



# APFF

Asia-Pacific Financial Forum



# Progress Report to the APEC Finance Ministers Executive Summary

# 2015

# Asia-Pacific Financial Forum

## 2015 Progress Report to the APEC Finance Ministers

### 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 depository, 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, and will

also include regulatory considerations related to electronic trade finance documents.

- *Hold workshops on emerging facilitators of trade and supply chain finance.* These should focus on these key aspects: expanded use of electronic supply chain management platforms; wider use of digital and innovative working capital management techniques such as Bank Payment Obligations (BPOs); facilitating market education and information exchanges on the use of regional currencies such as the RMB in trade and supply chain finance; and facilitating inter-relationships among finance, trade, customs procedures and technology that can support the internationalization of MSMEs and businesses.
- *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 financing, 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.
- *Undertake various activities to support the development of microinsurance.* These include partnering with multilateral institutions, including the Asian Development Bank; collaborating with the Access to Insurance Initiative (A2ii) in Latin America; creating a list of contact persons in member entities through various outreach activities; collaborating with the Microinsurance Network on international activities such as the Global Financial Inclusion Initiative (GFII) and its development in APEC member economies; exploring partnerships with relevant institutions in holding regional or domestic workshops; participating in APEC/APFF forums and seminars that include microinsurance; and providing inputs to the Cebu Action Plan and APEC, ABAC and APFF events.
- *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.