Australian Centre for Financial Studies
21. Ms Rosalia De Leon, Treasurer of the Philippines, Bureau of the Treasury, Philippines
22. Mr Mark Delaney, Deputy Chief Executive & Chief Investment Officer, AustralianSuper Pty Ltd
23. Mr John W.H. Denton, Partner and CEO, Corrs Chambers Westgarth
24. Dr Firdaus Djaelani, Chief Executive of Non-Bank Financial Institutions Supervisor, Indonesia Financial Services Authority (FSA)
25. Ms Sophie Domingo, Executive Assistant, Department of Finance, Republic of the Philippines
26. Ms Christina Ellerker, Head of Regulatory Affairs, Asia Pacific, Moody's Asia Pacific Limited
27. Mr Robert Fiddick, Program Director, National Center for APEC
28. Ms Andrea Forbes, Analyst, Minister for Financial Services and Superannuation
29. Mr Elmer Funke Kupper, Managing Director and CEO, Australian Securities Exchange (ASX)
30. Prof David Gallagher, Chief Executive Officer and Professor, Centre for International Finance and Regulation
31. Mr Francisco Garces, Member of the Board, Banco de Chile
32. Ms Belinda Gibson, Deputy Chairman, Australian Securities & Investments Commission
33. Mr Wayne Golding, Executive Co-Chairman, 2G Development Corp Ltd and Kina Securities Ltd
34. Mr Ruixiang Han, General Manager, ICBC Sydney Branch
35. Mr Sean Henderson, MD, Head of Debt Capital Markets Aus/NZ, HSBC
36. Mr Graham Hodges, Deputy Chief Executive Officer, ANZ Banking Group Ltd
37. Ms Ashly Hope, Australian Treasury
38. Mr John Hopper, Head of Income Assets, AustralianSuper
39. Mr Mark Johnson, Chair, Australian Financial Centre Task Force and Australia Member, APEC Business Advisory Council
40. Mr Donald Kanak, Chairman, Prudential Corporation Asia
41. Dr Masahiro Kawai, Dean and CEO, Asian Development Bank Institute
42. Ms Garam Kim, Ministry of Strategy and Finance, Republic of Korea
43. Dr John Laker, Chairman, Australian Prudential Regulation Authority
44. Dr Seung Jae Lee, Advisor, Asian Development Bank
45. Mr Abel Lin, Executive Vice President, Cathay Life Insurance Co. Ltd.

46. Mr Bindu Lohani, Ranking Vice President, Asian Development Bank
47. Mr Ahdi Jumhari Luddin, Managing Director - Compliance, PT Bank BNI
48. Mr Anthony Lythgoe, Head, Financial Infrastructure, Advisory Services, International Finance Corporation
49. Mr James McIntyre, Office of the Hon Bill Shorten MP, Minister for Financial Services and Superannuation
50. Mr John Meagher, Head of Institutional Business, AMP Capital
51. Mr Jim Murphy, Executive Director, Markets Group, Australian Treasury
52. Ms Leona Murphy, Chief Strategy Officer, Insurance Australia Group (IAG)
53. Mr Anthony Nightingale, Director, Jardine Matheson Holdings Ltd
54. Dr Bandid Nijathaworn, Chairman, The Thai Bond Market Association
55. Mr Nik Hasyudeen, Executive Chairman, Audit Oversight Board, Securities Commission Malaysia
56. Mr Kiyoshi Nishimura, Chief Executive Officer (CEO), Credit Guarantee and Investment Facility (CGIF)
57. Mr Keith Noyes, Regional Director, Asia-Pacific, International Swaps and Derivatives Association (ISDA)
58. Mr Ichiro Oishi, Director, Research Division, International Bureau, Ministry of Finance Japan
59. Mr Makoto Okubo, General Manager, International Affairs, Nippon Life Insurance Company
60. Mr Toru Otsuka, Managing Director, Nomura Holdings, Inc.
61. Dr Martin Parkinson, Secretary, Australian Treasury
62. Dr Julius Caesar Parreñas, Advisor on International Affairs, The Bank of Tokyo-Mitsubishi UFJ, Ltd.
63. Mr Octavio Peralta, Secretary General, Association of Development Financing Institutions in Asia & the Pacific (ADFIAP)
64. Mr Joe Perry, Senior Public Affairs Manager, Standard Chartered Bank
65. Mr David Pilling, Asia Editor, Financial Times
66. The Hon Cesar V. Purisima, Secretary, Department Of Finance, Philippines
67. Mr Yogan Rasanayakam, Managing Director, WIB/AFS Partnerships, Westpac Banking Corporation
68. Mr Brian Redican, Division Director, Macquarie Group Limited
69. Dr Eli Remolona, Chief Representative, Bank for International Settlements, Representative Office for Asia & the Pacific
70. Ms Heather Ridout, Chair, AustralianSuper Pty Ltd
71. Ms Emma Rumble, Head of Communications, Westpac Institutional Bank
72. Mr Ian Saines, Group Executive, Institutional Banking and Markets, Commonwealth Bank
73. Mr Tomoyuki Saisu, Chief Advisor to the President, Asian Development Bank
74. Mr Steve Sargent, President & Chief Executive Officer, GE Australia and New Zealand
75. Mr Andrew Sheng, President, Fung Global Institute
76. Mr Ian Silk, Chief Executive, AustralianSuper
77. Ms Irene Sim, General Manager, Retail Investor Division, Australian Treasury
78. Ms Catherine Simmons, Head of Regulatory, Industry and Government Affairs, AP, State Street Global Advisors
79. Mr Amit Singh, Australian Prime Minister's Office
80. The Hon Mahendra Siregar, Vice Minister of Finance, Ministry of Finance of the Republic of Indonesia
81. Mrs Ruchukorn Siriyodhin, Assistant Governor, Bank of Thailand
82. Ms Phyllis Elisabeth Smits, Head of Corporate Affairs, Asia Pacific, SWIFT
83. Mr Barry Sterland, Executive Director (International), Macroeconomic Group, Australian Treasury
84. Mr Glenn Stevens, Governor, Reserve Bank of Australia
85. Mr William Streeter, Head of Debt, Middle East, Emerging Markets, Asia (MEEMA), Hastings Fund Management Asia
86. Mr Hui Su, Deputy Head of Foreign Affairs Division, Industrial & Commercial Bank of China

- (ICBC)
87. Mr Amin Subekti, Executive Director, APEC Business Advisory Council
 88. Mr Atsushi Takeuchi, Head of Center for Monetary Cooperation in Asia, International Department, Bank of Japan
 89. Mr Alvin Tan, Executive Director, Goldman Sachs (Asia) LLC
 90. Ms Rebecca Turner, Executive Director, Policy and Regulatory Affairs, Asia Securities Industry & Financial Markets Association (ASIFMA)
 91. Mr Marc Uzan, Executive Director, Reinventing Bretton Woods Committee
 92. Mr Nofel Wahid, Research Analyst, The Australian APEC Study Centre
 93. Mr Kenneth Waller, Director, The Australian APEC Study Centre, College of Business, RMIT University
 94. Madame Wang Lili, Executive Director & Senior Executive Vice President, Industrial & Commercial Bank of China (ICBC)
 95. Mr Brett Ward, Group General Manager, Strategy, Insurance Australia Group (IAG)
 96. Mr Kunihiro Watanabe, Deputy Head, Intelligence and Research Office, The Bank of Tokyo-Mitsubishi UFJ, Ltd.
 97. Mr Yoshihiro Watanabe, Advisor, The Bank of Tokyo-Mitsubishi UFJ, Ltd.
 98. Mr Song Wei, Senior Manager, Industrial & Commercial Bank of China (ICBC)
 99. Mr Mike Wilkins, Managing Director and Chief Executive Officer, Insurance Australia Group (IAG)
 100. Mr Bruce Wolpe, Australian Prime Minister's Office
 101. Dr Min Ye, Managing Director and Regional Head, Asia Pacific, Moody's Asia Pacific Limited
 102. Mr Eddie Yue, Deputy Chief Executive, Hong Kong Monetary Authority

EVENT TEAM

- Ms Sue Bonnett, Event Team Leader, Australian Treasury
Ms Philippa Henty, Event Team, Australian Treasury
Mr Simon Milnes, Event Team, Australian Treasury
Mr Tim Andri, Event Team, Australian Treasury
Ms Cate Le Mesurier, Event Team, Australian Treasury
Ms Judy Poon, Event Team, Australian Treasury
Mr Tim Watson, Event Team, Australian Treasury
Mr Jarek Kowcza, Event Team, Australian Treasury
Mr Ashley George, Event Team, Australian Treasury
Ms Diana Zeleny, Event Team, Australian Treasury
Mr Brendan Reilly, Event Team - IT support, Australian Treasury

WELCOME TO COUNTRY

- Ms Donna Ingram, Representative from the Metropolitan Local Aboriginal Land Council

LIST OF ABBREVIATIONS

ABAC	APEC Business Advisory Council
ABF	Asian Bond Fund
ABIF	ASEAN Banking Integration Framework
ABMF	ASEAN+3 Bond Market Forum
ABMI	Asian Bond Markets Initiative
ACMF	ASEAN Capital Markets Forum
ADB	Asian Development Bank
ADFIAP	Association of Development Financing Institutions in Asia and the Pacific
AEC	ASEAN Economic Community
AFMM	APEC Finance Ministers' Meeting
AIF	ASEAN Infrastructure Fund
AIFMD	Alternative Investment Fund Managers Directive
ALIDE	Asociacion Latinoamericana de Instituciones Financieras para el Desarrollo (Latin American Association of Development Financing Institutions)
AMBIF	ASEAN+3 Multi-Currency Bond Issuance Framework
AMRO	ASEAN+3 Macroeconomic Research Office
APBC	Asian Pacific Bankers' Council
APEC	Asia-Pacific Economic Cooperation
APFF	Asia-Pacific Financial Forum
APIP	Asia-Pacific Infrastructure Partnership
ARFP	Asia Region Funds Passport
ASEAN	Association of South East Asian Nations
ASIFMA	Asia Securities Industry and Financial Markets Association
ASX	Australian Securities Exchange
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
CCP	Central counterparty
CFTC	Commodity Futures Trading Commission
CGFS	Committee on the Global Financial System
CGIF	Credit Guarantee and Investment Facility
CMIM	Chiang Mai Initiative Multilateralization
CPSS	Committee on Payment and Settlement Systems
CSD	Central securities depository
CSDR	Central Securities Depository Regulation
D-SIB	Domestically Systemically Important Bank
DCO	Derivatives Clearing Organization
DFA	Dodd-Frank Act
DMA	Direct Market Access
EMEAP	Executives' Meeting of East Asia Pacific Central Banks
EMIR	European Market Infrastructure Regulation
ERPD	Economic Review and Policy Dialogue
ESMA	European Securities and Markets Authority
ETF	Exchange traded fund
EU	European Union
FATCA	Foreign Account Tax Compliance Act
FELABAN	Federacion Latinoamericana de Bancos (Latin American Banking Federation)
FMP	Finance Ministers' Process

FSB	Financial Stability Board
FSF	Financial Stability Forum
FTC	Federal Trade Commission
FTT	Financial Transaction Tax
G4	Group of 4 (USA, Eurozone, Japan, UK)
G-SIB	Globally Systemically Important Bank
G20	Group of 20
GDP	Gross Domestic Product
GFC	Global Financial Crisis
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IO	International Organization
IOSCO	International Organization of Securities Commissions
ISDA	International Swaps and Derivatives Association
ISO	International Standards Organisation
IVSC	International Valuation Standards Council
MDB	Multilateral Development Bank
MERCOSUR	Mercado Común del Sur (Southern Common Market)
MIFID	Markets in Financial Instruments Directive
MILA	Mercado Integrado Latinoamericano (Integrated Latin American Market)
MiFIR	Markets in Financial Instruments Regulation
NIE	Newly Industrializing Economy
OECD	Organisation for Economic Co-operation and Development
OTC	Over the counter
PECC	Pacific Economic Cooperation Council
PPP	Public-Private Partnership
PSU	Policy Support Unit
QDII	Qualified Domestic Institutional Investor
QFII	Qualified Foreign Institutional Investor
RBA	Reserve Bank of Australia
RCEP	Regional Comprehensive Economic Partnership
RMB	Renminbi
SEACEN	South East Asian Central Banks
SEANZA	South East Asia, New Zealand, Australia Forum of Banking Supervisors
SME	Small and Medium Enterprise
SSB	Standard setting body
SWIFT	Society for Worldwide Interbank Financial Telecommunication
T2S	Target-2 Securities
TPP	Trans-Pacific Partnership
UCITS	Undertakings for Collective Investment in Transferable Securities
WB	World Bank
XML	Extensible markup language