

# THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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## Fourth Meeting 2014

5 November 2014

1:30 PM – 3:30 PM

Waldorf Ballroom, 2<sup>nd</sup> Floor, Waldorf Astoria Beijing  
Beijing, People's Republic of China

## Meeting Paper 4-A APFF Overview

### WORK PROGRAM, ACTION PLANS AND ACTIVITIES

Office of the Advisory Group Chair

- PURPOSE** For consideration.
- ISSUE** Work program, action plans and activities of APFF
- BACKGROUND** At their 2013 meeting, APEC Finance Ministers welcomed ABAC's proposal to create an Asia-Pacific Financial Forum (APFF) as a regional platform for such collaboration and established the APFF as one of the policy initiatives under the APEC Finance Ministers' Process. This year, ABAC submitted an Interim Report recommending concrete undertakings across the broad financial sector that can yield tangible results within two or three years. These undertakings, encapsulated in 12 action plans, are clustered around two major issues: (a) the development of deep, liquid and integrated capital markets and the region's long-term investor base; and (b) expanded access of enterprises and individuals to financial services.
- PROPOSAL** This paper describes activities under consideration to advance action plans in the following areas: (1) a pathfinder initiative to develop credit information sharing systems; (2) a pathfinder initiative to improve the legal and institutional architecture for security interest creation, perfection and enforcement and related workshops; (3) dialogues on regulatory issues in trade and supply chain finance; (4) workshops on emerging facilitators of trade and supply chain finance; (5) a pathfinder initiative to develop classic repo markets; (6) workshops to develop strategies to improve legal and documentation infrastructure for the development of OTC derivatives markets; (7)

self-assessment templates on information for capital market investors: development and workshop series; (8) ARFP Support Initiative; (9) workshop series to develop an enabling Asia-Pacific securities investment ecosystem; (10) dialogue series on regulation and accounting issues impacting the long-term business of the insurance industry in Asia-Pacific economies and longevity solutions; (11) collaboration with APEC Finance Ministers' Process in promoting long-term investment, including infrastructure; and (12) conference and workshop series on linkages and structural issues.

***DECISION  
POINT***

Endorse the undertaking of the proposed activities.

## **THE ASIA-PACIFIC FINANCIAL FORUM WORK PROGRAM, ACTION PLANS AND ACTIVITIES**

*As of 4 November 2014*

Our region today faces new realities that require a larger role for domestic and regional demand to sustain stronger, balanced and inclusive growth. This transformation of our economic growth model requires significant increases in domestic consumption supported by robust investment. It requires efforts to address poverty, environmental issues and the economic impact of aging, building infrastructure and facilitating competitiveness, innovation and growth of small enterprises.

Financial markets and services are critical to this transformation. Our region needs deep and liquid capital markets, institutions that provide long-term finance and expanded access of households and enterprises to financial services, supported by sound and efficient legal and regulatory frameworks and good governance. Regional financial integration has an important role to play in achieving these objectives.

Following the Asian crisis, the region's public sector initiated various undertakings in this direction, which have yielded concrete results and helped our economies weather the impact of the Global Financial Crisis. These undertakings constitute the foundations and building blocks of a more robust, efficient and integrated Asia-Pacific financial architecture. Accelerating its development in response to our region's pressing needs, however, requires closer public-private sector collaboration.

At their 2013 meeting, APEC Finance Ministers welcomed ABAC's proposal to create an Asia-Pacific Financial Forum (APFF) as a regional platform for such collaboration and established the APFF as one of the policy initiatives under the APEC Finance Ministers' Process. This year, ABAC submitted an Interim Report recommending concrete undertakings across the broad financial sector that can yield tangible results within two or three years. This report drew from discussions undertaken by more than 270 senior representatives and experts from 137 major private and public institutions.

These undertakings, encapsulated in 12 action plans, are clustered around two major issues: (a) the development of deep, liquid and integrated capital markets and the region's long-term investor base; and (b) expanded access of enterprises and individuals to financial services.

**Promoting capital market depth and liquidity and long-term investment.** This benefits the region in a number of ways, including greater financial system diversity and stability, improved availability and lower costs of financing, more efficient intermediation of the region's savings into investments, greater capacity to finance infrastructure development, growth of the region's financial services sector and better investment opportunities to finance future needs, especially of rapidly aging societies. To promote this, the APFF Interim Report proposes action plans with the following objectives:

- Facilitating cross-border portfolio investment through (a) an ***enabling Asia-Pacific securities investment ecosystem*** consisting of market practices, standards and platforms that can selectively harmonize market access and repatriation practices, improve inter-operability, liquidity and connectivity of domestic and cross-border financial markets and reduce systemic risks in the context of today's shorter settlement cycles; (b) expanding private sector ***support for the successful launch of the Asia Region Funds Passport***, and (c) helping jurisdictions ***improve availability of information needed by capital market investors***, using self-assessment templates covering disclosure, bond market data and investor rights in insolvency.

- Increasing capital market liquidity by improving access to hedging and risk management instruments through: (a) addressing impediments in legal architectures, market infrastructure, conventions and industry practices as well as liquidity, currency, repatriation, tax and market access issues related to the *development of classic repo markets*; and (b) *development of the legal infrastructure for OTC derivatives markets*, particularly those for netting, protection of collateral interests and margining of non-cleared derivatives.
- Developing the long-term institutional investor base through (a) enhanced regulators' understanding of *regulatory and accounting issues' impact on insurers' incentives to do long-term business* and of longevity solutions for management of retirement savings; and (b) *identifying market and operational issues* that constrain insurers' and pension funds' investment in long-term assets, including infrastructure.

**Expanding access to finance.** Our region needs inclusive financial systems to enable more households and enterprises to participate in economic activities and create broad-based economies that can ensure sustained growth. Action plans proposed in the APFF Interim Report to help address this challenge are designed to pursue the following objectives:

- Enabling enterprises and individuals to use reputational collateral through the *development of credit information sharing systems*, which require capacity of regulators and lenders to effectively use them, development of private credit bureaus and reforms of domestic and cross-border data regulation, consumer rights, and bureau licensing, ownership, oversight and regulation.
- Facilitating the use by SMEs of movable assets as collateral through the development of robust and regionally consistent *legal and institutional architecture for asset-based lending and factoring* in the areas of security interest creation, perfection and enforcement, strengthening of collateral registries, and clear and predictable rules around priority, enforceability and assignability of claims.
- Expanding availability and efficiency of financing for SMEs in supply chains through improved and regionally consistent *regulatory capacity to implement relevant banking standards and regulations* based on deep understanding of their impact on trade and supply chain finance, as well as through the promotion of proper and wider *use of working capital management tools, emerging market currencies, collateral management services and innovative electronic platforms* that facilitate financing of supply chains.

Complementing action plans geared toward these objectives is a program of **broader discussions on linkages and structural issues**, including future directions for financial regulation, the interplay between cross-border investment in financial services and connectivity of financial markets, and understanding macroeconomic imbalances and systemic risk, which are critical for policy makers and regulators as they respond to the region's changing needs and financial landscape.

In pursuit of the above objectives, a large number of major financial industry firms and associations, as well as multilateral organizations, academic institutions and public sector bodies have committed to collaborate in undertaking pathfinder initiatives, dialogues and workshops under the Interim Report's 12 action plans.<sup>1</sup> This pooling of considerable talent and resources from both public and private sectors using the APFF platform provides an opportunity to achieve concrete progress in key areas that will

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<sup>1</sup> These are: (1) a pathfinder initiative to develop credit information sharing systems; (2) a pathfinder initiative to improve the legal and institutional architecture for security interest creation, perfection and enforcement and related workshops; (3) dialogues on regulatory issues in trade and supply chain finance; (4) workshops on emerging facilitators of trade and supply chain finance; (5) a pathfinder initiative to develop classic repo markets; (6) workshops to develop strategies to improve legal and documentation infrastructure for the development of OTC derivatives markets; (7) self-assessment templates on information for capital market investors: development and workshop series; (8) ARFP Support Initiative; (9) workshop series to develop an enabling Asia-Pacific securities investment ecosystem; (10) dialogue series on regulation and accounting issues impacting the long-term business of the insurance industry in Asia-Pacific economies and longevity solutions; (11) collaboration with APEC Finance Ministers' Process in promoting long-term investment, including infrastructure; and (12) conference and workshop series on linkages and structural issues.

help accelerate development of financial markets and complement ongoing public sector initiatives. With the support of APEC Finance Ministers, the APFF looks forward to active participation and engagement of public sector bodies responsible for adoption and introduction of relevant legal, policy and regulatory measures in advancing these efforts.

*The full APFF Interim Report can be downloaded from*  
<https://www.abaconline.org/v4/download.php?ContentID=22611921>.

Following are the activities under consideration to advance the action plans:

### **1. Credit Information Sharing Systems**

***Objective: Launch Pathfinder Initiative – Full file comprehensive reporting systems – to be announced in September 2015 at the AFMM***

Discussions to (a) recruit pathfinders; (b) identify needs of individual pathfinders; (c) identify activities to address needs; (d) identify elements of pathfinder initiative; (e) agree to launch pathfinder initiative in September 2015.

- a. Financial Inclusion Forum (March 2015: Tagaytay, Philippines) – China, Indonesia, Philippines, Thailand, Vietnam
- b. Latin American Workshop (May 2015: Mexico City, Mexico) – Chile, Mexico, Peru

### **2. Secured Transactions**

***Objective: Launch Pathfinder Initiative – to be announced in September 2015 at the AFMM***

Discussions to (a) recruit pathfinders; (b) identify needs of individual pathfinders; (c) identify activities to address needs; (d) identify elements of pathfinder initiative; (e) agree to launch pathfinder initiative in September 2015.

- a. Financial Inclusion Forum (March 2015: Tagaytay, Philippines) – China, Indonesia, Philippines, Vietnam
- b. Workshop in Tokyo
- c. Active participation in the Third Conference on Warehousing and Collateral Management in Beijing in 2015, sponsored by the China Banking Association (CBA), the China Association of Warehouses and Storage (CAWS) and IFC, and involving senior officials from PBOC (central bank), CBRC (banking regulator) and MOC (Ministry of Commerce).
- d. Active participation in the International Conference on Electronic Movable Financing Platforms to be held in either Beijing or Tianjin sponsored by PBOC and IFC to promote exchanges of experience, to be attended by government officials.

### **3. Dialogues on Regulatory Issues in Trade and Supply Chain Finance**

***Objective: Deeper understanding by banking regulators of implication of relevant Basel III rules, KYC, CDD and AML (intended to facilitate appropriate and consistent implementation across jurisdictions and to develop useful insights that can be shared with relevant international bodies)***

- a. Workshop for Asia I (February 2015: Hong Kong, in conjunction with ABAC I)
- b. Workshop for Asia II (1<sup>st</sup> quarter 2015: Indonesia to be hosted by Indonesia MOF and ABAC Indonesia)
- c. Workshop for Latin America (May 2015: Mexico City, Mexico in conjunction with ABAC II)

### **4. Workshops on Trade and Supply Chain Finance Facilitators**

***Objective: Greater awareness by relevant market participants and regulators of three facilitators: (a) e-supply chain platforms; (b) BPO; and (c) RMB settlement (intended to promote their use and to identify supporting regulatory reforms).***

Audience – government, lenders, exporters and firms; business organizations.

- a. Workshop in Hong Kong (February 2015: Hong Kong, in conjunction with ABAC I)
- b. Workshop in Singapore for ASEAN (to be scheduled)
- c. Workshop in Philippines (in conjunction with APEC MRT?)

## **5. Classic repo markets**

***Objective: Launch Pathfinder Initiative – to be announced in September 2015 at the AFMM***

- a. Launch of the Repo Best Practices Guide and rollout of Repo workshops in conjunction with ISDA and US Treasury as they bring together regulators for training. Aim to invite the Philippines to join the pathfinder initiative.
- b. Outreach: Workshops on KYC solutions organized by ASIFMA on Nov 3-6 and on repo markets on Nov 5-6; presentations on repo markets in NeMa Asia Event (Singapore, Nov 12). meeting with Chinese officials in Beijing as part of AmCham HK annual doorknock on Nov 16-19; meeting with ASEAN Secretariat, OJK and Bank Indonesia on repo markets; APFF breakfast for industry and regulators in Hong Kong at AFF January 2015.

## **6. Workshop on Legal Infrastructure as Risk Mitigant in Capital Markets**

***Objective: Deepen understanding by relevant regulators and policy makers of issues related to (a) netting infrastructure; (b) collateral infrastructure; and (c) implementation of BCBS-IOSCO Mandatory Margining of Non-Cleared Swaps (intended to facilitate introduction of supporting legislative/regulatory reforms).***

Focus on activities in China, Indonesia and the Philippines in 2015.

- a. China: Organize a dialogue with key officials from CBRC, CSRC, PBOC, Legal Department of State Council, NAFMII and the Shanghai Clearing House. netting enforceability to be included in the “Financial Institution Bankruptcy Guidelines”; China: Organize a one-day seminar on collateral issues with PBOC and NDRC
- b. Indonesia: Organize a half-day seminar on modern financial concepts and the contract law that supports netting and collateral rights, for the judiciary and regulators. Organize a 1- to 2-hour seminar on the Working Group on Margining Requirements (WGMR)
- c. Philippines: Organize a half-day forum on WGMR and target central bank and securities regulator.

## **7. Information for Capital Market Investors**

***Objective: Help interested economies identify and promote availability of relevant information needed by capital market investors.***

Finalize (a) self-assessment templates and (b) how-to-guide to employ them. Hold dialogues/workshops. Activities to be specified by Moodys

## **8. ARFP Support Initiative**

***Objective: Provide private sector support to participating jurisdictions in successfully launching the ARFP.***

- Possible discussions with key regulators after ARFP Working Group meeting in Manila in mid-November (TBD); a test case on future collaborations ARFP regulators and APFF.
- Possible event/outreach activity with targeted jurisdictions on the sidelines of the ABAC meeting in Hong Kong in January.
- Since no further details on the ARFP arrangement, focus on enlargement and outreach to economies mentioned above, soliciting support from the APEC Secretariat and country specific ABAC and working with local associations/industry groups.
- As needed, organize/engage in specific discussions/briefings for ARFP regulators (operational issues, taxes, etc.).

## **9. Securities investment ecosystem**

*Objective: Identify market practices and domestic FMI issues that hinder cross-border portfolio investment and measures to address these issues (intended to help regulators, policy makers and market participants create an enabling securities investment ecosystem).*

a. Outreach: Speak on T+2 at the NeMa Asia Event in Singapore on Nov 12, discuss FMI and cross-border practices with Chinese officials during the AmCham HK annual doorknock in Beijing on Nov 16-19, discuss T+2 with ASEAN Secretariat, OJK and Bank Indonesia in Jakarta on Nov 25, presentation to ASIFMA Regional Market Practice Group (securities market professionals) on FMI harmonization, discuss with industry and regulators at AFF in HK in January 2015.

## **10. Dialogue on regulation and accounting issues impacting the insurance industry and longevity solutions**

*Objective: Deeper understanding of regulation and accounting issues affecting the insurance industry and demand and supply side issues in retirement income (intended to help insurance and pension regulators to undertake supporting measures and to develop useful insights that can be shared with relevant international bodies)*

Workshops

- a. Workshop with ASEAN regulators and industry (November 26, Brunei)
- b. Participation in Microinsurance sessions of Asia-Pacific Forum on Financial Inclusion (March 16-18, Tagaytay City)
- c. Workshop with Latin American regulators and industry (May 2015: Mexico City, Mexico – in conjunction with ABAC II)
- d. Workshop with Northeast Asian regulators and industry? Tokyo, Seoul or Beijing?

## **11. Promoting long-term investment**

Participation in APEC FMP workshops on infrastructure, PPP Experts Advisory Panel, APIP Dialogues and relevant activities (to be specified).

- a. Participation in APIP Dialogue with Indonesia (November 24, Jakarta)
- b. Participation in APEC PPP Experts Advisory Panel Meeting (Feb 9-10, Clark SEZ)
- c. Participation in FMP Infrastructure Financing Seminar (July 23-24, Legazpi City)

## **12. Linkages and Structural Issues Conference and Workshop Series**

Activities to be specified by sherpa.