Asia-Pacific Financial Forum
2015 Progress Report to the APEC Finance Ministers

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EXECUTIVE SUMMARY

The Asia-Pacific Financial Forum (APFF), a platform for public-private collaboration to develop robust and integrated financial markets in the region, was proposed by the APEC Business Advisory Council (ABAC) and adopted by the APEC Finance Ministers at their 2013 annual meeting in Bali. In its 2014 Interim Report to the APEC Finance Ministers, the APFF identified undertakings to advance development in key areas of financial markets that are critical to the region's economic aspirations. These areas are: (a) lending infrastructure; (b) trade and supply chain finance; (c) insurance and retirement income; (d) financial market infrastructure and cross-border practices; (e) capital markets; and (f) linkages and cross-border issues.

The Interim Report contained a description of a number of action plans to advance these objectives. This Progress Report provides information on how these action plans are being developed and their future directions. Its highlights are as follows:

- The Report discusses a proposal to establish a Financial Infrastructure Development Network (FIDN) comprising private and public sector entities, multilateral institutions and industry associations as a specialized subgroup under the APFF. Its aim is to undertake activities to help member economies develop legal frameworks for credit information systems and secured transactions and movable asset finance systems, and identification of key issues for its work program.

- The Report identifies key issues to be addressed in a series of dialogues and workshops on trade and supply chain finance for relevant public and private sector stakeholders in the region. These will include capital and Know Your Customer (KYC), Anti Money Laundering (AML) and Customer Due Diligence (CDD) rules affecting trade finance. These also include digital and innovative working capital management products and techniques, reducing barriers to digitalization of supply chain finance, and interrelationships among finance, trade, customs and technology to support the internationalization of MSMEs.

- There is ongoing work to complete a guide for legal and regulatory frameworks, settlement systems and market conventions supporting sound and efficient repo markets. The Report further develops the action plan to engage domestic regulators and governments through workshops, encourage and assist economies in establishing classic repo markets, disseminate industry best practices, encourage adoption of international standards for efficient clearing and settlement of repo transactions, and monitor the impact of financial reforms on repo market development in the region.

- The APFF has completed the self-assessment templates to help relevant authorities facilitate availability of information for investors in the region's debt markets, especially those for non-bank corporate debt. These templates cover three key categories (disclosure, bond market data and information on investor rights in insolvency). The APFF also launched a pilot program with the Philippines to use these templates in identifying gaps and undertaking measures to fill them.

- The APFF served as a platform for engagement of industry to assist the six regulatory authorities progressing the ARFP in identifying critical elements in designing rules and operational arrangements for a successful regional funds passport. These critical elements were identified as enlargement of membership, reciprocity, interoperability with other similar regional frameworks, inclusiveness, taxation, dispute resolution, standardization of fees and performance figures and international recognition of passport funds.

- The APFF undertook further development of the action plan to assist economies in ensuring an enabling legal infrastructure for derivatives, including activities geared toward identifying legal structural weaknesses in jurisdictions, educational seminars targeting regulatory and legislative bodies as well as key members of the judiciary, and preparation of a pilot program.

- Further work was done to identify key issues for workshops and dialogues to help economies develop a regional securities investment ecosystem. The APFF will be working on a regional roadmap of upcoming regulatory and market changes, the feasibility of a regional private-public-market infrastructure forum for exchange of views on these changes, regionally and globally aligned standards for KYC/AML documentation collection and reporting, the use of third party industry utilities for a centralized KYC/AML electronic depositary, and standards for data privacy, protection and security.

- This Report describes recent work initiated by APFF on retirement income and longevity solutions, microinsurance and disaster risk financing and financing vehicles that can be developed and supporting measures to facilitate expanded investment by pension funds and insurers in infrastructure and capital markets. The APFF also continued its efforts to promote regulatory and accounting frameworks that support long-term investment in infrastructure.

- The Report also describes ongoing research and discussion on the regulation and supervision of the region's banking systems and capital markets, market integration and access and regional financial architecture

This Progress Report recommends the following steps as the way forward for advancing the work of the APFF:

- *Undertake a pathfinder initiative to develop credit information systems*. This should involve the development of online resources aimed at policy makers as well as a series of workshops focused on building capacity for developing regulatory frameworks, establishing and operating private credit bureaus and enhancing lenders' ability to use credit information. It will also involve building support for identified reforms in collaboration with policy makers.

- *Undertake a pathfinder initiative to improve policy frameworks for secured transactions and the use of movable assets as collateral*. This should involve holding workshops and promoting reforms to develop robust legal and institutional architecture for asset-based lending and factoring, collateral registries, rules related to the use of movable assets and accounts receivables as collateral, and legal and institutional frameworks to facilitate cross-border supply chain finance.

- *Convene public-private dialogues on regulatory issues in trade and supply chain finance*. These should aim to promote effective and regionally consistent implementation of capital and liquidity standards and KYC/AML/CDD rules.

- *Hold workshops on emerging facilitators of trade and supply chain finance*. These should focus on three key aspects: expanded use of electronic supply chain management platforms; wider use of Bank Payment Obligations (BPOs) and related working capital management techniques; and facilitating market education and information exchanges on the use of regional currencies such as the RMB and related working capital management techniques.

- *Support the development of alternative funding mechanisms for MSMEs*. This should involve the holding of regular public-private workshops on ways to develop alternative funding mechanisms for MSMEs and start-ups, including development of new financial instruments, addressing regulatory barriers to innovative financing, identifying policy frameworks for alternative finance, policy initiatives to spur equity based financing to invest in small businesses, enabling regulations for crowd funding, Islamic finance and public-private innovative funding vehicles. These workshops will be designed to progressively go into greater detail into key specific issues to help policy makers and regulators adopt and implement policies and design initiatives including funding mechanisms.

- *Develop best practices for strengthening MSMEs' resilience*. This should involve workshops for relevant policy makers and regulators in the region and will cover measures to mitigate the impact of financial crises, natural disasters and other unexpected events, based on lessons from responses to previous financial crises and successful experiences in the use of microinsurance and disaster risk finance, with special focus on vulnerable micro- and small businesses, including farmers in remote areas.

- *Establish an APEC-wide DRF expert group within the APFF to develop a gap analysis report in 2016, a disaster risk database starting in 2017 and a baseline DRF framework for APEC economies in 2018*. The work of this expert group should be focused on knowledge sharing to help member economies design effective DRF schemes. This work includes conducting a gap analysis of existing disaster insurance and relief mechanisms in disaster prone economies and identification of priority areas; creation of an expert group from finance and relevant ministries with clear objectives; participation of experts, originators and risk modelers from industry and academia; learning from experiences outside the region; identification of areas where disaster insurance needs to be made more available and affordable; periodical follow-up of progress; and consideration of a baseline framework to facilitate DRF implementation.

- *Promote the accumulation of long-term capital in pension funds through retirement income market reforms*. This involves promoting demand for retirement savings as well as wider access to and supply of retirement income products. To promote demand for retirement savings, governments should identify and adopt policies related to consumer education, tax measures, mandatory provisions, distribution channels and product design. To promote retirement income product supply, policy makers and the private sector should collaborate to ensure that this is supported by policy, regulatory and accounting frameworks related to capital markets, long-term investments and risk management..

- *Identify and address regulatory and accounting issues that affect insurers' incentives to undertake long-term investment in infrastructure and capital markets*. Regulatory issues include bank-centric regulations, short-term oriented economic regimes and one-size-fits-all models that do not fit different business models across the region. Accounting issues include those affecting asset-liability interactions that produce volatility in balance sheets and profit and loss statements, as well as issues related to complexity, consistency, transition and presentation of traditional long-duration contracts.

- *Identify best practices in promoting private funds for equity investment in infrastructure involving public-private collaboration*. This involves exploring collaboration among institutional investors, financial institutions and multilateral development agencies and private equity funds. One example of a partnership among parties including a multilateral agency, a foreign and local pension fund and an infrastructure asset management firm is the Philippine Investment Alliance for Infrastructure (PINAI), which is now investing in energy projects.

- *Establish a public-private sector network of microinsurance experts within the APFF to hold a series of workshops to support interested APEC economies in developing their own roadmaps for expanding the coverage of microinsurance*. Topics to be covered in these workshops should include (a) the integration of microinsurance in their financial inclusion strategies, development plans and/or inclusive finance roadmaps; (b) formulation of microinsurance policy and regulatory frameworks and overall strategies, implementing guidelines and directives and business models; (c) promoting a culture of genuine dialogue among stakeholders, including regulators and the industry in the development of regulations and sustainable business models; (d) policies and mechanisms to encourage PPPs in the provision of insurance solutions for catastrophic events, perils in the agriculture value chain, health and MSMEs; (e) mechanisms to encourage innovations and institutional arrangements in creating data/information centers, developing product prototypes, designing technology-based enrolment and claims administration, among others; (f) capacity development for stakeholders; (g) cross-border peer-to-peer knowledge exchange; and (h) development of good microinsurance practices, creation and updating of information and communications technology applications and harmonization of cross-border microinsurance regulations.

- *Undertake public-private sector workshops regionally and in individual economies to facilitate policy reforms and measures to promote the effective use of hedging instruments and risk management tools and fostering a more diverse investor and issuer base*, through the APFF. These should focus on promoting legal and regulatory reforms and capacity building to accelerate the development of repo and derivatives markets; improving the availability of relevant information needed by capital market investors on issuer disclosure, bond market data and investor rights in insolvency to more confidently expand their activities across the region; and promoting the development of financial market infrastructure and practices to facilitate greater cross-border portfolio investments.

- *Ensure the successful launch of the Asia Region Funds Passport (ARFP) through the facilitation of its early enlargement* to include a critical mass of participating jurisdictions, as well as its interoperability with other regional mutual recognition frameworks, using the APFF as a platform for undertaking discussions among finance and financial regulators, the private sector and international organizations on these issues.

- *Convene regular APFF Roundtables* to promote more active involvement of APEC financial market regulators in discussions on global rules that affect financial markets and services and their implementation across the region in support of

APEC's economic objectives and regional integration, as well as effective mechanisms for industry to contribute to the development of sound and effective financial regulatory frameworks, robust risk management in financial institutions and expanded access to finance.

This year, the APEC Finance Ministers will launch the Cebu Action Plan (CAP) to guide the work of the Finance Ministers' Process over the next several years in promoting stronger, more sustainable and more balanced growth in the region. Institutions collaborating in the APFF have actively contributed to discussions that have informed many aspects of the CAP, which also reflect many of the aspirations of the initiatives that are being proposed in this 2015 APFF Progress Report.

With these proposals, the APFF hopes to provide a platform for collaboration to achieve tangible outcomes over the next few years that would have significant impact on the development of financial markets and services in our region, ultimately contributing to advancing the Finance Ministers' vision for the region. Greater access to finance for a wider cross-section of society and MSMEs, including those engaged in global supply chains, more diverse and stable financial systems, deeper and more liquid capital markets, greater regional financial integration and more effective and efficient intermediation of capital, particularly long-term investments into long-term assets such as infrastructure, can result from these efforts.

The success of these undertakings will depend on active participation and engagement from the public sector. APFF intends to provide a forum and informal network for dialogue and capacity building where they can interact on a regular and sustained basis with experts in relevant specialized and technical fields from the private sector and international and academic organizations. The APFF looks forward to close collaboration with the APEC Finance Ministers in advancing the initiatives of the Cebu Action Plan.

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I. INTRODUCTION

The Asia-Pacific Financial Forum (APFF), a platform for public-private collaboration to develop robust and integrated financial markets in the region, was proposed by the APEC Business Advisory Council (ABAC) and adopted by the APEC Finance Ministers at their 2013 annual meeting in Bali. In its 2014 Interim Report to the APEC Finance Ministers, the APFF identified undertakings to advance development in key areas of financial markets that are critical to the region's economic aspirations. These areas are: (a) lending infrastructure; (b) trade and supply chain finance; (c) insurance and retirement income; (d) financial market infrastructure and cross-border practices; (e) capital markets; and (f) linkages and cross-border issues.

The APFF work program is structured around two major clusters. The first deals with issues related to the access to financial services of Micro-, Small and Medium Enterprises (MSMEs), which is a priority issue in many APEC member economies. The second deals with the development of deep, liquid and integrated financial markets, which is important for a variety of reasons. These include the need for more diverse and stable financial systems, improved availability and lower costs of financing for public and private borrowers, 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.

The Asia-Pacific 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 contained 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. The region also needs well-developed financial markets to more efficiently channel savings to where they can contribute more to and gain the most from economic development, especially in the region's emerging markets. Action plans in the APFF Interim Report that address this goal are geared toward achieving the following objectives:

- Contributing significantly to the improvement of emerging capital markets' depth and liquidity through measures (e.g., legal, market infrastructure, conventions, industry best practices, currency convertibility and repatriation, tax and market access, regional harmonization) to enable the development of classic repo markets and steps to enable the effective use of OTC derivatives, particularly the development of robust legal infrastructure for providing netting certainty, protection of collateral interests and margining of non-cleared OTC derivatives.

- Promoting expanded investor activity in the region's capital markets through the identification and provision of information that investors need to understand the bond issuer, how particular investments perform over time and the nature and extent of their rights in the event of insolvency. APFF has developed self-assessment templates covering disclosure, bond market data and investor rights in insolvency that can be used for this purpose.

- Deepening regional financial market integration through expanded cross-border portfolio investment by holding regional-level discussions on market practices, standards and platforms that can selectively harmonize market access and repatriation practices, improve their inter-operability, liquidity and connectivity of domestic and cross-border financial markets and reduce systemic risks, as well as the successful launch of an Asia Region Funds Passport (ARFP), with participation by a critical mass of jurisdictions the region.

- Enabling insurers and pension funds to more effectively play their critical roles in channeling long-term savings to long-term investments across the region, through deeper understanding of the impact of relevant regulatory and accounting issues on incentives for engagement in long-term business and measures to address these issues, market and operational issues that constrain the flow of investment to long-term assets, and retirement income and longevity solutions to facilitate the growth of long-term capital.

- Broader discussions at the strategic level on issues such as future directions for financial regulation in the context of regional financial cooperation and integration, the interplay between cross-border investment in a rapidly evolving financial services industry and connectivity of financial markets, and understanding macroeconomic imbalances and systemic risk are critical for policy makers and regulators as they continue to shape policy and regulatory frameworks in response to a changing financial landscape and the needs of the region.

The previous year's APFF Interim Report contained a description of a number of action plans to advance these objectives. This Progress Report provides information on how these action plans are being developed and their future directions. Several initiatives have since attracted much attention and are being considered for inclusion in the Cebu Action Plan (CAP), which will guide the work of APEC Finance Ministers for the next several years.

Credit information systems, secured transactions and movable asset finance systems, and trade and supply chain finance have been given much attention due to APEC's focus this year on the role of MSMEs in promoting inclusive growth. Much progress can be achieved in this space through the establishment of a platform – the Financial Infrastructure Development Network (FIDN) – that can weave closely together a broad collaborative network of public and private sector institutions, including multilateral agencies, with many years of research and advisory work in the region behind them.

Initiatives that are critical to capital market development, such as development of classic repo and derivatives markets and information for capital market investors, have attracted similar attention, due to the importance of capital markets for promoting both investment in infrastructure and greater financial stability. APFF's initiative to support the successful launch of the ARFP has also gathered pace in conjunction with the progress of discussions among jurisdictions in the region to finalize the funds passport rules and operational arrangements.

This year's Progress Report adds a new element to the APFF's work on capital markets through the completion of the self-assessment templates for providing critical information to capital market investors. These templates, which are appended to this Report, are now available for use by relevant authorities within the region, and the first dialogue using the APFF platform to harness these tools has been undertaken with Philippine officials involved in capital market development.

Several new elements have emerged from APFF's work on insurance and retirement income, and these are given ample treatment in this Progress Report. One of these is the work on retirement income and longevity solutions, which identifies the critical issues to address in order to expand both retirement savings demand and retirement income product supply. This is expected to help build up long-term capital for investment in key assets such as infrastructure and address the needs of our aging societies. To achieve these objectives, this Report discusses strategic options in the context of three major types of retirement income systems within the region.

Another new element is the work on microinsurance and disaster risk financing, which has been undertaken in response to both recent developments and this year's APEC theme of inclusive and resilient growth. The increasing frequency of natural disasters in the region and experiences of economies and communities in using these tools during the past few years have stimulated much thinking on how the public and private sectors can collaborate and use financial markets and instruments to increase the resilience of vulnerable communities, enterprises and supply chains, while reducing the costs to individuals, businesses and governments of preparing for and responding to unexpected events.

The APFF also continues to serve as a platform for broader and deeper discussions on the impact of regulatory initiatives undertaken in global fora and key financial markets on financial services in the region, and how Asia-Pacific policy makers and regulators can best respond to them to ensure strong, stable and inclusive economic growth. This Report describes the direction of ongoing discussions on these issues, particularly with respect to regulation and supervision of banking systems and capital markets, integration of financial markets and services and regional financial architecture.

This main part of this Progress Report is structured around five major themes: (a) lending infrastructure, which is divided into credit information and secured transactions and movable asset finance systems; (b) trade and supply chain finance; (c) capital markets, which includes sections on classic repo markets, information for capital market investors, support for the ARFP, legal infrastructure for derivatives, and financial market infrastructure and cross-border practices; (d) insurance and retirement income, which is divided into sections on retirement income and longevity solutions, long-term investment in capital markets and infrastructure, impact of regulation and accounting issues, microinsurance and disaster risk finance; and (e) linkages and structural issues.

II. PROGRESS OF INITIATIVES

A. Lending Infrastructure

For most micro-, small and medium enterprises (MSMEs), lack of efficient and sustainable access to finance is most often ranked as the key issue preventing them from effectively participating in economic activities and global value chains and benefiting from the growth of trade and investment. In many developing economies, MSMEs typically do not have real estate that is commonly accepted by lenders as collateral against loans. Movable assets are not widely used in many emerging markets, and many existing and potential business owners at the micro- and small end of the spectrum do not even have such assets, including large numbers of individuals who have no accounts with formal financial institutions.

One of the key factors behind this problem is the inadequate legal and institutional infrastructure in many developing economies to support risk-based lending using transactions and payments data and lending against a broader range of collateral. APEC can help address these issues through practical steps involving close collaboration between the public and private sectors that can yield tangible results, in terms of concrete legal, policy and regulatory reforms, capacity building and awareness raising. The APFF has identified a number of such steps that can be undertaken as part of the APEC Finance Ministers' Cebu Action Plan (CAP), and it is hoped that various interested economies will participate in these initiatives.

This year, ABAC, the International Finance Corporation and the SME Finance Forum collaborated with various institutions to undertake discussions on the shape of initiatives related to credit information systems and secured transactions and movable asset finance systems. These discussions have helped identify initiatives that APFF is proposing to Finance Ministers under the CAP. These included the following events:

- 2015 Asia-Pacific Forum on Financial Inclusion: Developing the Lending Infrastructure for Financial Inclusion (3-4 March 2015, Tagaytay City, Philippines; hosted by the Philippine Government and jointly organized by ABAC, the Foundation for Development Cooperation and the Asian Development Bank, in partnership with Citi Foundation and supported by GE Capital, International Finance Corporation, CGAP, Japan International Cooperation Agency, and the Policy and Economic Research Council)
- APFF Roundtable on Financing Micro-, Small and Medium Enterprises in the Asia-Pacific Region (20 April 2015, Mexico City, Mexico, co-organized by ABAC, the International Finance Corporation and the SME Finance Forum)

These discussions provided the basis for the APFF's proposals on the way forward for public-private collaboration in promoting credit information systems and secured transactions and movable asset finance systems under the CAP.

Credit Information Systems

Credit information systems enable lenders to make lending decisions based on information about the borrower. Without such systems, lenders normally require physical collateral or charge higher interest rates when extending loans. Where this is the case, micro-, small and medium enterprises (MSMEs) that do not have physical collateral are typically unable to access loans. Where credit information systems exist but only provide negative credit reports, information available to lenders is inadequate and credit is not allocated to the most reliable borrowers. Where such systems only provide credit information from financial institutions, individuals who wish to start businesses but have no previous credit history tend to be excluded.

To achieve greater financial inclusion, economies should develop credit information systems that are full-file (collecting both negative and positive data) and comprehensive (collecting information from many sectors, including for example, utilities payments). Wherever possible, private credit bureaus, which are typically focused on providing information specifically tailored to lenders' needs, should be encouraged to operate alongside public credit registries that support the information needs of regulators. Effective credit information systems are based on robust legal and policy frameworks that balance the objective of consumer and privacy protection with that of access to data, and supported by financial education to promote capacity of lenders and borrowers to effectively use them.

The absence or inadequacy of credit information systems is one of the most important factors behind the inability of many MSMEs in the region to access finance from lenders. Credit information systems form an important part of the lending infrastructure that will enable more credit to flow to MSMEs, support the growth of supply chains, advance financial inclusion and help APEC economies achieve inclusive and stable growth. In line with these considerations, APFF proposes to undertake activities that will help economies facilitate expanded lending to MSMEs and greater financial inclusion using full-file and comprehensive credit information systems across the region.

To advance this initiative, APFF proposes to establish under its auspices a Financial Infrastructure Development Network (FIDN) comprising private and public sector entities, multilateral institutions and industry associations as a specialized subgroup to undertake workshops, dialogues and studies on the following topics:

- legal frameworks for credit information systems based on the World Bank's General Principles of Credit Reporting;
- model language for regulations governing the sharing of public data with credit information systems among participating economies;
- benefits of and pathways to a common data format/dictionary for APEC based on the data collected by credit information systems; and
- benefits and challenges of linking the credit information databases of APEC members, forming a regional credit information network, and the use of credit information to support cross-border trade and services.

Secured Transactions and Movable Asset Finance Systems

Most micro-, small and medium enterprises (MSMEs) do not own real estate that is typically accepted by lenders in many developing economies as collateral for loans, thus giving rise to the most commonly known cause of MSMEs' lack of access to finance. In more advanced markets, MSMEs can obtain loans by using movable assets (such as inventory, accounts receivables, crops and equipment, among others) as collateral. This, however, requires functioning laws and collateral registries governing secured transactions, which are very inadequate and not trusted by lenders in many developing economies to protect their rights to collateral.

Even in developed economies where such legal frameworks and institutions are in place, there are still flaws; for example, where there is no exclusive security interest registry, thus allowing different parties to acquire rights to the same collateral (hidden lien problem), resulting in uncertainties that cause lenders to charge a risk premium or to refrain from lending. MSMEs can effectively make use of movable assets to access finance, including trade and supply chain finance, if economies undertake reforms to develop the legal and institutional infrastructure as well as practices governing the use of these assets. Undertaking these reforms in a coordinated manner across the region will promote consistency and facilitate the growth of supply chains.

In conjunction with the development of credit information systems, this undertaking will address the most important factors behind the inability of many MSMEs in the region to access finance from lenders. Secured transactions and movable asset finance systems form an important part of the lending infrastructure that will enable more credit to flow to MSMEs, support the growth of supply chains and help APEC economies achieve inclusive and stable growth. APFF proposes to undertake activities that will help economies increase bank lending to MSMEs by developing the legal and institutional infrastructure and practices to enhance lenders' acceptance of movable assets as collateral.

APFF will seek to advance this initiative through the aforementioned FIDN that will undertake workshops, dialogues and studies on the following topics:

- reform and development of secured transactions systems and insolvency frameworks among APEC economies;
- good practices and internationally accepted principles on secured transactions legislation;
- establishment and development of effective modern collateral registries and advantages of pathways to single, central, online notice filing systems and comprehensive coverage of security interests on movable assets within the economy; and
- development of regionally consistent legal, institutional and operational structures to facilitate the financing and expansion of cross-border trade and supply chain finance.

B. Trade and Supply Chain Finance

Participants in supply and global value chains will need to address major aspects of the trade ecosystem that include finance, lending infrastructure, trade and customs and information technology.

In today's environment of heightened resilience and compliance requirements, participants require a deeper understanding of the important but often low-visibility enablers of trade and supply chain financing, such as lending infrastructure and secondary markets, banking capital standards, and Know-Your-Customer (KYC) and Anti-Money Laundering (AML) rules, especially if such awareness can lead to clearer legal certainty, consistent standards, and availability of timely, complete and high-quality information to facilitate trade and financing

Access to finance can involve different financing methods, including factoring, forfaiting, supplier financing and cooperatives financing, among others, that MSMEs and businesses can access to match their needs. In cross-border supply chains, management of different currency, legal, market and other risks will also be important to mitigate their impact on profitability margins, and to ensure sustainable participation in competitive supply chains.

Electronic commerce (e-commerce), which started as electronic market places that matched buyers and sellers with visibility and ease, has since made advances to incorporate digital business and mobile payment models. This has made e-commerce into an effective tool for strategic and operational leverage. Its wider adoption in business-to-business (B2B) or business-to-consumer (B2C) interactions are already driving new financing methods and ways of managing business. The next stage is its application in electronic trade documents, finance and customs as participants seek to increase time and costs efficiencies in these important activities of the trade cycle.

Further developments will require deeper understanding, especially on the part of policy makers and regulators with participation by the private sector, to develop effective legal, policy and regulatory frameworks in tandem with these advances.

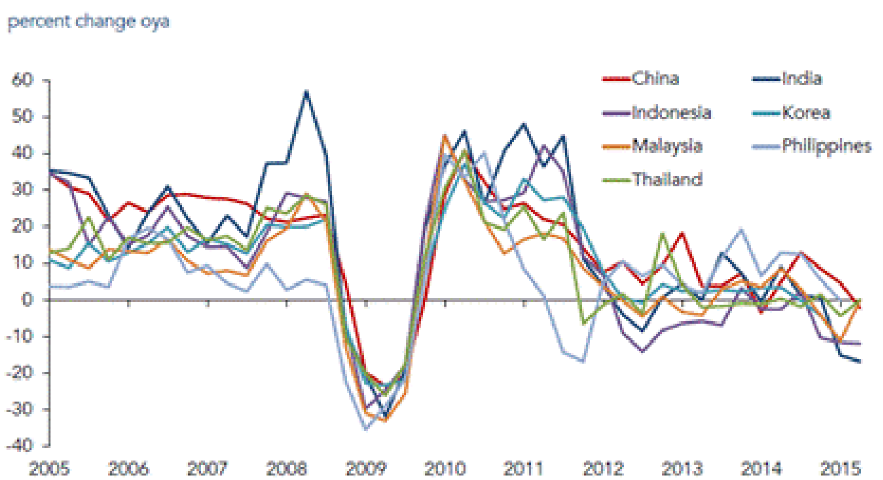
Two major events were convened this year to discuss key issues in trade and supply chain finance:

- The 3rd International Symposium on Warehousing and Collateral Management (19-20 May 2015, Beijing, People's Republic of China, Sponsored by ABAC, IFC, China Banking Association, China Association of Warehouses and Storage, and China Financing Guarantee Association)
- APFF Workshop: The Real Economy, Supply Chain and Finance - The Challenges In Working Together and The Way Forward (28 July 2015, Singapore, organized by ABAC in partnership with the APEC Policy Support Unit, hosted by the Singapore Business Federation and supported by the Association of Banks in Singapore)

Following are key points emerging from these discussions:

- Trade growth is slowing, driven by a mix of factors including a combination of rising labor costs and falling costs of capital and energy, structural changes reflecting the shift in emphasis from exports to consumption, the growth of the region's middle-income class, and the re-emergence of protectionism (Figure 1).

FIGURE 1: Asian Export Trend (selected)



Source: Various economies, IIF

- Overall, exports have declined but the decline is not due to a loss of competitiveness. In trade corridors with China, China's imports are getting more integrated onshore. Together with the decline in trade elasticity, contemporary supply chains can be disrupted that SMEs and businesses seeking to sell goods and services to overseas markets need to be aware of.

- While trade in services can open up new opportunities for SMEs and businesses exporting their services, certain policies and regulations such as value-added taxes imposed on services and competition issues will need to be clearly identified and addressed.

- Basel III and other regulations related to trade and supply chain finance and KYC/AML rules continue to evolve, affecting the potential costs of trade finance products. Harmonized implementation of such rules as the Basel III Net Stable Funding Ratio and Liquidity Coverage Ratio, coupled with revisions to the Standardized Approach for Credit Risks, remain important to mitigate such costs.[1]

- The World Bank, the Financial Stability Board, G20 and the Financial Action Task Force are currently undertaking a review of de-risking trends and impacts. Continued dialogues between the private and public sector on these areas will continue to be critical to better coordinate actions on KYC/AML/Client Due Diligence (CDD) compliance standards as well as to identify tools that can enhance CDD capabilities and promote efficient and effective compliance processes.

- Supply chain financing is also influenced by physical supply chains' delivery models, currencies used, regulatory reporting, language and technology. Bank-agnostic financing, digitalization, financial technology and electronic financing solutions can enable wider business participation in e-commerce. Depending on the supply chain and their needs, firms can avail of different financing solutions including factoring and forfaiting. Economies of scale in financing large numbers of SMEs can be attained by harnessing SME cooperatives or community financing.

- Enabling greater access to finance will require greater awareness by borrowers of (a) balance sheet-based financing i.e. financing based on the strength of the borrower's balance sheet (b) cash flow-based financing typically used to fund working capital, i.e. financing based on the borrower's cash flow and collateral assets;[2] and (c) the availability of third party credit enhancement, such as through insurance, where balance sheets are not sufficiently strong enough to secure borrowing. Dialogues among credit institutions/lenders, SMEs/borrowers and credit enhancers like insurers could facilitate better understanding of each other's requirements. (Figure 2)

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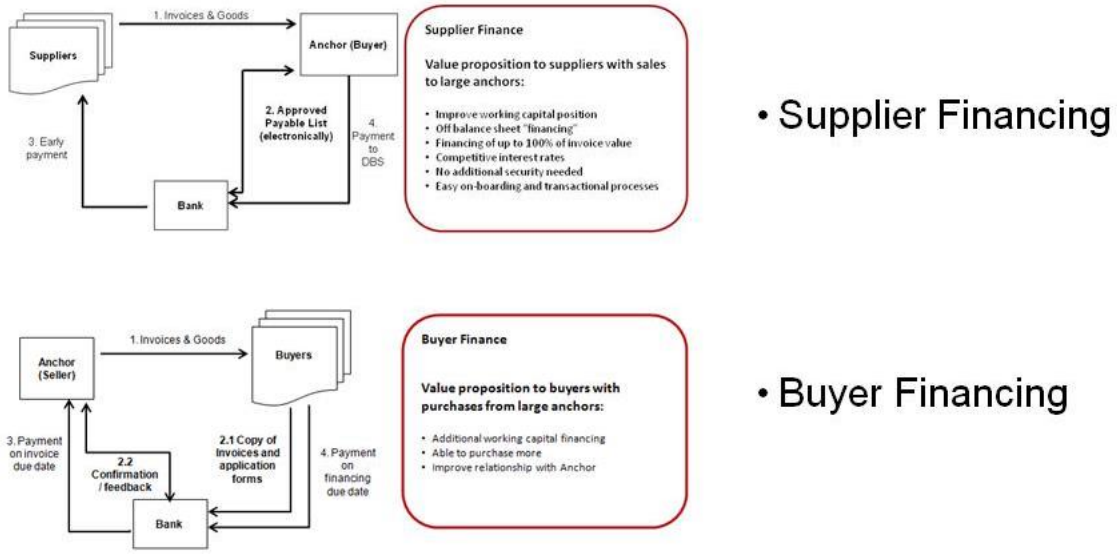
[1] A survey by ADB in 2014 revealed the following findings:

- A majority of SMEs globally do not engage in direct exports.
- Companies lack awareness of trade finance options and innovations.
- A 15% increase in access to trade finance would increase production by 22%.
- A 15% increase in trade finance support would enable firms to hire 17% more staff.
- AML/KYC reporting requirements led to declined transactions by 68% of responding banks. Compliance with these rules is costly and laborious, which appeared to be the drivers rather than findings of non-compliance.

Source: ADB Trade Finance Gap, Growth and Jobs Survey. ADB Briefs No. 25, December 2014. Asian Development Bank.

[2] This type of financing is typically effective where laws and regulations allow these to be ring-fenced to satisfy creditors' risk management. Examples of cash flow-based and collateral financing are supplier and buyer financing.

FIGURE 2: Trade and Supply Chain Finance



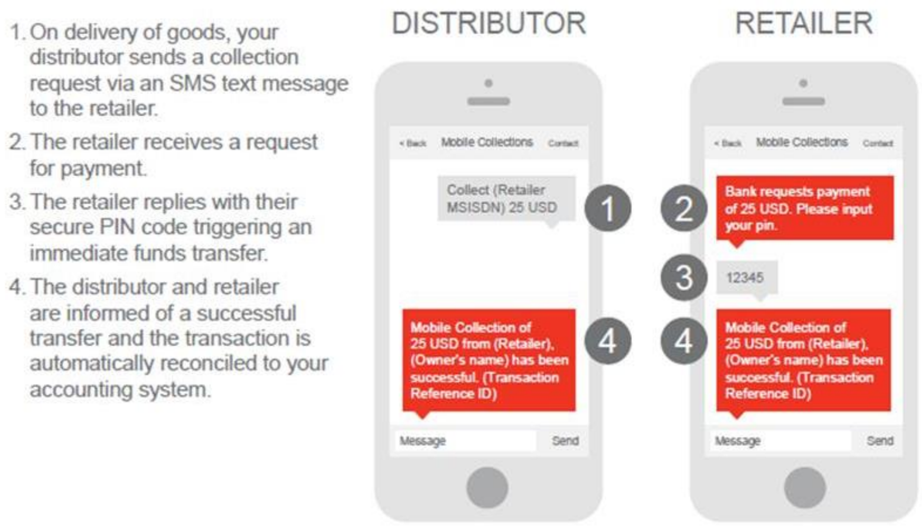
Source: DBS Bank Singapore

- Ways for governments and industry bodies can facilitate supply chain financing include: promoting standardized documents, wider adoption of electronic documents, enabling regional platforms to act as a clearinghouse for cross-border trade documents, reviewing regulations and legal changes to facilitate the use of electronic trade documents including e-bill of lading, and planning for the dematerialization of trade documents to support increased digitalization. Benefits include higher productivity gains, better risks control, overall savings as well as skills improvement that can lead to broader regional employment opportunities.

- In the digital trade finance evolution, the Bank Payment Obligation (BPO) solution is an example of an electronic version of letters of credit that can significantly shorten the payment cycle to improve suppliers' cash flows, while providing risk mitigation and increased payment assurance. An electronic Bill of Lading (eB/L) amplifies the benefits for the Buyer, who can benefit from faster delivery of goods.

- Mobile solutions contribute to a more efficient economy by leveraging on ubiquitous mobile phones as payment instruction gateways. Such solutions expand the reach of financial inclusion and trading activities, while making transactions safer from robbery, theft, fraud and counterfeiting. When combined with information supply chains, mobile payments have great potential to help manufacturers improve demand forecasting and reduce unsold inventories. Facilitating these developments will require technology and telecommunications interoperability, considered regulatory approaches, consumer protection and level playing fields. (Figure 3)

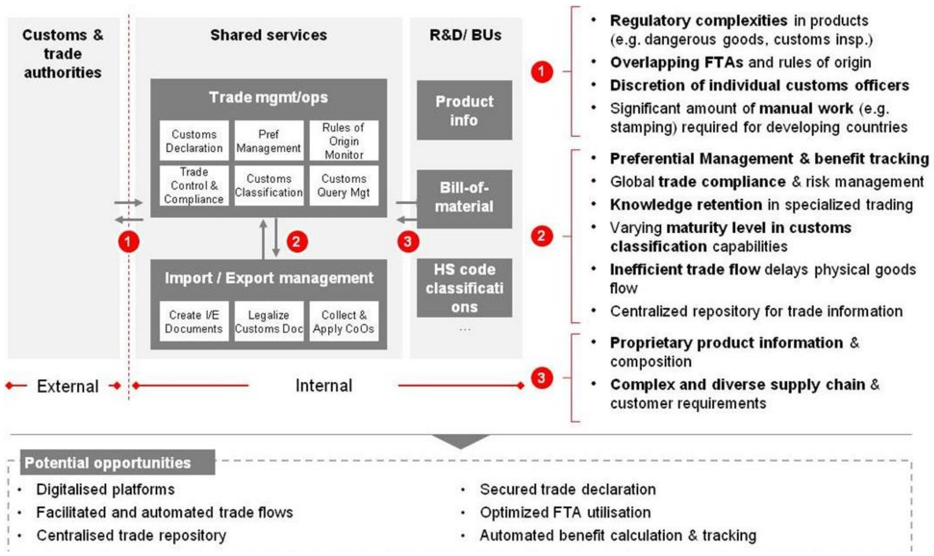
FIGURE 3: Mobile "digital cash" payments that extend financial inclusiveness



Source: HSBC

- Technology can enable SMEs and businesses to redesign their operational and competitive thrusts from economy-centric to regional supply chains and better manage the information supply chain, i.e., the complex exchange of trade-related information including commercial, transport, and regulatory information flows in competitive cross-border supply and global value chains. Access to technology enhances competitiveness of SMEs competitiveness in the international arena. (Figure 4)

FIGURE 4: Overview of trade information management – challenges and potential



Source: Accenture Strategy

- Participants in the trade cycle can benefit from simple and clear customs and logistics rules, which can increase cash availability for better cash management. Simplified and clearer customs rules are also important to enable resource-tight

SMEs and businesses to take advantage of global value chains. Low-hanging fruits in this area include a lower threshold for import licensing requirements and the implementation of a *de minimis* baseline across the APEC region. Other important aspects for nurturing e-commerce and SME internationalization include efficient and modern customs procedures, simplification of procedures for low-value shipments, automated customs clearance procedures including linked electronic payments, and harmonized rules on cross-border VAT. These can occur within “pilot” programs between two or more participating economies.

To help economies address these issues, the APFF will seek to provide a platform for stakeholders to collaborate with international organizations and interested economies to hold a series of dialogues and workshops on trade and supply chain finance for policy makers, relevant industry associations, financial institutions and supply chain participants. Topics include the following:

- Basel III rules related to trade finance and KYC/AML/CDD requirements for consistent implementation and facilitating wider access to finance.
- digital and innovative working capital management products and techniques such as mobile cash, BPO and supplier financing;
- efficient cross-border trade ecosystem to reduce the barriers to participation and increase participants’ abilities to generate organic finance; identify the challenges related to the legality of electronic trade documents including e-bill of lading, plan for the dematerialization of trade documents to support increased digitalization; and
- interrelationships among finance, trade, customs and technology that can support the internationalization of SMEs and businesses.

C. Capital Markets

The importance of capital markets, particularly local currency bond markets, for financial stability, economic growth, and the efficient channeling of long-term savings to investment in long-term assets like infrastructure is well recognized in the region. A number of regional and domestic initiatives have already resulted in the rapid growth of Asian government bond markets, a key stage in the process of capital market development. The next stage, which is increasing market depth and liquidity, will be critical to the evolution of the region’s capital markets.

To contribute to the development of capital markets, APFF is focusing on the following:

- promoting legal and regulatory reforms and capacity building to accelerate the development of repo and derivatives markets;
- improving the availability of relevant information needed by capital market investors on issuer disclosure, bond market data and investor rights in insolvency to more confidently expand their activities across the region;
- promoting the development of financial market infrastructure and practices to facilitate greater cross-border portfolio investments; and
- supporting the successful launch of the Asia Region Funds Passport (ARFP) through the facilitation of its early enlargement to include a critical mass of participating jurisdictions.

In 2015, APFF undertook activities that can help identify concrete initiatives to advance work in these areas. These included the following:

- APFF Roundtable on Financial Regulations: The Changing Global Regulatory Landscape - Implications for Asia-Pacific Financial Markets and the APFF Agenda

(27 January 2015, Hong Kong, People's Republic of China, organized by the APEC Business Advisory Council with the support of Nomura Holdings, Inc.)

- APFF supported as one of the collaborators the APEC Workshop on Infrastructure Financing and Capital Market Development: Fostering APEC's Infrastructure through Long-Term Investment and Capital Market Development (23-24 July 2015, Iloilo City, Philippines, organized and hosted by the Government of the Republic of the Philippines)

Discussions in these events provided important ideas for the further development of APFF's initiatives in capital market development.

Development of Classic Repo Markets

The development of liquid, deep, "classic" bond repurchase (repo) markets is critical to the deepening of the region's capital markets and the real economy. The APFF seeks to drive public-private sector collaboration in the development of classic repo markets in Asia. This public-private collaboration through APFF is beneficial as it allows public and private sector stakeholders to share international best practices and opens a line of communication between the private and public sector that may not otherwise exist. As a result, this allows participants to identify and address impediments in legal architectures, improve market infrastructure, and standardize market conventions and provide industry best practices.

Liquid, deep repo markets help deepen capital markets and support the real economy. Specifically, repo markets support the real economy by:

- increasing liquidity in local currency bond markets;
- expanding the pool of available finance and improving financial institutions' ability to meet their financing needs;
- mitigating the reduction in market liquidity due to regulatory change;
- allowing the movement of securities regionally;
- improving investor confidence and participation in local bond markets;
- reducing funding costs for governments, pension funds, asset managers and other long-term investors;
- developing market infrastructures that are necessary to serve the real economy; and
- offering hedging tools which contribute to risk management.

Thus, integrating bond and repo markets in Asia would improve access to finance and address many economies' over-reliance on bank lending; support the development of local currency bond markets, bond futures markets, and OTC derivatives markets; encourage retention of regional savings for regional investment; and improve securities mobility to counter the adverse effects of increased asset encumbrance driven by regulatory change (such as Basel III, new asset segregation rules and central clearing mandates, among others).

However, the development of repo markets in Asia has been impeded by a number of factors, principally: (i) the divergent legal constructions of repos across economies; (ii) insufficient creditors' protections in bankruptcy and insolvency regimes; (iii) the lack of liquidity in regional bond markets; (iv) barriers to investor participation; (v) inefficient regional financial market infrastructures for clearing and settling repos and (vi) tax treatment that fails to recognize the temporary exchange of collateral.

There are several policy issues to address to foster an enabling environment for repo markets. In particular, the necessary conditions to develop cross-border repo markets are: (i) deep bond market liquidity; (ii) sound legal framework that protects creditors' rights in bankruptcy and insolvency proceedings; (iii) robust investor participation; (iv) neutrality in tax treatment; and (v) efficient and interoperable market infrastructures to support cross-border repo markets.

Deep, liquid regional bond markets: The relationship between efficient repo markets and local currency bond markets is mutually reinforcing. In particular, efficient repo markets depend on the liquidity provided by a robust government bond market, whilst the development of repo markets will also assist the further development of local currency government bond markets by deepening secondary market liquidity, improving price discovery mechanisms, and inducing broader investor participation in local currency bond markets.

Sound Legal Framework: Sound legal architecture of repo transactions is the foundation upon which repo markets may develop and grow. Yet legal regimes governing repo markets vary considerably across the Asian region, and many lack the necessary protections to instill investor confidence in repo contracts. Such legal ambiguity hampers the ability of market participants to operate across borders and undermines investor participation in repo markets. Although reforming legal and regulatory frameworks in certain jurisdictions may be challenging, such protections in the legal framework are a necessary component of building investor confidence in repo markets. For example, according to analysis by the Bank for International Settlements:

> *When financial institutions engage in repos with each other [in certain Asian jurisdictions], lenders often impose rather strict credit limits on their counterparties, thus behaving as if the transactions were not truly secured. This phenomenon seems to arise from master agreements and legal frameworks that fail to ensure that the lender will in fact be able to take possession of the collateral in the event of default.*[3]

To address legal uncertainties, the unique characteristics of repo contracts (i.e. that they are legally structured as a sell and repurchase of securities) must be explicitly reflected in legal frameworks including bankruptcy and insolvency regimes in each Asian jurisdiction. Further, policymakers must clarify in domestic law the property rights afforded to creditors regarding securities purchased in repo transactions (i.e. explicit transfer of title of underlying collateral assets) and their subsequent rights to set-off in the event of counterparty default.[4] The explicit transfer of title in repo markets in legal regimes is paramount to protecting creditors' rights in the event of default.

Neutrality in Tax Treatment: In many Asian jurisdictions, tax policy distorts pricing and hinders the development of a repo market. The main distortionary taxes are stamp duties and transaction taxes which adversely impact market development by raising the cost of repo transactions and reducing demand for government securities.[5] Further,

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[3] Eli Remolona, Frank Packer, *inter alia*, "Local currency bond markets and the Asian Bond Fund 2 Initiative" January 2012, https://www.bis.org/publ/bppdf/bispap63f.pdf, page 46.

[4] ICMA, "Frequently Asked Questions on Repo," May 2015, http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/short-term-markets/Repo-Markets/frequently-asked-questions-on-repo/, pages 12-13.

[5] IMF, "A Framework for Developing Secondary Markets for Government Securities," July 2008, https://www.imf.org/external/pubs/ft/wp/2008/wp08174.pdf, page 10.

withholding taxes “reduce investment yield and the attractiveness of the investment in local currency securities for non-resident [investors]”.[6] Levying withholding taxes on nonresident investors can severely reduce foreign participation in the secondary market, which raises the cost of trading and reduces aggregate market liquidity.[7]

Market Infrastructure Connectivity: Cross-border investment is aided by the efficient financial market infrastructures which facilitate the deployment and transmission of capital across borders. Strengthening connectivity between (or interoperability of) financial market infrastructures in Asian markets would improve efficiency and reduce the cost of trading, improve price discovery and enhance risk management.

To encourage the development of liquid and deep repo markets in Asia, ASIFMA and ICMA drafted the *ASIFMA-ICMA Guide on International Repo in Asia*, which was published in August 2015. This Guide lays out structural features (such as legal frameworks, settlement systems, and market conventions) that support sound and efficient repo markets, disseminates industry best practices to encourage market practitioners to adopt international standard for efficient clearing and settling of repo transactions, and encourages reforms to legal and regulatory frameworks that are essential to create an enabling environment for repo markets.[8]

As part of this initiative, ASIFMA, in collaboration with ICMA and industry experts and participants, is in the last stages of completing the Repo Best Practices Guide for Asian Markets, which is expected to be released in the second half of 2015. APFF will also continue to engage with domestic regulators and governments to encourage an increase in the development of classic repo markets and increasing secondary market liquidity in the region. In particular, APFF will provide a platform for holding repo market workshops in interested economies to share the findings of the Repo Best Practices Guide, as well as exchange ideas for local adoption of the best practices and recommendations. APFF will also continue to monitor international financial reforms that may adversely impact repo market development in Asia and work with regulators to ensure the continued development of repo markets.

Promoting the Availability of Information for Capital Market Investors

APFF[9] has created a series of self-assessment templates that can serve as tools to facilitate and shape public-private sector dialogue on information for investors in the

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[6] Eli Remolona, Frank Packer, *inter alia*, “Local currency bond markets and the Asian Bond Fund 2 Initiative” January 2012, https://www.bis.org/publ/bppdf/bispap63f.pdf.

[7] IMF, “A Framework for Developing Secondary Markets for Government Securities,” July 2008, https://www.imf.org/external/pubs/ft/wp/2008/wp08174.pdf, page 19.

[8] Eli Remolona, Frank Packer, *inter alia*, “Local currency bond markets and the Asian Bond Fund 2 Initiative” January 2012, https://www.bis.org/publ/bppdf/bispap63f.pdf, page 46.

[9] Moody’s (represented by Dr. Michael Taylor and Ms. Eleni Himaras) is the chair of the APFF work stream that deals with this issue, which has, for more than a year, engaged more than a dozen market participants to design the self-assessment templates. The work stream’s steering committee comprises representatives from HSBC, Nomura, Standard Chartered, Clifford Chance, Deloitte Touche Tohmatsu Ltd (chair of the disclosure sub-stream, represented by Hong Kong partners Mr. Stephen Taylor and Ms. Candy Fong), Nishimura & Asahi, PwC, Ernst & Young, Asian Development Bank (chair of the bond market data sub-stream, represented by senior economist Mr. Thiam Hee Ng), CFA Institute, the University of Hawaii (chair of the investor rights insolvency sub-stream, represented by Professor Charles Booth) and CLP Holdings.

region's debt markets, especially those for non-bank corporate debt. These templates are not intended to be lists of prescriptive measures, but are rather designed to provide foundations for meaningful conversations contrasting what an international investor might expect and what is available in any given market. Importantly, they give public policy officials a mechanism through which to explain why certain information may or may not be available, or where investors can find it.

APFF's work on this issue is organized around three categories – disclosure, bond market data and information on investor rights in insolvency. These three categories deal with information relating to successive phases of the investment process: issuance, secondary market trading, and rights in the event of default.

Rather than list out a set of principles or recommendations for enhancing information in each of these areas, the APFF has adopted a more interactive approach involving the development of self-assessment templates for use by the public sector. The concept is to provide the official sector with a tool that it can use to assess the breadth and quality of information in its economy against the needs and expectations of investors in capital markets, to: (a) analyze gaps in information disclosures; (b) develop action plans to address identified gaps; and (c) foster private-public dialogue.

The development of these templates, which were finalized in January 2015 and incorporated the views of work stream members and investors who participated in a roundtable held on 8 October 2014, has been based on the following principles:

- Rules made by public policy makers are integral to well-functioning capital markets.
- Dialogue with the private sector can offer insight to the most effective policies.
- An incremental method is more manageable and effective than a big bang approach.
- Given the varying levels of development across Asia Pacific markets, the approach must be applicable to capital markets in any stage of maturity.

Key features of the self-assessment templates are as follows:

*Disclosure***.** The template, which looks at disclosure requirements for corporates and issuers, breaks the information into:

- Investors' risk
- Credit rating information of bond issuers
- Bond issuer's ability to pay principal and interest
- Business model of issuer
- History of bond issuers' breach of loan covenants
- Non-GAAP measures (e.g. requirement to disclose gross profit, EBITDA etc.)
- Related/connected party transactions/balances
- Corporate structure of bond issuers
- Use of bond issue proceeds
- Terms and conditions of the debt securities
- Location and format of above information
- Others

Importantly, it requests information on both the stated rules and the common practice in the jurisdiction, as often in developing markets, the two interpretations may differ significantly. Common across all of the templates is the opportunity for investors to provide further details.

*Bond Market Data***.** This work builds on the Asian Bonds Online initiative within the Asian Development Bank. Their online database provides a platform in which existing bond market data is aggregated and made freely available to market participants. This final template looks at whether economies provide the following information:

- Total Bonds Outstanding
- Issuance Data
- Yield Curves
- Foreign Fund Flow Data
- Liquidity

Each of these is further broken down into whether the information is available on an aggregate basis, differentiating between government and corporate and differentiating between the different types of government and private debt. Within each of these fields there is a subjective rating mechanism and the opportunity to explain. Scores between five and zero represent:

- 5 – Data is freely available to the public and is reported on a timely basis
- 4 – Data is available to the public subject to fees/subscription; and is reported on a timely basis
- 3 – Data is available to the public but is not available on a timely basis
- 2 – Data is being collected; but not available to the public.
- 1 – Data is not available and is not being collected.
- 0 – N/A

Investor Rights in Insolvency. This template identifies the following as key information for capital market investors:

- Contract enforcement and dispute resolution
- Rights of creditors
- Coverage of the established insolvency law
- Timing of cases
- Additional Information in relation to collective insolvency proceedings
- Supporting regulations and procedures
- Local participants

Each of these topics is broken down into multiple parts, focusing both on how and where an investor may access information, and the efficacy of the regime. Questions include how long it takes cases to come to court and the language and format in which legislation and regulation are stored and available.

Pilot Program. In March 2015, the templates were presented to several officials from the Philippines' Securities and Exchange Commission. The APFF is now currently working on the templates, which are expected to be completed in the second half of 2015. The template will take into account feedback from the Philippines SEC, and APFF intends to continue its outreach in setting up similar workshops with other regulators around the region.

Supporting the Successful Launch of the Asia Region Funds Passport

In 2015, APFF convened several discussions with representatives from the international asset management and financial industry, as well as experts from the legal and consulting professions and public international organizations, to provide industry feedback to regulators and officials as they worked to advance the ARFP. Responding to the draft ARFP rules and operational arrangements circulated by APEC in the early part of the year, APFF submitted its comments reflecting the views of the industry. Key ideas of this submission are as follows:

Enlargement of the ARFP. The flexibility of the ARFP to enlarge is critical to its impact and success. ARFP should work towards the inclusion of other economies, such as Hong Kong, Japan and Chinese Taipei. The participation of as many economies as possible in the ARFP, particularly at the outset, and the opportunity for future enlargement would incentivize active participation by financial service providers in the ARFP, increasing the ARFP's coverage and thereby increasing intra-regional capital market integration, and allowing its benefits to be more widely enjoyed. ARFP's enlargement will increase investors' investment options and reduce cross-border investment costs through economies of scale.

Reciprocity. The spirit of reciprocity should be expressed as part of the purpose of the ARFP in order that member economies will accord "equivalent priority" to promoting Passport Funds as they do to domestic funds. The memorandum of understanding should set out that member economies demonstrate commitment towards promoting ARFP and Passport Funds in their jurisdiction (in equal measure with domestic funds).

Interoperability with other regional frameworks. It is important that the ARFP is flexible enough to interoperate with other regional investment schemes, such as the Hong Kong-China mutual recognition regime and the ASEAN CIS Framework to facilitate the future convergence of the various initiatives and structures. It is suggested that the investment restrictions of the ARFP be closely aligned with other regional fund management schemes, including for example the ASEAN CIS Framework, thus paving the way for funds that previously qualified for either one of the schemes to qualify for the other, thereby achieving greater efficiency and helping to reduce costs. Interoperability with other regional schemes would, as with the introduction of more economies into the ARFP, create greater economies of scale, reduce market fragmentation and improve financial market integration, while ensuring that alternatives continue to be available to retail investors.

It was noted that the draft Passport Rules impose restrictions on the portfolio allocation of Passport Funds in other collective investment schemes, unlike the ASEAN CIS Framework, which allows funds to invest in units of other collective investment schemes without restrictions. It is therefore suggested that the Working Group consider removing the restrictions on a Passport Fund's investment in units of other collective investment schemes; otherwise, the investment restrictions would be more restrictive than those applicable to authorized funds in Singapore and funds approved under other frameworks.

Inclusiveness. It was noted that the Working Group has retained the requirement for independent oversight but has provided flexibility in the mechanism for independent oversight, with a different independent oversight entity for each Home Economy, and that the Working Group has indicated that the table will be updated to include additional mechanisms when other economies join the ARFP. It is suggested that the Working Group consider waiving the independent oversight and compliance review requirements for jurisdictions where management companies are periodically and robustly inspected by a Home Regulator or other self-regulatory organization. An example is Japan, where there is no requirement for an external compliance committee or independent custodian (since affiliated trustees are permitted), but where the fund management industry is subject to a stringent regulatory regime, which has assisted the industry to ensure sound management and operation of trust vehicles. It is to be noted that the UCITS regime does not have equivalent restrictions so as to avoid excluding jurisdictions with civil law traditions such as Germany that rely on similar systems used in Northeast Asia to ensure investor protection.

It has also been noted that some of the requirements under the Passport Rules are linked to International Organization of Securities Commissions (IOSCO) standards. While this can be helpful for facilitating consistency across participating jurisdictions, it is suggested that care must be taken such that this sort of link does not create barriers to entry where economies are not yet party to the IOSCO MoU, or have been signed up for less than five years. Similar references to IOSCO standards in the Standards of Qualifying CIS under the ASEAN CIS Framework have made it more difficult for economies such as the Philippines to participate in the scheme.

Taxation. There are still no Passport Rules in relation to taxation at a fund level and the taxation of distributions, despite an acknowledgement of the seriousness of the implications that domestic tax issues may have on the ARFP scheme. Different tax regimes in participating jurisdictions can significantly impact a fund's performance and returns earned by retail investors, creating incentives or disincentives for participation. Of particular relevance are taxes related to the fund's structure, for example, unit trust and open-ended investment company and their distribution mechanisms. There are also further considerations on applicable double taxation treaties in cross-border flows.

To that end, it is suggested to clarify the ARFP arrangements in relation to taxation, including taxation at the fund level, taxation of distributions in each participating economy and the use of different structures to invest into an ARFP fund (which could pose transparency issues for the ultimate beneficiaries if taxation necessitated their identification and reporting). The ARFP could benefit from a streamlining of tax treatment of eligible funds in participating jurisdictions that would promote a level playing field. The Passport Rules should also address issues related to transparency and how differences in capital gains and withholding taxes will be dealt with.

Certainty in the tax treatment of Passport Funds will facilitate the efficient expansion of the ARFP, since member and non-member economies (contemplating joining the ARFP) may then adjust their tax laws to conform to the ARFP tax regime (if necessary). In this regard, it is suggested that the negative tax treatment of non-domestic funds, where present, should be eliminated.

Dispute resolution. In the UCITS regime, the European Securities and Markets Authority (ESMA) resolves disputes over, inter alia, the interpretation of UCITS directives and any disputes arising between home and host regulators or regulators and investors. There is a strong case for the creation of a resolution mechanism to help address uncertainties, disputes or issues of misinterpretation that may arise in the course of the operation of the ARFP. For instance, it is mentioned that additional requirements may be imposed by each Participant on a Passport Fund or its Operator in its capacity as Host Economy, so long as the additional requirements are not "unduly burdensome". There is currently no guidance on what type of requirements would be "unduly burdensome" and there may be differences in the interpretation of "unduly burdensome" between the member economies. As such, it would be beneficial to have an arbiter on the interpretation of Passport Rules and a dispute resolution mechanism which will, inter alia, adjudicate on repercussions for any breach of the Passport Rules.

Standardization of fees and performance figures. It is suggested that the Working Group establish Passport Rules on the method of calculation of and disclosure of performance figures and fees in the prospectus of Passport Funds in order to ensure investors are able to conduct a fair comparison of the available Passport Funds.

Launch of the ARFP. According to the scheduled timetable, willing and ready economies will become party to the MOU in September 2015. Securing a critical mass of participants representing a high proportion of interested economies is very important to maximize the scheme's appeal. It is therefore suggested to increase the number of prospective participants prior to the launch of the ARFP; and other economies should commit to continuing discussions with a view to joining the ARFP the following year.

International recognition of passport funds. It is suggested that the Working Group begin engaging with non-member regulators with a view to facilitating the cross-border distribution of Passport Funds beyond the member economies. Passport Funds should eventually be permitted to be offered into non-member economies the same way UCITS funds may be distributed in non-EU jurisdictions such as Singapore and Hong Kong. The successful launch of the ARFP will significantly depend on investors and other market participants having clarity and certainty of the tax treatment of Passport Funds. Further information on these issues will greatly assist regulators in delivering on the Government-level commitments to making the ARFP a success within and beyond the member economies. In this connection, it is suggested that the Working Group establish Passport Rules in relation to distribution restrictions, compliance and reporting or data privacy and protection, and that Passport Rules be clarified on whether Home Economy Laws and Regulations relating to distribution, compliance and reporting, marketing restrictions and data privacy or protection apply.

The APFF notes the significant progress that the ARFP Working Group has achieved over the course of its work, particularly in refining the draft rules and operational arrangements to make them more attuned to the region's fund management ecosystem bringing the ARFP closer to the goal of a successful launch. The APFF will continue to make itself available as a platform for public-private sector collaboration to support the further development of the ARFP.

Enabling Legal Infrastructure for Derivatives

Over the counter (OTC) derivatives are critical for the development of capital markets, as they are needed by firms to manage balance sheet liabilities and cash flows, as well as hedge interest, foreign exchange and various economic risks. The APFF focuses its work on three issues that are important for enabling the effective use of OTC derivatives.

- *Legal netting infrastructure for closeout netting*. The most important risk reduction tool in modern financial markets, this underpins the risk management of OTC derivatives, which includes such end user hedging products as FX options, cross currency swaps and inflation swaps that cannot currently be centrally cleared. It is also important for repo markets, and by extension the development of corporate bond markets.

- *Protection of collateral interests*. Collateral is widely used as a credit risk mitigation tool, and plays an important role in working capital funding for SMEs, letters of credit for trade finance and the trading of financial hedging instruments. Margin likewise plays a critical role in the safe functioning of clearinghouses for OTC derivatives. Collateral is commonly exchanged between counterparties either through title transfer or security interest pledge arrangement. In a title transfer arrangement, where there is no legal certainty, under bankruptcy, collateral could be re-characterized as an asset of the estate of the defaulting party and claimed by other creditors. In some jurisdictions where pledge arrangement is used, local security laws do not support marking-to-market of collateral, the secured party's ability to re-use the collateral is limited, and enforcement of collateral interest is often difficult.

- *Margining of non-cleared derivatives*. The BCBS-IOSCO margin requirements for non-centrally cleared derivatives poses certain requirements for jurisdictions, the most important of which are that implementing rules and regulations should support BCBS' guidelines, standardization of initial margin calculation model and credit support documentation and robust protection of collateral rights.

To assist economies in ensuring an enabling legal infrastructure for derivatives, the APFF plans to undertake activities geared toward identifying legal structural weaknesses in jurisdictions and organize educational seminars targeting regulatory and legislative bodies as well as key members of the judiciary. APFF resources will be leveraged to coordinate outreach, provide expert speakers and follow up on outstanding issues.

Financial Market Infrastructure and Cross-Border Practices

Facilitating flows of capital across the region's markets is a key factor for economic growth in the region. The APFF's work on financial market infrastructure and cross-border practices seeks to address the most significant obstacles to cross-border investment flows related to the connectivity platform and standards used in financial market infrastructure (FMI). The central objective is to promote cross-border portfolio investment flows with market practice, 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 work of APFF is based on an analysis of the sequence of cross-border portfolio investment, and the stages where the process is affected by tax, foreign exchange and account structure issues. These stages and the scope of issues involved are as follows:

- New account opening: Omnibus/segregated/ultimate beneficial owner, KYC/AML, market documents, tax documents and investor IDs;
- Market entry/capital injection: Investment limit/quota, funding requirements (offshore into onshore);
- FX execution: FX restrictions, cut-off times, FX location, reporting and hedging;
- Clearing and settlement: Clearing, settlement cycle, cut-off times, pre-matching, settlement failure, penalties, settlement and cash leg;
- Corporate action: Announcement, entitlement, vetting, tax and double taxation relief;
- Repatriation: Sales/corporate action, proceeds repatriation; restrictions, documentary requirements, local currency holding period, short-term money market/bond market investment.

In addressing various issues affecting cross-border portfolio flows as they occur in specific markets, attention will be focused on the following:

- Standard messaging codes and identifiers, which enhances settlement efficiency, reduces the risk of errors and enables straight-through processing (STP);
- Straight- through processing: STP, which enhances settlement efficiency and reduces settlement risk;
- Shorter settlement cycles (T+2), which mitigates counterparty and operational risks

and optimizes collateral efficiency; and

- Inter-operability, which improves collateral efficiency, improves price discovery and enhances risk management.

As far as message flow standardization across the region is concerned, there is still much work to be done, particularly in the areas of pre-settlement matching, affirmation and notification and STP (See Figure 5.)

FIGURE 5: Message flow standardization: current status of harmonization

Country	CSD	Name of Bond Settlement System	Message Flow						
			RTGS	DVP	Central Bank Money	STP	Affirm & Notific.	PS-match	Overall
CN	CCDC	CBGS	Y	Y	Y	Y	Y	Y	Y
CN	CSDC	MNS	N	Y	N	Y	Y	Y	N
CN	SHCH	SHCH-SSS	Y	Y	Y	Y	Y	Y	Y
HK	HKMA	CMU	Y	Y	Y	Y	Y	Y	Y
ID	BI	BI-SSSS	Y	Y	Y	Y	Y	Y	Y
ID	KSEI	C-BEST	Y	Y	N	Y	Y	Y	N
JP	BOJ	BOJ-NET HCG Service	Y	Y	Y	Y (2017)	Y	Y (2017)	Y (2017)
JP	JASDEC	BETS	Y	Y	Y	Y	Y	Y	Y
KR	KSD	SSS/SAFE+	Y	Y	Y	Y/N	N	N	N
MY	BNM	RENTAS SSTS	Y	Y	Y	Y	N	Y	N
PH	BTr	BTr-ROSS	Y	Y	Y	Y	Y	Y	Y
PH	PDTC	PDYC Depository	Y	Y	Y	Y	Y	Y	Y
SG	MAS	MEPS Plus SGS	Y	Y	Y	N	Y	N	N
SG	CDP	DCSS	Y	Y	Y	Y	N	N	N
TH	TSD	PTI	Y	Y	Y	Y/N	Y	N	N
VN	VSD	VSD-BES	N (201X)	Y	N (201X)	N	N	N	N

Color	Explanation
	Cross-border STP ready
	Cross-border STP ready with condition
	Not ready but scheduled
	Not clear and need to be confirmed
	Not ready yet

Source: ADB

Three issues pose major challenges to cross-border portfolio flows in the region. The first is that there are many ongoing changes across markets and areas and at varying speeds. The second is that the current focus of attention is on later-stage areas such as shorter settlement cycles rather than key prerequisites and enablers such as standards and platforms. The third is that the growing focus on KYC rules is hampering overall efficiency and raising new issues of cross-border data privacy and security.

To address these issues, APFF will undertake workshops and dialogues that will focus on helping interested economies identify effective ways to develop a regional securities investment ecosystem. In particular, APFF will focus on the following:

- In view of aggregate planned changes over the coming 2-3 years in market access, clearing and settlement and repatriation across the region, APFF will undertake discussions on (a) the creation of a regional roadmap of upcoming regulatory and market changes; (b) the feasibility of a regional private-public-market infrastructure forum that will exchange views on changes; and (c) the feasibility of longer consultation and notification periods of key regulatory and market changes.

- APFF will focus on a more streamlined regional KYC/AML documentation compliance and process, recognizing the layers of global intermediary chain and practices between securities issuers and the ultimate beneficial owners. APFF will undertake discussions on (a) regional, globally aligned standards for KYC/AML documentation collection and reporting; (b) the use of third party industry utilities for a centralized KYC/AML electronic depositary; and (c) minimum standards for data privacy, protection and security and cross-border flows.

D. Insurance and Retirement Income

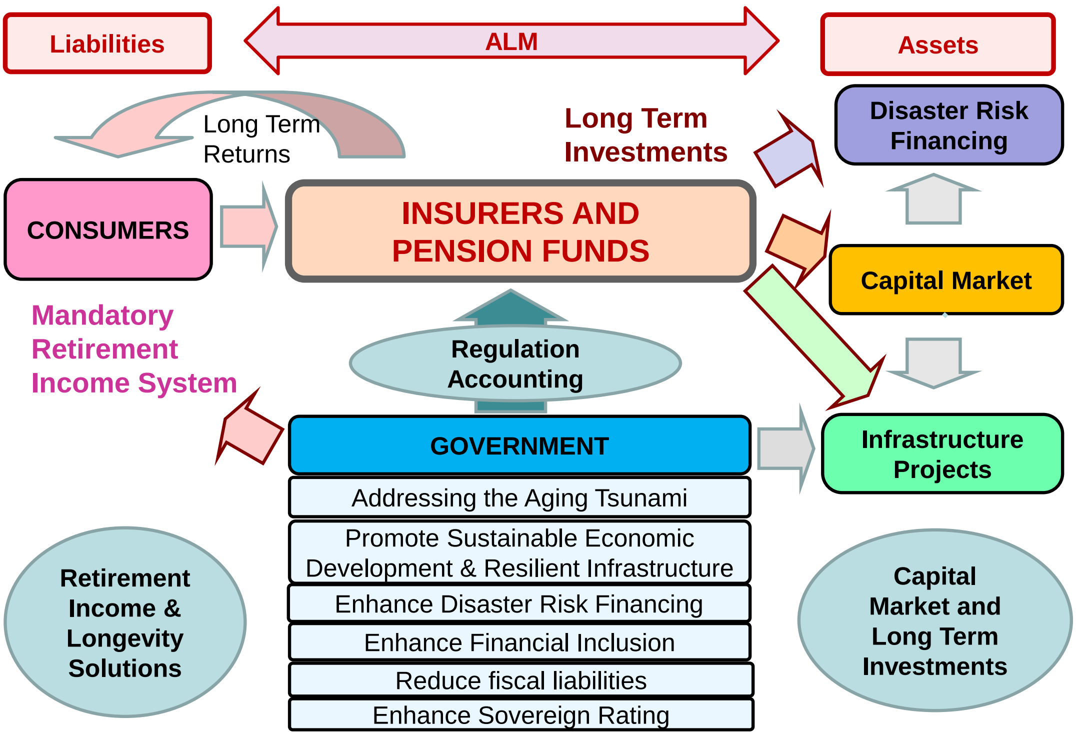
Insurance and retirement savings by the very nature of its liabilities is a long-term business. It requires matching long-term liabilities of policyholders and retirement savers to long-term assets, particularly long-duration bonds, real estate, and infrastructure finance.

Emerging APEC economies have under-developed capital markets due in large part to the bank-centric nature of their financial systems. Emerging Asia, in particular, has high savings rates, but it is mostly short-term in nature, bank deposits used to finance short-term loans to consumers and companies, rather than longer-term assets such as infrastructure spending that is critical to economic development, particularly for economies at or near the so-called "middle income trap".

Efforts to encourage or even compel mandatory retirement savings in emerging APEC economics offer the opportunity to break the Gordian knot of a lack of investable projects, development of capital markets, and alternative means of disaster risk financing through the mobilization of large pools of patient, long-term capital in the form of retirement savings.

Mobilization of such large pools of long-term capital would represent a "triple win" for consumers, the financial sector, and APEC governments.

FIGURE 6: Roadmap for Sustainable Development in the Asia-Pacific Region



Governments in Asia are increasingly moving towards an enabling environment that balances financial inclusion with financial stability goals. Public policies are creating the pre-conditions for the effective functioning of the capital markets and the private insurance market, as well as promote the use of alternative products to hedge against natural catastrophe risk. These products may include traditional indemnity-based insurance where the market is supported by risk-based capital regulations, as well as insurance-linked securities, including natural catastrophe bonds, weather and other index-based risk transfer products. Some of these products have become increasingly attractive in the present low interest environment, for long-term investors seeking portfolio diversification.

Across Asia, evolving legal and financial frameworks, as well as specific accounting regulations, will support the development of economies of scale in risk pooling, via functional risk insurance of public and private assets. Mobilizing savings into sustainable assets will require improved access to, and sharing of, exposure data. The scale of planned infrastructure development in Asia, needs to be supported by improved exposure data sharing; data platforms will inform the appropriate risk mitigation strategies and expand the scope of risk offset arrangements across the region thereby supporting the ongoing development of sustainable project bond financing and investment.

Improved risk compliance and expanded risk cover instruments, benefit the banking sector mortgage and infrastructure portfolio, pension fund and insurance long-term investment portfolio, as well as government's fiscal resilience and sovereign rating

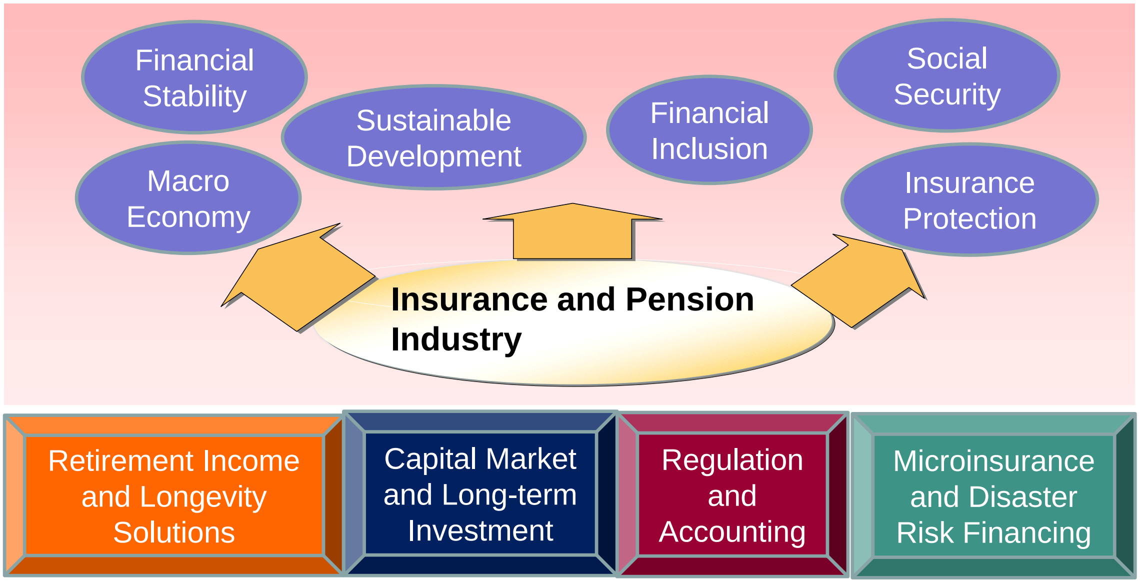
Since insurance and retirement income was selected as one of the priorities for an initial APFF work program, the APFF Insurance and Retirement Income Work Stream[10] has worked on the promotion of policies and regulations supporting insurers' and pension funds' long-term roles to effectively provide financial stability and economic and infrastructure development, and serve the needs of aging society.

For that purpose, the group worked around the following major areas: (a) regulation and accounting, (b) long-term investments and capital markets and (c) retirement income and longevity solutions, and (d) microinsurance and (e) disaster risk financing. The last two topics were added this year for a new mandate, as part of supporting resilient and

[10] The Work Stream includes experts from the insurance, pensions and financial industries, academic specialists and policy makers and regulators. The membership reflects its objective of not exclusively representing the interests of the insurance industry, but to promote an enabling environment for the insurance and pension sectors to contribute to the community in the region from the macroeconomic, financial stability, sustainable development, financial inclusion, social security and insurance coverage perspectives. Further collaboration is currently being sought from other global and regional initiatives, including G20, OECD, World Bank, ASEAN, ADB, as well as consultants and rating agencies. The Work Stream is coordinated by Mr. Makoto Okubo of Nippon Life (Sherpa), with Mr. Anthony Nightingale of Jardine Matheson as Vice Sherpa. Participants (as of 30 June 2015), include representatives from the following organizations: ADB, AIA Group, ASEAN Insurance Council/WanaArtha Life, ASEAN Secretariat, Asociación de Aseguradores de Chile, Association of Insurance Supervisory Authorities of Developing Countries/Association of Insurers and Reinsurers of Developing Countries, Australian APEC Study Centre at RMIT University, Australian Super, Australian Treasury, Barnert Global (microinsurance), Canadian Pension Plan Investment Board Asia, Cathay Life, Citigroup (retirement income), Great Eastern Life, HK-APEC Trade Policy Study Group, Hong Kong University of Science and Technology, IAG, ING Bank Singapore, International Insurance Society (special advisor), Jardine Matheson(Vice Sherpa), J.P. Morgan Asset Management Global Real Assets, Life Insurance Association of Malaysia, Manulife, MetLife (long-term investment), Nippon Life(Sherpa), Nomura Securities (APFF coordinator), OECD, OJK Indonesia, Oliver Wyman, PIMCO, Prudential Financial (longevity solution), Prudential Corporation Asia, RGA, Samsung Life (liaison with AOSSG), Sun Life Financial, Tokio Marine (disaster risk financing) and ASIFMA (observer and liaison with other relevant work streams), () denoting sub-stream leaders.

inclusive growth and development in the region. We should note that a number of APEC economies are exposed to natural disasters, and we consider this component an integral part of supporting long-term development in the region.

FIGURE 7: A Holistic Framework to Support the Long-Term Roles of the Insurance and Pension Industries in the Asia-Pacific Region



The APFF Interim Report, which was submitted to the APEC Finance Ministers in 2013, contained the following two action plans among others, which are relevant to insurers and pension funds and the APFF has been working on:

- *Dialogue series on regulation and accounting issues impacting the long-term business of the insurance industry in Asia-Pacific economies and longevity solutions*

  APFF convenes a series of dialogues and workshops across the region. These activities are aimed at (a) fostering deeper understanding of the impact in the region's economies of regulatory and accounting issues on the incentives for and ability of the insurance industry to carry out their roles as providers of protection, stability, security and long-term investments and funding; and (b) addressing demand- and supply-side issues in the development of lifetime retirement income solutions

- *Collaboration with APEC Finance Ministers' Process in promoting long-term investment, including infrastructure*

  APFF actively participates in APEC FMP activities on infrastructure (e.g., workshops, activities of the APEC PPP Experts Advisory Panel, Asia-Pacific Infrastructure Partnership dialogues) to promote deeper understanding of obstacles to expansion of investment in infrastructure and other long-term assets by pension funds and insurers and discuss approaches to address these issues. This active participation will be guided by the Work Stream's findings on constraints to promoting long-term investment in the Asia-Pacific region, particularly those related to market and operational issues.

In this regard, APFF contributed in 2015 to the following events by providing speakers and panelists and/or helping planning the agenda:

- APFF Roundtable on Financial Regulations, Hong Kong, China (27 January 2015, Hong Kong, People's Republic of China)
- OECD High-Level Panel on Institutional Investors and Long-Term Investment (13 March 2015, Tokyo, Japan)
- ASSAL Annual Conference (13-16 April 2015, San José, Costa Rica)
- APEC Finance Ministers Process Seminar on Micro-insurance and Disaster Risk Financing (29-30 April 2015, Bacolod City, Philippines)
- APFF Roundtable on Expanding Opportunities for Long-Term Investment in Asian Infrastructure (15 May 2015, Toronto, Canada)
- Global Insurance Forum (17 June 2015, New York, United States)
- APEC Workshop on Infrastructure Financing and Capital Market Development (23-24 July 2015, Iloilo City, Philippines)
- APFF Special Sessions on Longevity and ARFP, and APFF Symposium - Advancing the Agenda for Asia Pacific Financial Development and Integration (10 August 2015, Melbourne, Australia)

APFF will continue to contribute to upcoming relevant conferences and seminars, which may include but not be limited to:

- APEC Financial Roundtable (10-11 September, Cebu, Philippines)
- OECD Global Seminar on Disaster Risk Financing (17-18 September, Kuala Lumpur, Malaysia)
- APEC SME Finance Forum (22 September, Iloilo, Phillippines)
- NAIC Asia Pacific Global Insurance Forum (7-9 October, Los Angeles, United States)
- FIDES Annual Conference (25-28 October 2015, Santiago, Chile)
- ASEAN Insurance Council Meeting (27-29 October, Phnom Penh, Cambodia)
- Pacific Insurance Conference (29 November 2015, Manila, Philippines)

The following sections describe progress made so far and work plans ahead on each area covered by the APFF on insurance and retirement income.

Retirement Income and Longevity Solutions

Aging and High-level Recommendations

As the world's fastest aging region, Asia is facing a set of unique challenges both at individual and governmental level. While Asia has the world's highest savings rate, currently $6 trillion, and strongest growth rate of the middle class, Asian economies significantly lag behind in policy framework and regulatory incentives to facilitate retirement income and longevity solutions.

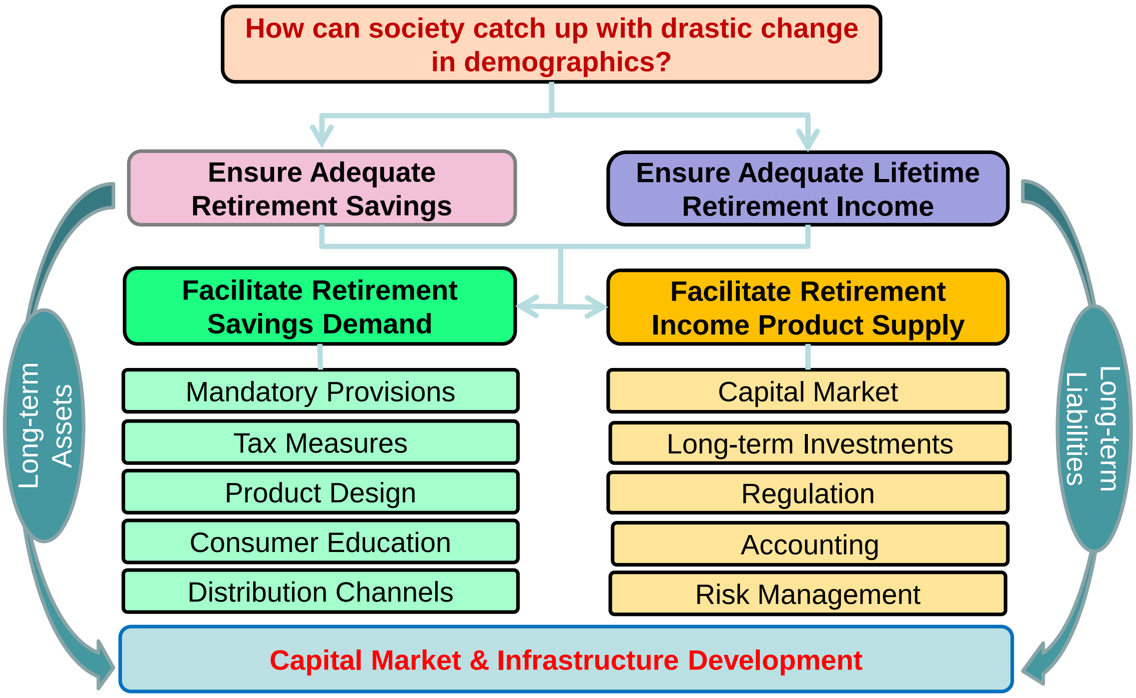
The aim of a Retirement Income System is to re-balance the socio-economic resources to meet the challenges of ageing society. It is also to shift capitals from bank-centric short-term investments into capital market and long-term productive assets, such as infrastructure investments, real estate development, catastrophic bonds/disaster risk financing, private equities, and trade financing facilitations to support SME financing needs. It also fuels sustained growth of capital market thru institutional investors and continued supply of long-term capital.

APFF recommends APEC Finance Ministers, relevant policy makers and regulators to consider the following measures to promote the development of retirement income system, ensuring adequate retirement savings and to enable consumer-friendly retirement income and longevity solutions in their respective jurisdictions. The report at hand is meant to form the basis of dialogues with relevant policymakers and government bodies to achieve the above objectives.

Transforming High Savings Rate to Retirement Income System

Given the expected drastic changes in demographics - the ‘silver tsunami’ - in the not-so-distant future, APFF urges policymakers take immediate measures to establish a Retirement Income System. The diagram below illustrates the main concepts on retirement income and longevity solution in this report.

FIGURE 8: Responding to the Needs of Aging and Promoting Capital Market and Infrastructure Development



A successful Retirement Income System produces an immediate and fast growing asset pool with long-term liability nature and limited liquidity requirement in medium term. These assets represent a stable, long-term patient capital that can be utilized to support productive long-term investments such as infrastructures, disaster risk financing, real estate and other economic development.

Analysis also shows that there is a strong correlation between strength of domestic capital market and the size of the retirement system as evidenced in US, UK and Australia. This is due to shifting bank-centric short-term savings into institutionalized capital market investments. In turn, the Retirement Income System provides growth engine across the economies financial sectors including insurance, securities, and asset management.

A successful Retirement Income System requires two sets of policy levers:

1) Ensure adequate retirement savings - a set of policy levers including mandatory provisions, tax measures, product design, consumer education, and channels and distributions work together to facilitate consumer demand for retirement savings.

2) Ensure adequate lifetime retirement income – a set of policy levers including capital market, long-term investments, regulations & accounting and risk management work together to facilitate supply of retirement income products and longevity solutions.

Almost all APEC economies in the region have put in place some type of retirement system to cover a portion of its citizens and civil workers, but none of the systems work well to provide adequate retirement income[11]. There are many reasons for this. Analyses have shown that the government-supported schemes alone are generally not able to provide adequate post retirement income, either due to fiscal ability to expand coverage to cover most of the working populations, or the fiscal sustainability to provide adequate pensions. Some systems have low legislative contribution rate to the retirement savings that is simply inadequate. Some systems focus purely on retirement savings and did not have provisions for the retirement income and longevity solutions. The retirement income and longevity solution is especially important, given increasing longevity across all APEC economies, dropping fertility rates and decreasing dependency on children for financial support in retirement.

It is clear that the current market structure along the dimensions of consumer demand, capital markets, industry supply and regulations is not conducive to cope with the imminent change in demographics and supporting long term investments and sustained growth of capital markets.

In order to promote the development of retirement income system, to ensure adequate retirement savings as well as adequate lifetime retirement income in the Asia Pacific, APFF recommends the following measures to:

- facilitate retirement savings demand; and
- facilitate retirement income product supply.

Facilitate Retirement Savings Demand

<u>Mandatory provisions</u>

Consumers are not naturally inclined to pro-actively plan for post-retirement income. Behavioral Finance developed models to better understand this behavior. One element is the so-called status quo bias (‘inertia’) which is the cognitive bias to prefer the current situation and therefore delay decisions even when one knows it is in her or his best interest. Another factor is the present bias (‘hyperbolic discounting’), where consumers place disproportional greater value on benefit received now compared to at some point in the future. Studies have shown that when offered the choice between $50 now and $100 a year later, most people choose the immediate $50[12].

These and other behavioral patterns make it evident that it is important to implement a mandatory coverage for a minimum-level policy-driven savings for the long-term and future need, such as setting aside a percentage of income for retirement protection either thru the government or private pension schemes. This can be achieved either thru a “mandatory provision” or an “automatic enrollment process” for the voluntary retirement systems.

The mandatory provision not only provide a minimum retirement protection, it has also proven to be successful to create a fast growing retirement savings pool to support

[11] In accordance with recommended levels of the World Bank.

[12] Shlomo Benartzi: Savings for Tomorrow, Tomorrow, Ted Talk 2011

domestic capital market development. The Australia's superannuation system has grown to be the world's 4th largest fund industry in a short 20-year time frame. It serves as an example of how a successful retirement policy creates a "triple-win" situation for individual, financial sector and infrastructure development and government.

<u>Tax Measures</u>

In order to overcome some of the inherent consumer bias towards purchasing longevity risk solutions, short-term financial incentives will be of importance. Different incentives will be required for different economies. For many economies, tax incentives are effective if clearly linked to genuine retirement income solutions, i.e. products that provide long-term retirement savings, or have a lifetime income feature. From a government budget perspective, one should weigh the possible short-term reduction in tax revenues against the long term societal costs of a growing portion of the population without sufficient financial means in retirement. One should also take note that tax incentives for specific product types will also encourage the insurance industry to develop these products, which will have a follow-through effect on the capital markets through increased demand for long-term funding vehicles. Tax incentives have been the most important policy lever in the successful retirement markets in US, UK and Australia. Various forms such as EET, TEE can be implemented, based on the unique tax environment in each jurisdiction.

For low income tax economies such as Hong Kong and Singapore, mandatory provisions have been introduced for retirement savings either thru a government-led or private sector led retirement income schemes. At the same time, it also shows that the additional "top up" by consumer have been relatively low (compared to US and Australia) due to the lack of tax incentive for additional retirement savings.

<u>Product Design</u>

There is also basic consumer psychology at play in terms of consumers consistently underestimating one's life expectancy and the desire to have control and access over one's retirement savings which manifests in the tendency to take out one's retirement savings in lump sums. Empirical research has shown that individuals are generally not able to stretch their retirement savings over their lifetime and use up their retirement savings too quickly. There is little to no drive to plan for post-retirement income from a consumer perspective.

To a certain degree the consumer inertia is caused by the lack of lifetime income solutions that effectively meet the needs of the consumer. Conventional immediate or deferred annuities can be simple and attractive solutions for those consumers who seek a stable annuity income at retirement or at old ages as longevity protection. Other consumers may be concerned about the drawback of locking in one's assets, and want continued control and access of one's assets as well as flexibility as demonstrated by the choice of lump sum over an annuity.

It is recommended that the policy maker support diversity of retirement product, expand the solutions universe and design of alternative products that can meet the various demands and different financial literacy level the consumer. In recent years, there have been new generation of retirement income and longevity product developed, both at the pre-retirement savings stage as well as post-retirement stage, to address a variety of consumer needs. This includes life cycle and target date funds, variable annuities with more flexibilities and some guarantees, phased drawn down of fully invested funds, flexible annuities to address changing needs at different stages of retirement life, consumer-driven retirement savings with focus on customized asset allocations at savings phase to achieve retirement income goals.

Also, more retirement systems are carefully selecting a “default option” that facilitates simpler retirement savings options, potentially links the retirement savings with consumer profile and retirement income goal. These policy directions are crucial in simplifying consumer choices, and creating economies of scale of retirement products in smaller economies.

As it is common in Asian economies that their retirees are “asset rich, income poor” by having real estates as the main or only asset at retirement without much liquid assets, reverse mortgage and integrated retirement income and housing solutions are being considered.

The next section will touch upon some measures that can stimulate the development of a new generation of lifetime income solutions.

The insurance and pension industry are instrumental to partner with the public sector to provide insurance solutions that can alleviate these financial pressures of the ageing population. It has the required expertise in the domains of mortality, investments and risk management as well as the economy of scale and IT systems to manufacture and administer retirement solutions that provide lifetime income protection. A growing market of retirement income solutions will also fuel economic growth by matching providers of capital, i.e. insurance companies who have a need for long term investments, with projects in need of long-term funding, such as infrastructure developments.

Consumer Education

In addition to minimum policy retirement, significant education and persuasion is required to motivate consumers to set aside additional resources about planning for post-retirement income. While consumers are the primary audience, one should also consider education of financial advisors as well as government bodies, e.g. regulators, when considering design and risk management of advanced retirement income planning solutions. This is often fairly new territory for the consumer, financial advisor and the regulator.

Education should be a joint and sustained effort between the public and private sector. Actions such as public awareness campaigns should be organized to move the public mind-set, especially of those approaching retirement, to one that looks at how best to convert retirement savings into an income stream that will last a lifetime and therefore avoid outliving one’s retirement savings as traditional safety nets provided by the government, employer or children are rapidly diminishing.

Distribution Channels

Life insurance companies use a number of different channels to distribute their products, whether they are retirement saving products (accumulation phase) or longevity solutions (decumulation phase). Channels include exclusive agents, independent agents, insurance brokers, and banks. In future, digital or in-line distribution may become more important. This group believes that a broad and robust distribution system is vital if economies are to close the protection and savings gaps. According to the 2014 Insurance Barometer survey by the Life and Health Insurance Foundation for Education (LIFE) Foundation and LIMRA, face-to-face contact with an agent is the most preferred method for buying life insurance. The public and private sectors both have a role to play in supporting the development and maintenance of well-trained agency forces that will drive increased penetration rates and retirement solutions coverage.

Facilitate Retirement Product Supply

Capital Market and Long Term Investments

Liabilities that arise from products providing long term interest and income guarantees need to be backed by matching assets to ensure that these guarantees are met. Hence the ability to manufacture lifetime income solutions depends heavily on the availability and – regulatory – accessibility of long-term investments. It is proven that the insurance and pension industry is becoming the most important investors to provide long-term project financing, such as infrastructure development, after the regulation changes after the financial crisis which restricts the banks to provide long-term financing under Basel III.

Insurance and pension funds can support development in the capital market developments in a variety of ways. For the securities market, with the professional asset allocation and institutional investments, insurance and pension funds help professionalize the investments and long-term capital support for the securities markets which helps to stabilize the domestic equity and fixed income markets and balance out the retail investors.

On the other hand, due to the long-term nature of the retirement savings and low liquidity requirement in the near term, the insurance and pension funds also can direct capital to the productive asset classes which require long-term financing needs, such as infrastructure investments, real estate development, catastrophe bonds/disaster risk financing. Funds also stimulate demand for bonds, thus easing over-reliance on bank financing and providing new sources of finance to support SME growth and trade. A detailed overview of policy recommendations to stimulate this part of the supply chain is captured in the 'Capital Market and Long Term Investments' section in this report.

It is worth noting in this context that long-term investment in economies needs to be matched by a Government policies that promote a stable and transparent investment regime. Restrictive or retrospective rules on company ownership, for example, are a major disincentive to long-term foreign direct investment.

Regulation and Accounting

In an environment with adequate supply and access to long-term investments, there are hurdles to invest in these assets from regulatory and accounting perspectives. Key issues include what incentives and disincentives arise from regulatory and accounting regimes with respect to insurers and pension funds' engagement in providing retirement and longevity solutions, impact of economic accounting and the choice of measures on pension funds and products to serve the needs of aging societies, and how regulatory requirements may take into account diversity of social security system, needs and consumer behavior and development states across the Asia Pacific region.

Policy recommendations on regulatory and accounting that promote long-term roles of insurers and pension funds are captured in the 'Regulation and Accounting' section in this report.

Risk Management

In order to provide retirement security and longevity solutions, sound risk management would be critical. Insurance companies should be encouraged to deploy the necessary risk management structures to efficiently and effectively manage these risks. However some hurdles are identified for efficient risk management. The following measures may be considered to support the development of lifetime income solutions as well as product innovation

- For example, consumer value of retirement income solutions may be enhanced through the following are as follows:
  - Permit intra-company financial reinsurance to allow for risk and capital transfer of retirement businesses to affiliated entities, thereby creating efficiencies and ultimately reducing costs for consumers;
  - Transfer of longevity risk: allow or encourage pension funds to partially or fully transfer longevity risk to insurance companies. Using economies of scale, mortality and investment expertise, insurance companies are best placed to manage longevity risk in the most efficient manner;
  - Provide regulatory agility in product parameters adjustments in accordance with capital markets. The ability to provide guarantees on long-term benefits in a sustainable manner is directly tied to the ability to adjust product pricing to the prevailing term structure of interest rates. In order to ensure sustained offering of such products, providers should be able to reflect any changes in interest rates or any capital market data in a timely manner in the pricing. This continued alignment with the capital market requires a revised – shortened - regulatory review and approval process. A dialogue is required with regulators to assess to what extent existing review and approval processes should be adjusted to meet this specific need of this type of products;
  - Guarantees in pension plans: allow or encourage private pension providers to embed lifetime income guarantees in pension designs as well as the utilization of the required investments and derivatives to support the risk management of the combination of market risk and longevity risk.
- In order to further boost the development of longevity solutions, the regulatory environment should encourage to insurance companies to develop products with a compelling value proposition to the end consumer. This would entail:
  - Appropriate setting of capital, mortality assumptions and reserve requirements in view of long term nature of longevity risk. Certain jurisdictions have limited experience data with regard to lifetime income benefits. As a result certain levels of conservatism are usually applied. The insurance industry is looking towards a dialogue with regulators to discuss updating prescribed pricing assumptions by leveraging experience and expertise of other jurisdictions;
  - Any regulations around product parameters such as commission and cost loading that are prohibiting the development of attractive longevity solutions. Certain jurisdictions prescribe pricing parameter limits that apply to an entire universe of products. Given the societal need of consumer-friendly lifetime income solutions, the level of such pricing limits should be assessed and adjusted, where required, for the subset of products that provide genuine lifetime income guarantees;
- The manufacturing of advanced lifetime income solutions often requires a non-traditional approach to product design and risk management. The following measures may be considered to facilitate the development of these products:

– Providing reserve and capital recognition for prudent and purposeful hedging of guarantees, such as lifetime income guarantees in Variable Annuities products

– Flexibility in use of derivatives: use of derivatives facilitates the manufacturing and risk management of long term (interest) guarantees, e.g. use options or interest rate swaps to secure future levels of interest rates;

– Currency flexibility: long dated assets are often not available in local currency and certain consumers are willing to supplement retirement assets with a foreign currency longevity product as a risk diversification measure.

TABLE 1: Background of Different Designs of Retirement Systems in Asia

Retirement System Design A: Collective Defined Contribution System managed by Government

Overview of Retirement System:

- Mandatory provisions where worker and employers make contributions to a centralized collective retirement savings fund, administer and managed by government
- At retirement, majority of distributions are in lump sum with limited dollar amount or options for retirement income
- Investment management and minimum investment guarantees are provided by government
- Some systems allow “opt out” so that participants can choose to invest based on their own risk profile
- It may difficult to cover the informative workforce under this design.
- Economies for example: Malaysia and Singapore.

Retirement System Design B: Private-sector Based Mandatory Provident Fund

Overview of Retirement System:

- Mandatory provisions where worker and employers make contributions to a private sector mandatory provident funds participated by insurance companies, banks and asset managers
- At retirement, majority of distributions are in lump sum with limited options for retirement income
- Variety of investment choices for members
- Economies for example: Australia and Hong Kong

Retirement System Design C: Defined benefit system for public and/or private pensions, supplemented by voluntary defined contribution plans

Overview of Retirement System:

- A large portion of the retirements, either social security or work-based pensions, are provided thru a defined benefit system
- Most distribution in pension/monthly annuities. Some in lump sum.
- The private pension are in transformation to defined contribution plans to transfer the investment and longevity risk from employer to employees
- Economies for example: US and China

TABLE 2: Key Issues and Challenges

Key issues to address	Challenges/constraints
1) Retirement income security despite retirement savings towards mandatory scheme	• Lump sum distribution, lack of policy and incentives for retirement income security • Capital market constraints for the insurers to effectively manage annuity products • Solvency of underfunded corporate pensions
2) Retirement income adequacy	• Leakage on spending before retirement; • Low investment return resulted from over-conservatism on investment and limitations on asset allocation • Lack of individual retirement product • Low priority before age 40 on retirement savings compared to other pressing needs, where missing the prime time for long term savings to weather thru investment volatility
3) Financial education and awareness on retirement savings need	• Low priority before age 40 on retirement savings compared to other pressing needs, where missing the prime time for long term savings to weather thru investment volatility

Capital Market and Long Term Investments

Status Report

APFF identified in its report in 2014 underdeveloped capital markets, scarcity of bankable projects, a lack of appropriate financing vehicles, and restrictions on derivatives needed to hedge investment as some of the major impediments to investment in infrastructure projects by long-term institutional investors like insurers and pension funds. It was also noted that for insurance and pension investing, the local currency bond and equity market of the domestic economy forms an important, and substantial core asset class. The size and liquidity of those traditional asset classes have increasing significantly over the last few years, but it is important to continue efforts to provide low-cost and efficient market access vehicles for domestic bond and equity markets.

Our work over the past years has focused on two areas: 1) non-traditional financing vehicles to facilitate financing by institutional investors in infrastructure projects and 2) a study of how regulations regarding derivatives act as an impediment to infrastructure financing by institutional investors.

Non-traditional financing vehicles

While participants called on governments to continue to develop deeper and more liquid capital markets through improvements in transparency of issuers, more long-term government bonds to create a benchmark, and a clear legal regime for handling defaults to demonstrate that secured lenders are protected, it was recognized that this process would take time. In the meantime, non-traditional financing vehicles could jump start insurance and pension fund investment into infrastructure. Such vehicles needed to address some of the impediments identified by the group to institutional investor financing, including regulatory, political and construction risk, poor or no credit rating, and lack of scale.

Much attention was focused on how such vehicles could allocate risk (and return) to those best placed to take it. For example, banks were well placed to take construction risk but not well positioned to take maturity and liquidity risk, since they are funded on deposits and the money market. Insurers are poorly place to take short-term construction risk, but well-positioned to take liquidity and foreign exchange risk since they are funded by long-term insurance policies with local currency liabilities.

Financing vehicles that were identified included:

- Infrastructure Funds: While neither new nor "non-traditional," an infrastructure fund addresses the challenge of scale since institutional investors can delegate to the fund the work of identifying suitable investments covering a large number of opportunities. India has experimented with infrastructure debt funds, though many were not successful due to regulatory risks and lack of staff to adequately review projects. Prospects for an infrastructure private equity fund in the Philippines, the Philippine Investment Alliance for Infrastructure Fund (PINAI), appear more promising. It is managed by a highly experienced and reputable international firm, Macquarie, which provides credibility needed to attract foreign investors, and enjoys participation by the Asian Development Bank, which helps mitigate political and regulatory risk;

- Business Trusts: These vehicles, which are seen in Singapore, are similar in structure to REITs that can be listed and traded on local exchange to facilitate offloading of operational infrastructure projects to free up development capital for Greenfield projects;

- Guarantees: PPPs with some sort of guarantee or off-take agreement to separately price developmental, construction and operational risks for infrastructure projects from regulatory. Governments will no longer (and probably should not) offer blanket guarantees for pricing in offtake agreements, so a vehicle is needed that provides the appropriate guarantee linked to those actions that government can take that could impact the commercial viability of the investment;

- BOT: Build, operate, and transfer agreements for governments could also separate developmental and operational risks for infrastructure projects. BOT was used in China before 2009, but fell out of favor as funding turned to local government SPVs and banks. However, China and other economies may return to BOT, as bank financing faces limits;

- Securitization I: The group explored two forms of securitization to better allocate risk and return to short and long term investors. One form would involve a financing structure for an infrastructure project in which banks would fund the first 5-7 years, covering construction and development risk, while receiving a relatively higher return. Assuming the project was successfully launched, insurers and pension funds would then fund for the next 20-30 years, with relatively lower, but safer returns. Another way of stating this model would be to split the greenfield and brownfield elements of the project into tranches that could be separately sold. Treating this as an integrated financing structure (rather than simply having the banks fund the entire project for five years and then refinance if the project takes off) avoids refinancing risk and create greater certainty for the project developers;

- Securitization II: Another form of securitization that could help develop the infrastructure financing market for long-term investors would be to package existing infrastructure loans on bankbooks and sell them as asset-back securities. Most Asian economies have relied heavily on bank financing and banks have many infrastructure assets sitting on their balance sheets. Banks by their nature should not be holding such an extensive amount of long-term assets, which tie up capital that could be more useful, both economically and socially, as credit to small business. An example of such a vehicle would be packaging of transport infrastructure on a Chinese bank's balance sheet;

- Co-financing with Multilateral Development Banks: Co-financing with the International Finance Corporation or Asian Development Bank is another innovative approach to facilitating the flow of institutional investors into infrastructure. To the best of our knowledge neither entity has co-financed with an insurer, though ADB has recently stepped up to sell some of its risk to global reinsurers. Currently most attention is focused on private sector lending at ADB and IFC where the pricing is already market-based and therefore more interesting to private investors. However, it is not inconceivable that MDBs and their borrowers explore blending of sovereign lending with private sector financing – the blended rate would be higher than straight ADB or World Bank lending, but the lending envelope (the amount that each institution could allocate) would be far larger if they leveraged their sovereign lending by mixing it with investment by private investors.

Derivatives

APFF is continuing its study of derivative restrictions around the region. Initial findings indicate several kinds of restrictions. In some cases of developing economies, there simply are no provisions for derivatives and so derivatives do not exist. In others, they are permitted but with severe restrictions. And in many developed economies in the region, including Japan and Korea, reserving requirements for derivatives make them prohibitively expensive. Finally in some economies there are no restrictions on derivatives, but the availability of derivatives is small and the cost prohibitive to make it commercially interest. The lack of derivatives, for whatever reason, makes appears to be an important, if not binding, constraint to doing more long-term investment into infrastructure. The Work Stream will continue its study in the coming year.

Education

Members of APFF continued to discuss impediments to institutional investor financing of infrastructure due to weak capital markets lack of bankable projects to regional regulators and at a number of international fora, including meetings sponsored by ABAC, G-20 and the OECD.

Regulation and Accounting

Status Report

For the purpose of deepening the understanding of the impact of regulatory and accounting issues on the role of insurers and pension funds in effectively providing long-term investments and funding, supporting financial stability and economic and infrastructure development and serving the needs of aging societies, the work stream participated in a number of dialogues, seminars and conferences across the region.

The objective is to help regulators and industry participants in the Asia-Pacific region, based on discussions of key issues and high-level recommendations, identified by the work stream (see Annex H[13] of the APFF Interim Report 2014) to implement

[13] As a part of the APFF project, ABAC developed a list of high level accounting, regulatory, market and operational issues and recommendations on promoting long-term investments in the Asia-Pacific, as a basis for discussions with

approaches to enhance the insurance and pension industry's contributions to the economy and society, taking into account the long-term nature of its business.

Active outreach and communication have been continuously undertaken to exchange views on regulatory and accounting matters and gather information on specific challenges faced by economies with international and regional institutions, such as the IAIS, IASB, OECD, ADB, ASEAN, and various insurance regulatory authorities, including those in Indonesia, Japan, China, Singapore, Malaysia, Brunei, Mexico, Chile, Peru, USA, Chinese Taipei and Thailand. In this regard, it should be noted that remarkable coordination has been achieved with the ASEAN insurance industry. For example, the ASEAN Insurance Council (AIC) presented its recommendations, which were largely in line with those identified by APFF, during ASEAN Insurance Regulators Meeting (AIRM) in Brunei Darussalam 26 Nov 2014, and submitted them to the ASEAN Regulators on the 9 January 2015, along with the APFF Interim Report to the APEC Finance Ministers.

IAIS Consultation on the global risk-based International Capital Standards

As part of this initiative, ABAC submitted a comment letter on the global risk-based International Capital Standards (ICS) to the International Association of Insurance Supervisors (IAIS) on 30 January 2015, based on conclusions reached by the work stream in its discussions. ABAC comments did not intend to respond all technical questions but identified and addressed high-level issues relevant to the objective of the APFF to promote long-term roles of the insurance industry. Key comments included:

- Bank-centric regulations: The ICS should capture all material risks across the sectors, however should take into account the specific nature of the insurance business. It should avoid bank-centric capital weighted rules, and consider the characteristics of long-term assets supporting long-term liabilities as well as the effect of asset diversification. High-risk charges for long-term investments, including infrastructure projects and equities, may discourage insurers to provide such investments. Regulations should be designed in a way to promote and incentivize the insurers' role to stabilize the financial system and market and its ability to manage risk efficiently;

- Short-term oriented economic regime: An economic based regime should have a long-term vision. Short-term oriented economic valuation may produce significant volatility for long-term business, which may not be relevant to the insurers' capacity to meet long-term obligations. While economic information may be a useful indicator in determining a future long-term direction, the long-term nature of the business model and illiquid nature of liabilities should be properly taken into account. The ICS should avoid the introduction of a regulatory regime that would require immediate regulatory actions in response to short-term market fluctuations. Measures should be taken to mitigate impact on long-term protection business and the assets supporting such contracts;

- "One-size-fits-all" models: International standards should be principle-based and aim to achieve the comparable outcome by taking into account the diversity in the region. Due to the difference in business models and existing regulatory framework, the application of prescriptive international standards would not ensure the overall

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policymakers and regulators. Annex H "Constrains on Promoting Long-Term Investment in the Asia-Pacific can be downloaded at https://www.abaconline.org/v4/download.php?ContentID=22611898.

comparability or level playing field in the region;

- <u>Timeframe</u>: The IAIS should take the necessary time to develop high quality standards rather than compromise on quality to meet an ambitious deadline. The next few years will see numerous regulatory changes implemented or developed in EU, US, and many other economies in the Asia Pacific. The IAIS may benefit from experience of those anticipated changes.

IASB Consultation on the Conceptual Framework for Financial Reporting

In addition, a number of accounting issues have also been identified. Following up with ABAC comment letter dated 10 October 2013 to the IASB and the FASB on insurance contracts proposals, ABAC submitted a comment letter to the International Accounting Standards Board (IASB) on August XX on the Conceptual Framework for Financial Reporting. Again, ABAC comments did not intend to respond to all the questions, but rather highlight specific questions that may affect the ability of insurers and pension funds to play the long-term roles as expected by the society. Key comments included:

- <u>Reporting items of income or expenses in other comprehensive income (OCI)</u>: The ABAC supports a wider use of OCI both in assets and liabilities to better reflect the long-term nature of the business. Short-term fluctuations in the statement of profit or loss may distort the relevance of the information on performance for the period, where such fluctuations are irrelevant for predicting the cash flows of the entity. Nevertheless, the use of OCI should be optional in order to avoid accounting mismatch between assets and liabilities. The treatment of changes in estimated cash flows and that of discount rates should be consistent to reflect economic reality and to provide relevant and useful information to users;

- <u>Recycling</u>: Items of income and expenses presented in OCI should be permitted to be recycled, since it often reflects how an entity conduct its business and leads to a faithful representation of the performance for the period. It would also build a clearer linkage between financial performance and financial condition. We are not persuaded why the recycling criteria are different for debt and equity instruments. The absence of recycling of equity investments may dis-incentivize the institutional investors to engage in such investment as a possible unintended consequence arising from this inconsistency;

- <u>Business activities</u>: The ABAC supports the view that financial instruments could be more relevant if standards reflect how an entity conducts its business. Furthermore, consideration of the business model may provide a faithful representation of the economic reality and result in more relevant information. It is also important to take into account the different development stage. The application of prescriptive international standards may not ensure overall comparability or a level playing field, due to the existing diversity in the region and around the globe;

- <u>Long-term investment</u>: Short-term oriented economic valuation tends to capture the assessment with a snapshot, which may be relevant for short-term investors, do not necessarily provide useful information for long-term investors, who wish to determine such investments that ware good in the long run, rather than appear good at a given moment. Short-term fluctuations tend to be significant for long-term business, and may not be relevant to the entity's capacity to meet long-term obligations. The interaction between assets and liabilities should be properly reflected. Accounting standards which do not reflect the long-term nature of business activities would not provide transparency for long-term investors. As a result, it would dis-incentivize long-term investments;

Microinsurance

This year, APFF started to undertake work on microinsurance and laid the foundations of a multi-year effort to address key issues as well as built its network of collaborators in this space. A key event facilitating this development is the APEC Conference on Disaster Risk Finance hosted by the Philippine Government on 29-30 April 2015 in Bacolod City, Philippines, which included extensive discussions on microinsurance. This conference was jointly organized by the Philippine Department of Finance, ABAC and ADB, in collaboration with APFF, the GIZ Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia, Microinsurance Network, Barnert Global, Ltd., and the Tokio Marine Group.

Microinsurance is an important tool that can help vulnerable low-income households and microenterprises become more resilient. Although it has been able to reach a large number of people in the region (170 million low-income people in Asia and Oceania by the end of 2012), the percentage of people covered by microinsurance is only 4.3 percent in Asia and 7.6 percent in Latin America. Much improvement is therefore still needed to provide insurance coverage to the region's population.

To address this issue, APFF offers to hold under the Cebu Action Plan a series of workshops to support interested APEC economies in developing their own roadmaps for expanding the coverage of microinsurance. Topics to be covered in these workshops would include:

- the integration of microinsurance in their financial inclusion strategies, development plans and/or inclusive finance roadmaps;
- formulation of microinsurance policy and regulatory frameworks and overall strategies, implementing guidelines and directives and business models;
- promoting a culture of genuine dialogue among stakeholders, including regulators and the industry in the development of regulations and sustainable business models;
- policies and mechanisms to encourage PPPs in the provision of insurance solutions for catastrophic events, perils in the agriculture value chain, health and MSMEs;
- mechanisms to encourage innovations and institutional arrangements in creating data/information centers, developing product prototypes, designing technology-based enrolment and claims administration, among others;
- capacity development for stakeholders;
- cross-border peer-to-peer knowledge exchange; and
- development of good microinsurance practices, creation and updating of information and communications technology applications and harmonization of cross-border microinsurance regulations.

A key short-term objective is the expansion of the APFF network in this space through activities in partnership with the Microinsurance Network, the Global Financial Inclusion Initiative, multilateral institutions, the Access to Insurance Initiative (A2ii) and engaging experts from various organizations and economies.

Disaster Risk Financing

Natural Disasters and High-Level Recommendations

The Asia-Pacific is the world's most natural disaster-prone region on the globe. For over decades, the region has recorded the biggest number of natural disaster events, and the economic consequence has been enormous, which is attributable to growing concentration of population and economic activities in hazard-prone areas. The negative consequence may even harm an economy's sovereign risk rating. APEC Finance Ministers are aware of the situation and recognize the need to develop coordinated disaster risk management strategies and to improve their approach to Disaster Risk Financing (DRF)[14] as a means to build resilience in the region. The OECD report on "Disaster Risk Financing in APEC Economies" gave a thorough overview of the current status of DRF in the region. As it is highlighted in the G20/OECD methodological framework on disaster risk financing, financial impacts of disasters can be mitigated ex ante through financial instruments. With ex ante measures in place, government budgets become less vulnerable to impact of disasters, especially in light of the limited advantage in savings from disaster relief if done after the fact. Overreliance on post-disaster financial relief tends to cost more to community actors, including residents and business owners.

APFF recommends APEC Finance Ministers, relevant policymakers and regulators to consider taking the following actions to help promote effective DRF in the region. Once this proposal has been approved by the Finance Ministers, the workflow could potentially benefit from communicating with international/intergovernmental organizations and regional frameworks (e.g. ASEAN and ASEAN+3), thus maximizing the effectiveness of the output.

<u>Developing sound financial and insurance markets</u>

Depending on the local circumstance, DRF has a variety of forms which includes disaster funds, contingent credit lines, insurance-linked securities, catastrophe risk pools, index-based risk transfer products and traditional indemnity-based insurance. Private sector insurance companies and capital markets play a crucial role in absorbing disaster risks. Since private sector players are governed by economy legislation and regulation, it is important that local financial and insurance market ensures the following fundamentals to secure public trust in DRF products:

- The market is orderly and supervised according to sound prudential standard and consumer protection guidelines.
- The domestic legislative and regulatory framework encourages private sector players to offer innovative and inclusive financial instruments such as micro-finance/insurance and index-based insurance products, securitization transactions incorporating the use of special purpose vehicles (SPVs) and facilitation of sovereign and sub-sovereign risk transfer to render financial protection to both public and private sectors.
- A sound supervisory and monitoring system is established to enable appropriate and smooth financial transactions or insurance payment even in case of a catastrophic emergency.

[14] Disaster Risk Financing: In this proposal, the term "Disaster Risk Financing" follows the terminology in "Disaster Risk Assessment and Risk Financing –A G20/OECD Methodological Framework" (4 November, 2012), which reads "The strategies and instruments used to manage the financial impact of disasters, ensuring adequate capacity to manage and mitigate the costs of disaster risk, thereby reducing the financial burden and economic costs of disasters and enabling rapid recovery in economic activity."

<u>Enhancing disaster risk evaluation through the use of data</u>

Many recognize the lack of available data as an impediment to evaluate disaster risks which is fundamentally important in designing DRF. It is especially true when engaging with capital markets, where pension funds and other investors are emerging as significant source of disaster risk financing. It is therefore recommended that more attention be given to:

- facilitate technological advancement of disaster risk evaluation by assisting economies in improving their capacity to collect, harmonize and disclose relevant regional, domestic and local data including hazard, exposure and vulnerability, for the purpose of increasing the credibility of evaluation on disaster impact;
- build capacities of economies in the establishment, adjustment and disclosure of municipal level hazard maps;
- upgrade the granularity of quantitative risk evaluation by utilizing disaster risk model, including climate and probabilistic evaluation models, with particular emphasis on flood risk; and
- make the most of the risk information obtained through the aforementioned disaster risk data by making links to economies' building codes or land use permits, and by incorporating the information in designing business continuity plans (BCPs).

<u>Raising public awareness on disaster risk</u>

Disaster risk management effectively functions where general public is reasonably aware of the level and nature of risks they face. In order for a DRF mechanism to function properly, it is critical to raise public awareness of the need to seek financial protection against disaster risks. The following actions are useful in upgrading public risk awareness and set a stage for a functioning DRF:

- Engage in disaster risk education and awareness raising in the civil society including its incorporation in school education program;
- Assist small and medium enterprises (SMEs) to establish BCPs;
- Recommend risk-informed decision making to businesses in their conducting capital investments

<u>Steering investment to upgrade disaster resilient infrastructure</u>

Upgrading the infrastructure relevant to disaster risk reduction is another area that calls for closer attention. Disaster resilient infrastructure is more likely to generate social and financial benefits from a long-term perspective. Adding to that, investment in disaster mitigation can be critical for the insurability of some disaster risks. Quoting from a study report of Multihazard Mitigation Council, a dollar spent on hazard mitigation provides about $4 in future benefits. In this context, it is recommended that the following actions be put in practice:

- Transfer technical expertise and knowledge on disaster risk reduction to the community in need;
- Set up infrastructure on disaster risk reduction in terms of both hardware and software.(e.g. building code, remote sensing and digital signage);
- Shed light on natural capital, such as the conservation and restoration of coastal

wetlands which effectively reduce the impact of high tides and tsunamis, while protecting the ecosystem, as a cost-efficient alternative to man-made disaster risk reduction infrastructure.

Knowledge sharing to prompt actions among APEC economies

In whatever form it takes, for a DRF mechanism to function properly in a society, it needs to resonate well with other social instruments which respond to large-scale disasters. It becomes critically important to design a program coherently with or complimentary to the existing or planned domestic or local disaster relief and prevention system. As situation differs from others, primary focus should be given to individual economy. It is thus beneficial to pool the accumulated knowledge to be shared with interested member economies, and facilitate any member to design a DRF scheme that best responds to the domestic need. It is critical that the group thus formed consists of representatives of member economies with a strong will to develop either domestic or cross-border DRF mechanism. Based on the need of each participating economy, the following actions are suggested to be taken over the course of the next two to three years:

- Conduct a gap analysis of existing disaster insurance and relief mechanisms which are in place in disaster prone member economies, and identify priority areas;
- Establish an expert group among the member economies' finance and relevant ministries, with each participant having a clear objective;
- Invite experts from financial institutions, insurance industry, risk modelers, and academia, as needed. In case catastrophe bonds or other types of securitization are seen as a viable DRF option, the involvement of originators should be considered;
- Import knowledge and experience from non-APEC economies or public sector entities;
- Identify areas where availability and affordability of disaster insurance needs to be promoted;
- Follow up on the progress of the project periodically;
- Consider setting a baseline framework among the APEC economies to facilitate the implementation of DRF;

Public-private collaboration

In the wake of the Great East Japan Earthquake of 11 March, 2011, the Earthquake Insurance for households proved effective in delivering swift financial relief to the disaster affected region. As a reinsurer, the Japanese Government played a critical role in ensuring financial liquidity of the program. Drawing from the experience, in case an economy chooses to implement a domestic disaster risk pooling system, it is critically important how to define the government's role in the program. A public-private collaboration can be functional where the government exercises transparent distribution of risk of the DRF program. There is a wealth of practical knowledge in designing risk transfer programs accumulated in the financial institutions and the insurance industry. Depending on the domestic budget, financial or insurance market characteristics and soundness, a government-led DRF can be designed by importing knowledge and experience from the private sector, including the utilization of its efficient distribution and disaster response network. As a practical first step, the following action is recommended:

- An economy-level expert committee is to be formulated, with possible participation of other APEC member economies, to proceed with designing a DRF program;
- Where public-private collaboration is deemed beneficial and sustainable, private sector experts are invited to the process;

- Private sector knowledge can be useful in developing peril-specific risk models as a core component of the DRF scheme, which may also assist public sector in assessing and quantifying the financial impact of the peril in question.

Work Plan

Setting up a DRF program requires the involvement of multiple actors. In order to design an effective program, and to be prepared by the next catastrophe hitting one of the APEC economies, strong leadership of the ministers in charge is indispensable. APFF looks forward to having a constructive dialogue with the interested finance ministers to promote a meaningful step forward to build a resilient community.

In order to put the aforementioned items into practice, the following timeline is suggested as a basis of an action plan over the next three years.

TABLE 3: Timeline to Promote Disaster Risk Financing in the APEC Economies

Initiatives	Deliverables	Timeline		
		by 2016 (Peru)	by 2017 (Vietnam)	by 2018 (PNG)
<APEC-wide>				
➢ Establishing an APEC-wide expert group	✓ A gap analysis report (by 2016) ✓ A disaster risk database (2017 and onwards)	• Formalise an expert group • Publish a gap analysis report	• Periodical expert group meetings • Upgrade the gap analysis to set up a disaster risk data base	• Periodical expert group meetings • Updating the disaster risk data base • Reviewing the development over the past 3 years • Study on risk pooling among APEC Economies
➢ Setting a baseline DRF framework for the APEC Economies	✓ A baseline framework (2018)		• Preliminary draft circulation	• Publish a baseline framework
<Economy level>				
➢ Establishing an economy-level DRF scheme (where appropriate)	✓ An economy-level DRF blueprint (2018)	• Liaise with the above development	• Launch of economy-level expert meetings (where appropriate)	• Design a blueprint of an economy-level DRF scheme (private or public-private collaboration)
	✓ A status report (2018 and onwards)	• Identify economies and risks of priority		• Issue a status report

E. Linkages and Structural Issues

The increasing sophistication of Asian financial markets has the potential to create many of the problems experienced in the West in Asia. Further, recent years have seen rapid and sweeping reforms to financial regulation in Europe and the United States.

These developments mean there is now an opportunity to pro-actively identify lessons learned from the West's development and regulatory integration experience, as well as the unique circumstances and risks present in the Asian context, to evaluate the suitability of global regulatory frameworks in Asia and the value that regional cooperation could play in the development of Asian financial regulations.

As part of efforts within the APFF, the Financial Regulation in Asia Research Team of the Melbourne School of Government, University of Melbourne[15] is hosting a research project that explores whether greater regional cooperation in financial regulation and integration is needed in Asia, in light of the strong emphasis on European and North American financial systems in the development of international regulatory standards and rules, and the appropriateness of possible forms of regional architectures to achieve greater regional cooperation. The project is novel due to its inter-disciplinary approach and its examination of the relevant issues from a variety of perspectives such as finance, law, politics and international relations.[16]

Project Update:

The project is examining the issues in the areas set out below. All of the specific issues are under active examination with various papers being prepared by the research team:

Areas	Specific Issues
Banking regulation	■ Asia and Basel III ■ Bank resolution regimes ■ Shadow banking
Capital markets regulation	■ Asia Regions Funds Passport ■ OTC derivatives market reforms ■ Benchmarking reforms
Market integration and access	■ Market access ■ Proposed trade in services agreement and financial services
Regional architecture	■ Regional financial infrastructure ■ Financial supervisory structures in Asia

One of the areas where research and thinking are relatively advanced is cross-border cooperation in the context of bank resolution. Increasing financial interconnectedness in Asia combined with the international reforms recommended by bodies such as the Basel Committee on Banking Supervision and the FSB[17] have drawn attention to the need in Asia for cross-border cooperation in bank resolution.

There are several factors that make it difficult to achieve cross-border cooperation in this area. These factors include the following: philosophical differences concerning the

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15 The members of the research team are Professor Andrew Mitchell, Law, UoM, Dr Jikon Lai, Arts, UoM, Mr Andrew Godwin, Law, UoM, Professor Andrew Walter, Arts, UoM, Professor Ian Ramsay, Law, UoM, Professor Kevin Davis, Business & Economics, UoM, Professor Douglas Arner, University of Hong Kong, Datuk Seri Panglima Andrew Sheng, Fung Global Institute, Professor Wataru Takahashi, Osaka University and Mr. Kenneth Waller, Australian APEC Study Centre, RMIT University. External partners include ANZ Bank, APEC Business Advisory Council, Fung Global Institute, University of Hong Kong, King & Wood Mallesons, Osaka University and Moody's.

16 For papers, conferences, workshops and other events, see https://government.unimelb.edu.au/financial-regulation-in-asia.

17 Basel Committee on Banking Supervision, *Report and Recommendations of the Cross-Border Bank Resolution Group* (March 2010); Financial Stability Board, *Key Attributes of Effective Resolution Regimes for Financial Institutions* (October 2014).

techniques for resolving distressed financial institutions (e.g. whether bail-in is appropriate); the preference of many regulators in Asia for crisis prevention over crisis management; the lack of a regional voice in international bodies and frameworks; different regulatory systems; and sensitivities triggered by politics and international relations.

These factors all point away from the wholesale adoption of international models in favour of a resolution framework that is consistent with established modes of cooperation within the region. The established modes of cooperation are based on a number of elements, including a non-binding, consensus-based approach (much of which is bilateral in nature or connected to sub-regional groupings such as ASEAN) and an emphasis on national sovereignty. Inevitably, this means that not all of the tools for achieving effective cross-border cooperation as utilized in other regions will be appropriate to the Asian region (e.g. multi-lateral information-sharing mechanisms). Our preliminary findings suggest that the focus needs to be placed instead on encouraging regulatory harmonization and promoting convergence.

Potential steps towards the development of a regional resolution framework include formulating guidelines for domestic regulatory frameworks, the establishment of a body to promote convergence and strengthen supervisory capacity and the use of resolution colleges to build on existing supervisory colleges and facilitate cooperation across various stages of resolution.

Similar to the research on other issues, the research in cross-border bank resolution reveals the extent to which each issue presents its own challenges and needs to be examined on a case-by-case basis.

The Research Team is planning a conference in Hong Kong on Friday 6 November 2015 at the University of Hong Kong to examine various themes and discuss the findings of the research project. The themes will include the following:

- Regional coordination and challenges in areas under examination;
- Existing architecture and possible reforms;
- Standard-setting bodies and challenges for regional coordination;
- Asia Infrastructure Investment Bank and challenges for regional coordination; and
- Asian financial integration.

III. CONCLUSION

The Asia-Pacific 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. It also needs well-developed financial markets to more efficiently channel savings to where they can contribute more to and gain the most from economic development, especially in the region's emerging markets. Having been established to serve as a regional platform for public-private collaboration to help APEC member economies develop robust, stable, dynamic and inclusive financial systems to meet these needs, the APFF has engaged a wide range of leading private sector institutions to partner with key international and government agencies to undertake initiatives in pursuit of this goal.

Building on its 2014 Interim Report to APEC Finance Ministers, which identified 12 concrete action plans to address critical issues related to MSME finance and the development of the region's capital markets and long-term institutional investor base, the APFF this year advanced its work on these initiatives, through a number of roundtables, workshops and conferences across the region, work stream discussions, and collaboration with APEC finance officials in designing the future work of the APEC Finance Ministers. Highlights of this Progress Report are as follows:

- The Report discusses a proposal to establish a Financial Infrastructure Development Network (FIDN) comprising private and public sector entities, multilateral institutions and industry associations as a specialized subgroup under the APFF. Its aim is to undertake activities to help member economies develop legal frameworks for credit information systems and secured transactions and movable asset finance systems, and identification of key issues for its work program.

- The Report identifies key issues to be addressed in a series of dialogues and workshops on trade and supply chain finance for relevant public and private sector stakeholders in the region. These will include capital and Know Your Customer (KYC), Anti Money Laundering (AML) and Customer Due Diligence (CDD) rules affecting trade finance. These also include digital and innovative working capital management products and techniques, reducing barriers to digitalization of supply chain finance, and interrelationships among finance, trade, customs and technology to support the internationalization of MSMEs.

- There is ongoing work to complete a guide for legal and regulatory frameworks, settlement systems and market conventions supporting sound and efficient repo markets. The Report further develops the action plan to engage domestic regulators and governments through workshops, encourage and assist economies in establishing classic repo markets, disseminate industry best practices, encourage adoption of international standards for efficient clearing and settlement of repo transactions, and monitor the impact of financial reforms on repo market development in the region.

- The APFF has completed the self-assessment templates to help relevant authorities facilitate availability of information for investors in the region's debt markets, especially those for non-bank corporate debt. These templates cover three key categories (disclosure, bond market data and information on investor rights in insolvency). The APFF also launched a pilot program with the Philippines to use these templates in identifying gaps and undertaking measures to fill them.

- The APFF served as a platform for engagement of industry to assist the six regulatory authorities progressing the ARFP in identifying critical elements in designing rules and operational arrangements for a successful regional funds passport. These critical elements were identified as enlargement of membership, reciprocity, interoperability with other similar regional frameworks, inclusiveness, taxation, dispute resolution, standardization of fees and performance figures and international recognition of passport funds.

- The APFF undertook further development of the action plan to assist economies in ensuring an enabling legal infrastructure for derivatives, including activities geared toward identifying legal structural weaknesses in jurisdictions, educational seminars targeting regulatory and legislative bodies as well as key members of the judiciary, and preparation of a pilot program.

- Further work was done to identify key issues for workshops and dialogues to help economies develop a regional securities investment ecosystem. The APFF will be working on a regional roadmap of upcoming regulatory and market changes, the feasibility of a regional private-public-market infrastructure forum for exchange of views on these changes, regionally and globally aligned standards for KYC/AML documentation collection and reporting, the use of third party industry utilities for a centralized KYC/AML electronic depositary, and standards for data privacy, protection and security.

- This Report describes recent work initiated by APFF on retirement income and longevity solutions, microinsurance and disaster risk financing and financing vehicles that can be developed and supporting measures to facilitate expanded investment by pension funds and insurers in infrastructure and capital markets. The APFF also continued its efforts to promote regulatory and accounting frameworks that support long-term investment in infrastructure.

- The Report also describes ongoing research and discussion on the regulation and supervision of the region's banking systems and capital markets, market integration and access and regional financial architecture

This Progress Report recommends the following steps as the way forward for advancing the work of the APFF:

- *Undertake a pathfinder initiative to develop credit information systems*. This should involve the development of online resources aimed at policy makers as well as a series of workshops focused on building capacity for developing regulatory frameworks, establishing and operating private credit bureaus and enhancing lenders' ability to use credit information. It will also involve building support for identified reforms in collaboration with policy makers.

- *Undertake a pathfinder initiative to improve policy frameworks for secured transactions and the use of movable assets as collateral*. This should involve holding workshops and promoting reforms to develop robust legal and institutional architecture for asset-based lending and factoring, collateral registries, rules related to the use of movable assets and accounts receivables as collateral, and legal and institutional frameworks to facilitate cross-border supply chain finance.

- *Convene public-private dialogues on regulatory issues in trade and supply chain finance*. These should aim to promote effective and regionally consistent implementation of capital and liquidity standards and KYC/AML/CDD rules.

- *Hold workshops on emerging facilitators of trade and supply chain finance*. These should focus on three key aspects: expanded use of electronic supply chain management platforms; wider use of Bank Payment Obligations (BPOs) and related working capital management techniques; and facilitating market education and information exchanges on the use of regional currencies such as the RMB and related working capital management techniques.

- *Support the development of alternative funding mechanisms for MSMEs*. This should involve the holding of regular public-private workshops on ways to develop alternative funding mechanisms for MSMEs and start-ups, including development of new financial instruments, addressing regulatory barriers to innovative financing, identifying policy frameworks for alternative finance, policy initiatives to spur equity based financing to invest in small businesses, enabling regulations for crowd funding, Islamic finance and public-private innovative funding vehicles. These workshops will be designed to progressively go into greater detail into key specific issues to help policy makers and regulators adopt and implement policies and design initiatives including funding mechanisms.

- *Develop best practices for strengthening MSMEs' resilience*. This should involve workshops for relevant policy makers and regulators in the region and will cover measures to mitigate the impact of financial crises, natural disasters and other unexpected events, based on lessons from responses to previous financial crises and successful experiences in the use of microinsurance and disaster risk finance, with special focus on vulnerable micro- and small businesses, including farmers in remote areas.

- *Establish an APEC-wide DRF expert group within the APFF to develop a gap analysis report in 2016, a disaster risk database starting in 2017 and a baseline DRF framework for APEC economies in 2018*. The work of this expert group should be focused on knowledge sharing to help member economies design effective DRF schemes. This work includes conducting a gap analysis of existing disaster insurance and relief mechanisms in disaster prone economies and identification of priority areas; creation of an expert group from finance and relevant ministries with clear objectives; participation of experts, originators and risk modelers from industry and academia; learning from experiences outside the region; identification of areas where disaster insurance needs to be made more available and affordable; periodical follow-up of progress; and consideration of a baseline framework to facilitate DRF implementation.

- *Promote the accumulation of long-term capital in pension funds through retirement income market reforms*. This involves promoting demand for retirement savings as well as wider access to and supply of retirement income products. To promote demand for retirement savings, governments should identify and adopt policies related to consumer education, tax measures, mandatory provisions, distribution channels and product design. To promote retirement income product supply, policy makers and the private sector should collaborate to ensure that this is supported by policy, regulatory and accounting frameworks related to capital markets, long-term investments and risk management..

- *Identify and address regulatory and accounting issues that affect insurers' incentives to undertake long-term investment in infrastructure and capital markets*. Regulatory issues include bank-centric regulations, short-term oriented economic regimes and one-size-fits-all models that do not fit different business models across the region. Accounting issues include those affecting asset-liability interactions that produce volatility in balance sheets and profit and loss statements, as well as issues related to complexity, consistency, transition and presentation of traditional long-duration contracts.

- *Identify best practices in promoting private funds for equity investment in infrastructure involving public-private collaboration*. This involves exploring collaboration among institutional investors, financial institutions and multilateral development agencies and private equity funds. One example of a partnership among parties including a multilateral agency, a foreign and local pension fund and an infrastructure asset management firm is the Philippine Investment Alliance for Infrastructure (PINAI), which is now investing in energy projects.

- *Establish a public-private sector network of microinsurance experts within the APFF to hold a series of workshops to support interested APEC economies in developing their own roadmaps for expanding the coverage of microinsurance*. Topics to be covered in these workshops should include (a) the integration of microinsurance in their financial inclusion strategies, development plans and/or inclusive finance roadmaps; (b) formulation of microinsurance policy and regulatory frameworks and overall strategies, implementing guidelines and directives and business models; (c) promoting a culture of genuine dialogue among stakeholders, including regulators and the industry in the development of regulations and sustainable business models; (d) policies and mechanisms to encourage PPPs in the provision of insurance solutions for catastrophic events, perils in the agriculture value chain, health and MSMEs; (e) mechanisms to encourage innovations and institutional arrangements in creating data/information centers, developing product prototypes, designing technology-based enrolment and claims administration, among others; (f) capacity development for stakeholders; (g) cross-border peer-to-peer knowledge exchange; and (h) development of good microinsurance practices, creation and updating of information and communications technology applications and harmonization of cross-border microinsurance regulations.

- *Undertake public-private sector workshops regionally and in individual economies to facilitate policy reforms and measures to promote the effective use of hedging instruments and risk management tools and fostering a more diverse investor and issuer base*, through the APFF. These should focus on promoting legal and regulatory reforms and capacity building to accelerate the development of repo and derivatives markets; improving the availability of relevant information needed by capital market investors on issuer disclosure, bond market data and investor rights in insolvency to more confidently expand their activities across the region; and promoting the development of financial market infrastructure and practices to facilitate greater cross-border portfolio investments.

- *Ensure the successful launch of the Asia Region Funds Passport (ARFP) through the facilitation of its early enlargement* to include a critical mass of participating jurisdictions, as well as its interoperability with other regional mutual recognition frameworks, using the APFF as a platform for undertaking discussions among finance and financial regulators, the private sector and international organizations on these issues.

- *Convene regular APFF Roundtables* to promote more active involvement of APEC financial market regulators in discussions on global rules that affect financial markets and services and their implementation across the region in support of

> APEC's economic objectives and regional integration, as well as effective mechanisms for industry to contribute to the development of sound and effective financial regulatory frameworks, robust risk management in financial institutions and expanded access to finance.

This year, the APEC Finance Ministers will launch the Cebu Action Plan (CAP) to guide the work of the Finance Ministers' Process over the next several years in promoting stronger, more sustainable and more balanced growth in the region. Institutions collaborating in the APFF have actively contributed to discussions that have informed many aspects of the CAP, which also reflect many of the aspirations of the initiatives that are being proposed in this 2015 APFF Progress Report.

With these proposals, the APFF hopes to provide a platform for collaboration to achieve tangible outcomes over the next few years that would have significant impact on the development of financial markets and services in our region, ultimately contributing to advancing the Finance Ministers' vision for the region. Greater access to finance for a wider cross-section of society and MSMEs, including those engaged in global supply chains, more diverse and stable financial systems, deeper and more liquid capital markets, greater regional financial integration and more effective and efficient intermediation of capital, particularly long-term investments into long-term assets such as infrastructure, can result from these efforts.

The success of these undertakings will depend on active participation and engagement from the public sector. APFF intends to provide a forum and informal network for dialogue and capacity building where they can interact on a regular and sustained basis with experts in relevant specialized and technical fields from the private sector and international and academic organizations. The APFF looks forward to close collaboration with the APEC Finance Ministers in advancing the initiatives of the Cebu Action Plan.

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