

**APFF Caucus
Meeting II
PAPER 3A-4**

Meeting Document Summary Sheet

<p>Document Title: Report to ABAC – ARFP and Regional Financial Market Integration Industry/Regulator Dialogue, 23rd March 2016, Sydney</p>
<p>Purpose: For information</p>
<p>Issue: A dialogue on the progress of the Asia Region Funds Passport and Regional Financial Market Integration was conducted. The report is included in Advisory Group papers for the ABAC II 2016 meeting</p>
<p>Background:</p> <p>The dialogue was organised by the Australian APEC Study Centre at RMIT University, and hosted by the Financial Services Council in Sydney, Australia.</p> <p>It updated the Australian finance sector on progress made by the APFF and other developments of interest. Australian policy makers, regulators and senior representatives of the finance industry participated, as did members of APFF work streams.</p> <p>Key issues were discussed, including developments on the ARFP, repos, derivatives, hedging tools and cross-border securities investment ecosystem.</p> <p>There were three sessions that all focused on different aspects of enhancing regional capital integration.</p> <p style="text-align: center;">Session 1: Asia Region Funds Passport</p> <p>Australia, Japan, Korea, New Zealand and Thailand are expected to sign the Memorandum of Agreement in April. The potential scale of the passport was recognised amongst other schemes: convergence with ASEAN CIS, Hong Kong and PRC under CHKMRS and UCITS. Incorporating the needs of regulators and industry working in Asia were reflected. The long-running success of UCITS and the possibilities utilising FinTech innovation to take the passport further were noted. FinTech could contribute to providing hard and timely information to policy makers and legislators including on tax impacts.</p> <p>Regulators are still in negotiations around mechanisms surrounding ARFP. Agreement on structures, remuneration, institutional arrangements and distribution is to come. Arrangements are being developed with a goal of broadening the passport. The value in Indian participation in the future, and linking with RCEP, TTP and regional trade agreements was noted.</p> <p style="text-align: center;">Session 2: Risk Management Tool Reform</p> <p>The ability to further integrate capital markets using risk management reform was</p>

stressed. Central bank operations and system liquidity is very important which is based on the repo market through open market operations. It was noted that economies in the region have relatively small bond and repo markets and as a consequence there is greater emphasis on managing foreign exchange markets.

Issues that exist across the region include changes to capital charges and ratios arising from reforms by the Basel Group of Supervisors, repo and derivatives with likely different players across the region and the impact of financial technology.

It was noted that capital market reforms should avoid the prospect of fragmenting markets. Hedging and netting were stressed to reducing exposure to country and systemic risk. Synchronized standards are important to reduce frictional costs. The possibilities to involve algorithms for tri-party arrangements were stressed for efficiency and cost potential, and the broadening and diversification of the repo market.

Session 3: Standards and Platform Connectivity for Cross-Border Portfolio Investment

The benefit of regulatory coordination was discussed, predominantly common reporting standards, transfer pricing rules and information sharing. It was noted that corporate debt markets continue to struggle and generally are underdeveloped. Still requiring action is issues such as bail-in/bail out.

Community perspectives on tax avoidance have shifted dramatically, governments will need to come together to handle Base Erosion and Profit Shifting (BEPS) and multinational anti-avoidance legislation; the region should cooperate to realize societal benefits of this work. There is a need for a stronger Asian voice in the Financial Stability Board but difficulties in identifying an “Asian” position remains a challenge.

Business choices often base their strategy on theory and lack data specificity on the impact of its advice on the real economy. Business needs to clearly identify the costs and benefits of reforms that it proposes to government. Businesses must be willing to adapt and start serious dialogue with government.

Proposal / Recommendations:

- Note Sydney Industry/Regulator Dialogue report.

The Asia Pacific Financial Forum Industry/Regulator Dialogue Progress on the Asia Region Funds Passport and Regional Financial Market Integration

**Financial Services Council Offices, Sydney
23rd March 2016**

Executive Summary

The dialogue provided an opportunity to update the Australian finance sector on progress made by the Asia Pacific Financial Forum (APFF) and other developments of interest. Australian policy makers, regulators and senior representatives of the finance industry participated, as did members of APFF work streams. Key issues discussed included developments on the Asia Region Funds Passport (ARFP), repos, derivatives, hedging tools and cross-border securities investment ecosystem. (A list of participating institutions and forum agenda are shown in Attachments A and B, respectively).

Australian ABAC member Robert Milliner provided welcome remarks and Mark Johnson chaired the dialogue. It was organized by the Australian APEC Study Centre and generously sponsored by the Finance Services Council.

Session 1 Key Points: ARFP

Session one focused on the ARFP. Australia, Japan, Korea, New Zealand and Thailand have indicated support in signing the Memorandum of Agreement as soon as April 2016. Singapore and the Philippines are expected to participate in the not too distant future. There is an expectation that other regional schemes, such as the ASEAN Collective Investment Scheme (CIS) will ultimately converge around the ARFP. The China Hong Kong Mutual Recognition Scheme (CHKMRS) will also impact the ARFP. The ARFP was informed by the UCITS directive which is a successful and long-standing initiative. However it also reflect the desire to for Asian regulators and policy makers to develop their own rules as they would have no say in changes to the UCITS directive and some aspect of the directive could make it –it more difficult for Asian funds to operate.

Next Steps

The mechanisms for the ARFP are an ongoing discussion, still being negotiated by regulators to ensure they are workable. Other issues needing to be addressed by industry in taking advantage of the initiative include structures, remuneration, institutional arrangements and distribution. Advice on tax arrangements is being received by the tax reference group workstream established by the economies involved in the Passport. Arrangements of the passport are being developed with a goal of broadening the passport. In addition through membership of FTAs, the TPP and RCEP, economies may engage in complementary initiatives to facilitate market access for investment management services. There would be great value in Indian participation in the future. Applying FinTech innovations could provide ARFP funds with a first mover advantage and facilitating growth in the use of the

passport in the region over time. FinTech innovations may also contribute to providing hard and timely information to policy makers and legislators including on tax impacts.

Session 2 Key Points: Capital market integration using risk management tool reform

The entire architecture of central bank operations and system liquidity is based on the repo market through open market operations. Economies in the region have relatively small bond and repo markets and as a consequence there is greater emphasis on managing foreign exchange markets. Issues that exist across the region include changes to capital charges and ratios arising from reforms by the Basel Group of Supervisors, repo and derivatives with likely different players across the region and the impact of financial technology.

Capital market reforms should avoid the prospect of fragmenting markets. OTC reforms in relation to margining, transactions and derivative trading may be sub-optimal and may increase risks in markets. Derivative markets are critical to hedge against risk and the work on netting contributes to reducing exposure to country risk and to systemic risk - by reducing the capital needed to guard against risk. In the region, the derivative market is developing in Malaysia but yet to go forward in Indonesia and Vietnam. Building blocks for netting legislation are not in place in China.

Developments in the US and European markets pose a threat to regulatory harmony and compliance with rules in different jurisdictions. Creating synchronized standards with these and those in Asia are challenging; there is a need to avoid a patchwork effect of different rules; otherwise large frictional costs will be created. Reference was made to the US's mandatory trading requirements which resulted in a 77% fall between trades in European interest rate swaps as evidence of potential negative outcomes of unsuitable reform.

Next Steps

The APFF has a focus on deepening capital markets via active facilitation of regulatory industry dialogues with interested economies, these outcomes are presented to APEC Finance Ministers' Meetings. An APFF workshop on Repo and Derivatives Markets was held Nov 16 last year in Manila. Asifma has also been focused on regional dialogue with local regulator involvement. It has organized a seminar in Jakarta on repos where netting will be addressed.

There is a strong push for broader use of tri-party rules, benefits include the fact that the tri-party agents do all management functions, leading to a very efficient and lower cost process and the broadening and diversification of the repo market. With the use of algorithms, tri-party arrangements are facilitating the move into the custodian space. There are tensions in domestic markets arising from varied recovery and resolution practices in insolvency cases.

Session 3 Key Points: Standard setting and platform connectivity for cross-border portfolio investment

Discussions on regulatory coordination requires an assessment of the specifics of each issue under consideration. Common reporting standards, transfer pricing rules and information sharing are important. While sovereign debt markets have evolved in the region, corporate debt markets continue to struggle and generally are underdeveloped. A “soft law” approach is appropriate and avoidance of one size fits all. Community perspectives on tax avoidance have shifted dramatically and governments will need to come together to handle Base Erosion and Profit Shifting (BEPS) and multinational anti-avoidance legislation; the region should cooperate to realize societal benefits of this work.

Next Steps

There is no global consensus on a number of relevant issues, such as bail-in/bail out. There is a need for a stronger Asian voice in the FSB but difficulties in identifying an “Asian” position remains a challenge. Business often based its advice on theory and lacked data specificity on the impact of its advice on the real economy; business needs to clearly identify the costs and benefits of reforms it proposes

Introduction

Around 90 people attended, representing the Australian Treasury, the Reserve Bank, ASIC, APRA and a wide cross-section of the financial community in Australia and the region, including finance experts, lawyers and industry associations and participants in the work-streams of APFF, including Patrick Pang, ASIFMA, Catherine Simmons of Citigroup and Andrew Godwin, Melbourne University.

The event was generously hosted by the Financial Services Council of Australia and organized by the Australian APEC Study Centre at RMIT University. Robert Milliner welcomed participants on behalf of ABAC Australia and Mark Johnson gave the opening and closing remarks. The three sessions of the program involved highly informative and sometimes provocative presentations and created the base for a highly interactive program. A copy of the program is shown at attachment A. The list of participants is shown in Attachment B.

The program was designed to bring before the Australian financial system the work of the Asia Pacific Financial Forum, to discuss the progress the Forum has made to date, to discuss its ongoing agenda and work plans and to provide an opportunity to advance further suggestions on how to progress work on the ARFP and capital market deepening in the region.

Australia's ABAC member Robert noted that the APFF advised APEC Finance Ministers on ways to make financial systems in the region less vulnerable to systemic turbulence, to strengthen regulatory and prudential standards and to promote financial market integration. This work complements APEC's objectives of open trade and investment and regional economic integration. He noted the extensive pro bono work of the private sector participants in APFF and collaboration with officials and regulators across the region. He observed that fintech is becoming an important influence in the delivery of financial services and that regulatory agencies needed to balance the benefits that fintech could provide with consumer and privacy interests.

The chair of the meeting Mark Johnson, outlined developments in ABAC leading to the creation of the APFF, the findings of the Australian Financial Services Group in its work in 2009 which noted the low level of imports and exports of the Australian financial system and the basis of recommendations to develop a more competitive, efficient and engaged financial sector. The benefits included to consumers, more open markets offering world best practices services and products and broader integration of the Australian financial system with the region. The proposal in 2009 to establish the Asia Region Funds Passport was ambitious in that it would impact on Australia and on other countries in the region. He recognized the work of Dr J.C. Parrenas, coordinator of AFPP in getting the concept onto the APEC Finance Ministers agenda. Subsequently, Australian officials from Treasury, DFAT, ASIC and other agencies had been involved in complex negotiations in progressing the ARFP concept to a mechanism that is workable. It is a pathfinder for APEC regional financial system integration more broadly that recognizes fundamental issues in the region. He noted the

importance of forming a structure in APEC under which the agenda of financial system reform could be advanced. APFF had come into being as the structure. It is succeeding because people of like-mind are collaborating around an important concept and around important ideas.

Session 1 - Discussion on regulatory and industry issues to ensure wide acceptance of the ARFP, including current regulation, investor protection, operational and governance arrangements

Panelists noted their appreciation of the work of officials in progressing the ARFP. A key reason for introducing the ARFP was to see benefits to the region from increased intra regional capital flows. An increase in flows creates business opportunities and enhanced efficiencies in regional markets. A major regional funds manager has product offerings that investors in the region want and need; the promotion of yield differences in the region would create efficiencies. While the ARFP is not a guarantee of rivers of gold it does provide an opportunity to business. To succeed, business would need to commit to the ARFP and must have a presence in the region. Market knowledge, and understanding of the products needed in each market required an on the ground presence.

Improved efficiencies should bring rewards and opportunities for increased cross-border capital flows. Firms will need to make strategic decisions in establishing operating platforms. The importance of tax, regulatory and operational structures was noted.

The lead ARFP Australian Treasury negotiator noted the progress made in developing the arrangements for the ARFP. The business community has been involved in the process with two rounds of public consultations. She anticipated that the next step would be the signing of the Memorandum of Agreement on the ARFP arrangements and this could be done as early as April. Concerted efforts were needed to ensure progress. Japan, Korea, New Zealand and Thailand indicated support and in the not too distant future Singapore and the Philippines were expected to participate. The early involvement of Australia, Korea and Japan would provide scale and sizeable market opportunities. She noted the work of a tax reference group examining taxation regimes, their associated disclosure requirements, their implications for the ARFP and that discussions were ongoing. She expected eventual convergence with other similar schemes in the region with large players outside the region such as India kept in sight.

A legal panelist noted a dilemma in thinking a problem has been solved when in fact the solution adopted did not lead to any change. He evidenced changes in law to allow a US funds manager to offer a product in Australia in the 1990s but the action had not led to any change in funds flows due to the failure to address technical problems around dividends. He noted that subtleties of tax is critical. He observed the need for scale for a successful ARFP but it would be important for Australia to develop products that were simple in design but importantly of the type required by Asian consumers. Products could be structurally agnostic – based on trust or corporate law. He noted the need to stress test arrangements so weak links can be found. There is a strong argument to simplify withholding tax

rates. He noted a P/E risk in the application of withholding tax, which should be taken into account. Moving forward, there is a need to address structures, remuneration and institutional arrangements. There will be a need for fund managers to adapt their offering to suit domestic regulations in place.

The ASIC representative stressed that the ARFP was a major structural reform. ASIC has worked hard on a workable mechanism with regional regulators to effect capital market deepening through its links with IOSCO and its various bilateral relationships. As a regulator ASIC is keen to make the ARFP operational and has moved on from the hypothecation stage. ASIC will be a home/host regulator and as a home regulator the rules will be as simple as possible to comply with regulatory requirements. As a host regulator ASIC will regulate under well established cooperative arrangements. There would be straightforward regulations for consumers on incoming funds.

FSC noted that it continued to make representations to the Australian government on issues relating to the ARFP – the nature of the collective investment vehicle and taxation – and complemented the Treasury and ASIC for the remarkable work they are undertaking.

Regarding any expectation of similarities with the ASEAN Collective Investment Scheme, it was noted that Thailand and Singapore as potential participants in the ARFP could be expected to operate similarly as in the ASEAN CIS. Further, the ARFP was fundamentally structured to cover the Asian region. Other schemes are constrained and the expectation is that the ARFP would become the regional scheme. While UCITS is dominant in some markets in the region, it is in the interests of the region to drive convergence around the ARFP concept. It would be important to leave room for India to join at some point. Thinking is ongoing as to how to relate ARFP to regional trade and investment agreements. RCEP for example, which includes India and China could offer a way to incorporate wider regional participants in the ARFP.

Responding to question as to what competitive advantage could accrue from the ARFP over UCITS, it was noted that while it would be difficult to challenge UCITS, ARFP would influence developments in the region. UCITS is not a static structure and may involve the creation of more rules and making it more difficult to operate.

FSC has proposed a flat ARFP withholding tax of 5% to assuage those who fear a revenue loss arising from the ARFP regime. Revenue loss is unlikely. It was noted that should Singapore participate in ARFP it could become the Luxembourg of the region – tax and high labour costs in Australia would limit Australia's attractiveness. Against those sentiments it was noted that Australia has a very large pool of savings and a high quality regulatory structure in place and it is those advantages which will appeal.

Attention was drawn to Australian funds managers' capacity to compete in distributing product in the region. In response, officials noted that distribution

was a matter for Australian fund managers but at official level, efforts would be made to ensure that appropriate standards of disclosure are applied.

Session 2 – Discussion on the effective use of hedging, derivative and repo markets and risk management tools to promote regional capital market integration

Patrick Pang, ASIFMA, Hong Kong, moderated the session, noting the work being undertaken by work-streams in the APFF and the importance of developing deep and liquid capital markets. He emphasized the importance of derivative and repo markets as important risk management tools in regional markets. A senior Australian Treasury representative noted that a perspective of the OTC markets in the region showed a patchwork of different rules for those seeking to provide capital and those seeking capital. Differences in markets required strategic responses. There is a need to accept standards that others have adopted and we should not be particularly concerned to take on board policies that have got momentum and to give up some of our preferred policies, for example: access, capital controls, local consumer preferences, clearing and settlement rules, products that may be accepted as collateral. Other issues that exist across the region include changes to capital charges and ratios arising from reforms by the Basel Group of Supervisors, repo and derivatives with likely different players across the region and the impact of financial technology.

The RBA noted monetary policy objectives targeting inflation and the use of the cash rate at an intermediate monetary target and the role of the RBA Board in setting the rate in the system in which the Reserve Bank did not accept unsecured exposure. The monetary operations of the Bank are effected through the repo market; this compared with economies in the region where bond and repo markets are relatively small and as a consequence greater emphasis is on managing the foreign exchange market. Australia's repo market is plain vanilla, as is the US market in which the Fed operates and the Japanese market. The entire architecture of central bank operations and system liquidity is based on the repo market through open market operations. Differences in revenue and outflows requires the Bank to replenish the market on a daily basis through the repo market.

The cash market is unsecured and the Bank's Treasury desk does not participate in the repo market. Finance is needed to support price making in bond and fixed interest securities and the Bank provides liquidity to the fixed income market. Standing facilities are available to banks and their access is against secured assets acquired in the repo market.

It was noted that the fixed interest market in Australia is one of the largest in the world and that an efficient bond market needs a functioning repo market to ensure liquidity. The repo market has been in operation in Australia for 30 years and is now tracking up to 10 points above the cash rate. The Australian Financial Markets Association is a strong industry body and it has developed best practice frameworks for industry. It works closely with ASIFMA in Hong Kong.

The derivative market has recovered after being much maligned in the global financial crisis. It is a critical market in hedging against risk and work on netting contributes to reducing exposure to country risk and to systemic risk - by reducing the capital needed to guard against risk. In the region, the derivative market is developing in Malaysia but yet to go forward in Indonesia and Vietnam. Building blocks for netting legislation are not in place in China. OTC reforms in relation to margining, transactions and derivative trading may be sub-optimal and may increase risks in markets. It is important that reforms do not fragment markets. Developments in the US and European markets pose a threat to regulatory harmony and compliance with rules in different jurisdictions. Creating synchronized standards with these and those in Asia are challenging. There is a need to avoid a patchwork effect of different rules; otherwise large frictional costs will be created.

Tri-party rules have been in operation in Australia for couple of years and there is now a strong push for broader usage. From a user point of view, these arrangements are favorable. Benefits include the fact that the tri-party agents do all management functions, leading to a very efficient and lower cost process and the broadening and diversification of the repo market. With the use of algorithms, tri-party arrangements are facilitating the move into the custodian space. There are tensions in domestic markets arising from varied recovery and resolution practices in insolvency cases.

APFF's focus on netting was emphasized to lower the amount of capital banks need to hold against derivative exposure. This will reduce their exposure to failing companies. Jurisdictions with potential problems in recognizing rights are China, Korea, Indonesia, Vietnam and Thailand. Reference was made to the US's mandatory trading requirements which resulted in a 77% fall between trades in European interest rate swaps as evidence of potential negative outcomes of unsuitable reform. Also focused on was the work by the Forum and ASIFMA in conducting seminars and workshops with local regulators in Asia, including the intention to convene a workshop in Indonesia on repos where netting will be addressed. Progress was noted in the APFF in developing clearing and settlement systems in the region.

Session 3 – Promoting a cross-border securities investment ecosystem – financial market infrastructure – cross-border practices to facilitate cross-border portfolio investment

A lead member of the University of Melbourne research group outlined work being undertaken under the auspices of the APFF Linkages and Structures group, including on the ARFP, on changing regulatory structures in the region, ways to recognize financial integration and diversity in and across regional economies. Various opportunities exist to enhance regional cooperation and the ARFP is an example of regulatory cooperation: how regulations can be coordinated. Others include work on shadow banking and on depositor protection. Any discussion on regulatory coordination required an assessment of the idiosyncrasies of each issue under consideration and each needed to be nuanced. Since the region is not subject to an EU Commission type approach, is necessary to review matters from

a “soft law” perspective and strongly avoid a ‘one size fits all’ approach. While taxation impacts on the ARFP, it is important to look at areas of convergence. This is difficult in fragmented markets but the fact is that there is not a global consensus on a number of relevant issues, for example, on bail in or bail out processes. The ARFP has a good chance of success and it provides a regional pathfinder initiative; it could provide the basis for cooperation in other activities.

It was noted that business is borderless, the G20 came together to fight international tax avoidance and developed the Base Erosion Profit Shifting (BEPS) proposals. Australia is chairing this work in G20 and leads work on transfer pricing. There has been 180 degree change in community perspectives on tax avoidance; it is important that the region does cooperate to realize the benefits to society of a regional regime. Similarly, the OECD regards BEPS as a big ticket item and governments will need to come together to deal with the issues. As a result multinational anti-avoidance legislation requires large companies to review their legal structures to ensure tax compliance. The digital economy is challenging and hybrid arrangements are harmful to tax practices and treaty abuse is common. Common reporting standards, transfer pricing rules and information sharing are important in dealing with tax avoidance.

In considering regional financial market integration as a goal, governments adopted a top down approach. However, the Asian financial crisis revealed the fragility of Asian bond markets and governments learned, subsequently, the value of seeking advice from industry, including through the APFF on the development of responses to proposals such as the ARFP. While sovereign debt markets have evolved in the region, corporate debt markets continue to struggle and are generally under developed. On the other hand the derivative markets are growing and have become globalized – operating largely from London, Hong Kong and the US. A major effort is needed to stop market fragmentation. Repo markets are underpinning markets but are often parochial in nature.

The Financial Stability Board (FSB) promotes global cooperation but the global principles it espouses are developed in London, Brussels and Washington. There is a need for a stronger Asian voice in the FSB. That said, there is some international buy-in but a difficulty confronting the Asian region is identifying an “Asian” position. Another is the lack of capacity, underdeveloped markets and resource constraints. Asia has the opposite objective of the EU with a need to grow derivative markets for liquidity, but starting with a very low base. It was recognized that while there has been progress in furthering regional aspirations, there will always be healthy tensions in the region between what is good for the region and what individual economies regard as good for them.

Pointing to the role of FSB and G20, it was noted that while industry is good at advising governments and their agencies on what should usefully be done, the advice is often based on theoretical propositions but lacked data specificity on impacts of that advice on the real economy. Central bankers were unlikely to be persuaded to change the rules unless benefits derived can be clearly demonstrated.

The need for data was stressed. Fintech, digital data and distributed ledgers may make it possible to take out huge amounts of collateral data and issues of collateral shortages may become somewhat less of a problem for financial systems. As a result there could be less collateral shortages in repo markets and collateral will be freed up. Fintech will also likely challenge the capacity of governments to govern. It might be an opportune time for Asia which has fewer vested interests in blocking innovation. Innovation creates freedom to explore but also raises questions of privacy and consumer protection – issues brought out at the recent meeting of ABAC in San Francisco in February.

Reverting to the ARFP, it was noted that UCITs was borne in an analogue era and the technology is old. It will need to change. Since ARFP has a unifying purpose the application of fintech could well give ARFP a major competitive advantage over UCITs. Fintech could also facilitate the capture of data on taxation that could be beneficial in advice to governments and regulators on the impact of tax systems on ARFP. Fintech offered a first mover advantage with the ARFP of a breakthrough nature. It could, through mobile technology, also offer access to tax and consumer protection matters.

In closing the dialogue, Mark Johnson noted the high quality discussions and thanked the AASC for convening the dialogue with the Treasury, ASIC and the Treasury. He noted the long-view taken in the formation of APFF and in the recommendations to the Australian government in 2009 when the ARFP was first proposed. Looking at the ARFP at this juncture showed that it was a relatively small component of a much bigger picture that has emerged in thinking about regional financial integration. It is important that the work of APFF does get before APEC Finance Ministers and to recognize the invaluable structure of APFF as the major, perhaps only, piece of regional financial architecture. APEC/APFF has a high strategic purpose and is in the commercial interests of all in this meeting.

The test of the APFF is at two levels: does it produce work that can be turned into policy recommendations that Ministers and regulators can adopt. The answer to that has been demonstrated by the fact that changes are being effected in collateral registries in regional economies and in the creation of credit reporting bureaus.

The second test is that a lot of work in the APFF is below the policy radar screen. It can be termed as dealing with the plumbing of the regional financial architecture system. Work in this area does not always require Ministerial intervention but change can be effected by agencies and officials. APFF has a most valuable role to play at that level.

Attachment A - Attending Institutions

APEC Business Advisory Council
Asia Securities Industry and Financial Markets
Association
Austrade
Australian APEC Study Centre, RMIT University
Australian Centre for Financial Services
Australian Financial Markets Association
Australian Prudential Regulation Authority
Australian Securities and Investments Commission
Australian Securities Exchange
Australian Treasury
BT Investment Management Limited
Citibank
Clifford Chance
Colonial First State Global Asset Management
Equity Trustees Limited
Ernst and Young
Fidelity International
Financial Sector Services
Financial Services Council
Fisher Investments Australasia
Gresham Investment House
Henry Davis York
Hunter Phillip Japan Ltd
IFM Investors
JP Morgan
K&L Gates
King & Wood Mallesons
Macquarie Group
Melbourne University
National Australia Bank
Nikko Asset Management
Orbis Funds
Perpetual
PricewaterhouseCoopers
Platinum Investment Management Limited
Reserve Bank of Australia
University of Melbourne
Vanguard

Attachment B – Agenda



Asia-Pacific Financial Forum (APFF) - Progress on the Asia Region Funds Passport and Regional Financial Market Integration - Industry/Regulator Dialogue

8.45am – Wednesday, March 23, 2016

Financial Services Council – King Meeting Room - 24/44 Market St, Sydney

8.45am: Coffee

9.00am: Welcome remarks

- **Robert Milliner**, ABAC member and Co-Chair of the Finance and Economics Working Group (FEWG)

Introduction to APFF and the Asia Region Funds Passport (ARFP)

- **Mark Johnson AO**, Senior Advisor, Gresham Investment House

9.15am - 10.15am: Session 1 - Discussion on regulatory and industry issues to ensure wide acceptance of the ARFP, including current regulation, investor protection, operational and governance arrangements.

Significant progress has been achieved with broad agreement on a memorandum of cooperation on the content of the ARFP by officials and regulators from seven APEC economies: Australia, Japan, Korea, New Zealand, the Philippines, Singapore and Thailand. Regulators from these economies are expected to sign the memorandum soon.

A benchmarking and mapping exercise as proposed by Asia-Pacific Financial Forum (APFF) is underway and a tax reference group has been established to facilitate public disclosure of tax rules across participating economies. The ARFP is on track for commencement by 2017. Against that background, panellists will provide regulatory and industry perspectives on operational challenges – marketing, design and distribution of ARFP products – and suggestions on how to deal with them.

Panel Discussion:

- **Andrew Bragg**, Director of Policy & Global Markets, Financial Services Council (Moderator)
- **Trudie Wykes**, Australian Treasury, Senior Adviser, Financial System Division

- **Gerard Fitzpatrick**, Senior Executive Leader, Investment Managers and Superannuation, Australian Securities and Investments Commission
- **Andrew Clements**, Partner, King & Wood Mallesons
- **Sam Hallinan**, Managing Director, Nikko Asset Management Australia

10.15am - 10.30am: Morning Tea

10:30am - 11.30am: Session 2 – Discussion on the effective use of hedging, derivative and repo markets and risk management tools to promote regional capital market integration.

The development of deep, liquid and integrated capital markets in the region is an important but complex undertaking that will take time to accomplish. Promoting the effective use of hedging and derivatives markets and risk management tools are critical in promoting regional capital markets integration, as are measures to enhance information in relation to bond issuance and mandatory margining of OTC derivatives to facilitate investor and regulator knowledge. In addition, repo markets play an important role in increasing liquidity in local currency bond markets, expanding the pool of available finance, mobilizing collateral regionally, reducing funding costs for governments, pension funds, asset managers and other long-term investors and offering hedging tools which contribute to risk management. Panellists will explain the APFF recommended measures to deal with these challenges and as appropriate suggest additional measures.

Panel Discussion:

- **Patrick Pang**, Managing Director - Head of Fixed Income and Compliance, Asia Securities Industry & Financial Markets Association (Moderator)
- **Nathan Pederson**, Head of G10 Finance Desk - Australia/NZ, Citibank
- **Rupert Jolley**, Chief Adviser, Australian Treasury
- **David Olivan**, Senior Manager, Reserve Bank of Australia
- **Nelda Turnbull**, Counsel, Clifford Chance LLP
- **Shannon Spriggs**, Division Director, Legal Risk Management, Fixed Income, Currencies and Commodities, Macquarie Group Limited

11.30am - 12.30pm: Session 3 - Promoting a cross-border securities investment ecosystem - financial market infrastructure - cross-border practices to facilitate cross-border portfolio investment.

The APFF has proposed a series of measures to promote connectivity platforms and standards as components in an efficient cross-border securities investment ecosystem. The key issues identified for immediate attention are ways to shorten the settlement cycles (T+2) and to enhance efficiencies in managing “know your customer” and cross-border tax matters and in improving price discovery. Panellists will critique this work of the APFF in advancing regional market integration.

Panel Discussion:

- **Ken Waller**, Director, the Australian APEC Study Centre at RMIT

University (Moderator)

- **Andrew Godwin**, Senior Lecturer and Director of Studies, Banking and Finance Law, Melbourne University
- **Antoinette Elias**, Oceania Sector Leader - Wealth & Asset Management and Partner, Financial Services, Ernst & Young
- **David Love**, General Counsel & International Adviser, Australian Financial Markets Association

12.30pm - 12.45pm: Concluding Remarks

- **Mark Johnson AO**, Senior Advisor, Gresham Investment House

12.45pm: Light Lunch