

15 August 2018

Hon. Charles Abel MP

Chair, APEC Finance Ministers' Meeting
Deputy Prime Minister & Treasurer
Papua New Guinea

Dear Deputy Prime Minister Abel:

On behalf of the APEC Business Advisory Council (ABAC), I am pleased to convey to you the 2018 ABAC Letter to APEC Finance Ministers. While global growth has been reasonably robust this year, there are several risks on the horizon, including the potential escalation of trade disputes, which could lead to a global slowdown. ABAC is deeply concerned about growing protectionist measures and has conveyed its members' thoughts on this troubling trend in its Letter and Report to Leaders. For this Letter and Report to APEC Finance Ministers, we have focused instead on three key issues that address long-term structural issues, and the related policy recommendations that we believe support long-term regional economic growth.

Infrastructure

The infrastructure needs in APEC economies are as vast as they are critical to advancing economic growth. Of particular importance to many economies is the need for telecommunications infrastructure investments, including efforts suggested in the APEC Connectivity Blueprint for 2015-2025.

ABAC recommends Finance Ministers:

- Support the development of bankable infrastructure projects by reducing red tape, establishing greater regulatory certainty, and fostering green finance markets.
- Encourage infrastructure financing by supporting the work of multilateral development banks – both global and regional – and by supporting private sector co-financing by institutional investors such as insurance firms, pensions funds, and Islamic financial institutions.

Financial Technology

As discussed at last year's ABAC Executive Dialogue with Finance Ministers, financial technology provides broad benefits to both developed and developing economies, ranging from financial inclusion, diversified financial services, and enabling digital societies. Innovative financial technologies require the free and secure flow of data and information, while continuing to protect individual privacy and promote cyber resilience, which in turn require coordinated legal, policy, regulatory and institutional reforms across agencies.

ABAC recommends Finance Ministers:

- Create a level playing field among financial service providers by applying activity-based regulation, promoting digital authentication and digital documents, introducing open banking and APIs and encouraging regional public-private platforms and regulatory sandboxes, as an example the ASEAN Financial Innovation Network (AFIN), for financial innovation that are coordinated across jurisdictions.
- Promote the development of open, interoperable and efficient financial market infrastructure, including electronic payment systems, that leverage and enable utilization of technological developments, strengthen data security, and review cyber resilience frameworks and industry best practices in each jurisdiction.

Inclusive Finance

Sustained and strong economic growth require a broad consumer base, which in many economies requires broadly shared income growth and access to finance.

ABAC recommends Finance Ministers:

- Continue actions aimed at raising real incomes of low and middle-income groups.
- Expand financial inclusivity by implementing structural reforms where needed, such as reforming personal insolvency laws that enable low-income households and individuals to access a broad range of financial instruments.

Additional Work and Recommendations

ABAC endorsed the work of the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD) affirming its commitment to support the voluntary recommendations issued by the TCFD. We urge Finance Ministers to encourage support for the TCFD's voluntary recommendations within their home economies.

ABAC discussed work on factors impacting on the business environment - taxation, government expenditures, competition and research and development. ABAC encourages economies to review policies to promote private sector innovation and development.

There has also been positive work by the Asia-Pacific Financial Forum (APFF), which continues to assist economies in implementing the Cebu Action Plan. Further details are described in the Report attached to this letter. We request Finance Ministers endorse the *Roadmap for the Development of APEC's Financial Market Infrastructure* and the *Roadmap for Expanding the Coverage of Microinsurance in APEC*, and finalize, in 2019, the proposed *APEC Roadmap for a New Financial Services Data Ecosystem* and the *Strategy for the Digitalization of Trade and Supply Chain Finance*. In addition, we encourage the promotion of reforms using the *Essential Elements of an Effective Personal Insolvency Regime* as a benchmarking tool.

Finally, ABAC encourages the Finance Ministers' continued support for collaboration between the Finance Ministers Process and the Life Sciences Innovation Forum and Health Working Group, as well as efforts to develop inter-operability of the Asia-Region Funds Passport and the Pacific Alliance funds passport.

We appreciate the opportunity to contribute to the work of APEC Finance Ministers, and we look forward to discussing these important matters further at the Finance Ministers' Meeting (FMM) in Port Moresby, Papua New Guinea in October. We wish you a successful and productive conclusion to this year's FMM.

Yours sincerely,



David Toua
ABAC Chair 2018

ABAC REPORT TO FINANCE MINISTERS

As noted in the ABAC Letter to Finance Ministers, for the 2018 Letter and Report to Finance Ministers, ABAC has focused on three key issues that address long-term structural issues - infrastructure, financial technology, inclusive finance - and the related policy recommendations that support long-term regional economic growth.

In addition to the key recommendations noted in the Letter, we have provided below additional information on our work and recommendations for Finance Ministers.

Infrastructure

Digital infrastructure serves as the foundation of a modern digital economy. Substantial private funding is available to complement public sector and Multilateral Development Bank (MDB) sources of funding. Yet a lack of bankable infrastructure projects persists.

With regard to national telecommunications infrastructure, as highlighted in the recent ABAC report on 'Structural Reform and Digital Infrastructure,' more investment must be channeled into national telecommunications infrastructure such as fixed line broadband which acts as a prerequisite for mobile internet, cloud computing, internet of things (IOT) and other technologies.

The following are additional recommendations on infrastructure for APEC Finance Ministers' consideration:

- Expanding the region's infrastructure investor base requires policy reforms to promote the growth of pension fund and insurance industry assets. It also includes facilitating funding through Islamic finance by addressing five key issues through the Islamic Infrastructure Investment Platform (I3P): harmonization of investment requirements and regulations, tax policy issues, risk mitigation instruments, innovative financing instruments and project preparation capacity.
- A well-developed broadband infrastructure is key to enhancing the connectivity of digital economies. APEC economies that lack a good broadband infrastructure should assign a high priority to fixed line broadband.
- Innovation in financing mechanisms and the establishment of diversified, market-based infrastructure financing models are also important. Significant gains in planning and implementation would follow from improved coordination among agencies responsible for public-private partnership (PPP) projects and enhanced governance arrangements aimed at building trust between governments and private sector investors. Creating the regulatory certainty through the policies above would, in itself, also aid development.

Financial Technology

We believe that bringing financial services to the digital age is critical for growth.

To promote this trajectory, ABAC has provided several recommendations for Finance Ministers' consideration:

- **FinTech Regulatory Sandboxes and Cross Border Linkages:** Establish regulatory sandboxes that are coordinated across jurisdictions wherever there is potential to facilitate the development of innovative financial services. It is important to introduce domestic and regional sandboxes which both incumbents and new entrants can utilize so

that innovative FinTech solutions that might not otherwise fit into existing regulations can be explored and progressed with regulators. Establishing linkages between sandboxes in APEC and beyond is also important. Firms can benefit from streamlined approval processes and governments can learn from the experience of others. With such linkages, successful innovations in one economy can be utilized by others without long wait periods or an economy-by-economy approach having to be adopted. A network of MOUs is currently being developed bilaterally which could be further built on. ABAC encourages Finance Ministers to support and build on these MOUs; to look at where the gaps/roadblocks would be for FinTechs in *either* market to gain approvals and be able to enter the other after having met necessary requirements during sandbox experimentation; and to broaden the MOUs to include multiple economies.

- **Open Banking and APIs:** By using APIs consumers can authenticate their identity while ensuring their data remains private: they need not put themselves at unnecessary risk by handing their bank keys (user ID/password) to an unknown third party. However, while many governments are encouraging banks to open their APIs, banks should not be mandated to do so; they should be able to determine whether/how much to charge for data access and be able to retain control as to how they open APIs to enable global and regional banks to best leverage access across geographies where they operate.
- **Digital Authentication:** Enable digital authentication and digital documents via the development of a digital identity system to remove the need for in-person authentication of individuals or documents. Digital identities increasingly will become a core enabler of the digital economy, facilitating seamless cross-border transactions and trade. Use of digital IDs also stands to further financial inclusion, especially for those that live significant distances from physical bank branches or are required to endure long waiting times for access.
- **Open and Interoperable Payment Systems:** A range of new payment systems are emerging providing a variety of options to consumers and businesses in domestic and cross border transactions. Some of these innovations include instant payments between banks, scanning of QR codes and the provision of mobile wallets. Credit card firms are also innovating in Point of Sale (POS) terminals and stored value cards. It is important that payment systems are open and interoperable rather than closed to allow choice and encourage competition and best practices.
- **Regional public-private sector platforms to promote financial innovation.** Provide regional platforms for public and private sector stakeholders to create an enabling ecosystem for innovative and inclusive financial services aligned with internationally agreed minimum benchmarks, and develop relevant benchmarks where they do not yet exist. In addition, welcome the establishment of AFIN as an example of such a regional platform and encourage participating regulators to collaborate closely with APFF to advance its development.
- **APEC Roadmap for a New Financial Services Data Ecosystem.** Direct Senior Finance Officials to progress this Roadmap and finalize it in 2019. The Roadmap identifies existing minimum benchmarks with which policies and practices need to be aligned and those benchmarks that need to be developed, as well as actions that policy makers, regulators and industry should undertake to promote consistent and well-coordinated ecosystems for the wider collection, storage, sharing and use of data within and across jurisdictions. It also provides perspectives on how to protect data privacy and promote data security in a way that is consistent with expanding cross-border data flows.

- **A Strategy for the Digitalization of Trade and Supply Chain Finance.** Endorse the finalization of this Strategy in 2019, which aims to promote reforms and market standards related to digital trade title documents, processes and more efficient trade-based anti-money laundering requirements.
- **A regional long-term strategy for data security and review of cyber resilience frameworks and industry best practices.** This strategy could include adopting common standards, developing guidelines on data security, intelligence-sharing on cybercrime, promoting encryption and authentication, designing incentives for company directors to treat cyber resilience as a priority issue, and leveraging international expertise for capacity building. Individual jurisdictions should review cyber resilience frameworks, and industry should develop best practices.
- **Allow the free flow of cross border data and information with appropriate frameworks for data privacy and protection.** This will encourage innovation and enhance the ability to identify fraudulent transactions in real time.

Inclusive Finance

Economies have been undertaking various reforms, such as developing credit information and secured transaction systems and introducing policies to improve financial inclusion, several of which are already bearing fruit. There are, however, several areas where more progress is needed, which are addressed with the following recommendations:

- **Essential Elements of an Effective Personal Insolvency Regime.**¹ Data across the world indicate that about half of enterprises fail within five years after establishment. In jurisdictions with good personal insolvency laws, entrepreneurs are able to emerge from bankruptcy within a short time. In several jurisdictions, however, it takes years for failed entrepreneurs to be allowed to restart, thus preventing a dynamic entrepreneurial base from developing. These Essential Elements serve as a guide for economies that decide to undertake reforms. It identifies approaches in balancing the interests of debtors, creditors and society in designing standards for commencement of insolvency proceedings, discharge relief, dischargeable debt, exemptions, role of Trustees in bankruptcy, the infrastructure for obtaining information on debtors' assets and financial conditions, enforcement mechanisms, cross-border personal insolvency regimes and promoting practices to prevent insolvency.
- **Defining structural reforms that can accelerate financial and economic inclusion.** These are reforms that can help low-income households and individuals access a broad range of financial instruments that build inter-generational financial security. They include the design of entry points to economic inclusion such as social transfers and remittances, measures to enable wider access to opportunities in the formal economy, and development of gateway products to financial inclusion. Other reforms include provision of pathways to investment and productive assets and wealth creation for the low-income segment, improved protection and targeted policies for women in this population group, promoting investment in nano-and microenterprises, and leveraging technological innovations to achieve greater financial and economic inclusion.

¹The Essential Elements can be accessed through this link:

https://www2.abaonline.org/assets/2018/AGFSCB_Key_Documents/Attachment_C_Essential_Elements_of_an_Effective_Personal_Insolvency_Regime.pdf

Capital Market Development

Development of capital markets is indispensable for achieving the Cebu Action Plan's goals of promoting financial integration, resilience and infrastructure. Many economies, however, face complex challenges, including the lack of liquidity and depth, lack of market players' access to hedging instruments such as repo and derivatives, lack of high-quality and timely information and underdeveloped custody, clearing, settlement and payment systems that keep transaction costs and risks at elevated levels and hinder cross-border portfolio capital flows.

We urge APEC Finance Ministers to focus their efforts on promoting capital market development, including policy and regulatory reforms and capacity building measures that help create deep and liquid markets, supported by a stable macroeconomic environment. This can be fostered by appropriate economic reforms; the creation of sound legal frameworks and efficient financial market infrastructure; and policy measures that ensure the broad availability of information. We also call on more economies to join the Asia Region Funds Passport, and we support exploring ways to achieve inter-operability between the Asia Region Funds Passport and the Pacific Alliance funds passport that is currently being developed.

Health Financing

ABAC welcomes the collaboration between the Finance Ministers Process and the Life Sciences Innovation Forum and Health Working Group. This helps economies assess the policy and regulatory environment for enabling the adoption and deployment of alternative financing mechanisms that help maintain and expand healthcare coverage. We welcome the initial work in Thailand and encourage additional economies to work with the private sector in creating innovative and sustainable health financing mechanisms.

FINANCING ASIA-PACIFIC INTEGRATION IN THE DIGITAL AGE

2018 PROGRESS REPORT

ON THE WORK OF THE

ASIA-PACIFIC FINANCIAL FORUM (APFF)

ASIA-PACIFIC FINANCIAL INCLUSION FORUM (APFIF)

ASIA-PACIFIC INFRASTRUCTURE PARTNERSHIP (APIP)

The full 2018 Progress Report and its attachments can be downloaded from the ABAC website, as follows:

■ **Full 2018 Progress Report**

https://www2.abaonline.org/assets/2018/AGFSCB_Key_Documents/2018_Progress_Report_on_the_Work_of_the_APFF_APFIF_APIP.pdf

■ **Attachment A: An APEC Roadmap for a New Financial Services Data Ecosystem**

https://www2.abaonline.org/assets/2018/AGFSCB_Key_Documents/Attachment_A_An_APEC_Roadmap_for_a_New_Financial_Services_Data_Ecosystem.pdf

■ **Attachment B: A Strategy for the Digitalization of Trade and Supply Chain Finance**

https://www2.abaonline.org/assets/2018/AGFSCB_Key_Documents/Attachment_B_A_Strategy_for_the_Digitalization_of_Trade_and_Supply_Chain_Finance.pdf

■ **Attachment C: Essential Elements of an Effective Personal Insolvency Regime**

https://www2.abaonline.org/assets/2018/AGFSCB_Key_Documents/Attachment_C_Essential_Elements_of_an_Effective_Personal_Insolvency_Regime.pdf

EXECUTIVE SUMMARY

The Asia-Pacific region is entering an era of disruption and opportunities. The digital revolution has unleashed a host of innovations that are rapidly changing the landscape of industry and businesses. Meanwhile, the region continues to steadily move toward closer economic integration. Digital technology and the expanding reach of cross-border supply chains present tremendous opportunities for MSMEs in emerging markets to become new engines of growth and job creation for the region.

Finance is critical in enabling enterprises to seize these opportunities. Lack of access to finance is the most important challenge that MSMEs face. Expanding opportunities to participate in supply chains will require significant investments in infrastructure. This in turn requires the development of capital markets, the long-term investor base and bankable infrastructure projects. Financial resilience is also an issue that needs to be addressed, as economies grapple with frequent natural disasters and the growing costs of health care.

Concrete solutions to these challenges have been recommended by the APEC Business Advisory Council (ABAC) in previous years and APEC Finance Ministers have incorporated them in the Cebu Action Plan (CAP). The Asia-Pacific Financial Forum (APFF), the Asia-Pacific Financial Inclusion Forum (APFIF) and the Asia-Pacific Infrastructure Partnership (APIP) are platforms established by Finance Ministers through which ABAC brings in private sector technical experts to collaborate with governments and multilateral agencies to advance their implementation. This year, the APFF, APFIF and APIP continue their contributions to the implementation of the CAP. Among these are the following:

- The APFF provides a platform for advice on the reform of legal, policy, regulatory and institutional ecosystems for secured transactions and credit information in several economies.
 - The Philippine legislature passed a new secured transactions law in May 2018 that APFF assisted in design, initiation and advocacy. A Warehouse Receipts law is now under legislative consideration. A conference is scheduled in November 2018 to accelerate utilization of the new law and passage of the Warehouse Receipts law.
 - Workshops are scheduled in Brunei and Thailand in late 2018 to help expand the use of Brunei's secured transactions law (enacted in 2016 with support from APFF) and collateral

registry by banks and MSMEs, and to the redrafting of Thailand's secured transactions law.

- Mobilizing various international experts, the APFF met with regulatory authorities in China to help develop a regulatory regime for its rapidly growing data and analytics industry.
- The APFF is collaborating with Australian Treasury and Parliament officials to promote public support for the wider sharing of consumer credit information through legislation.
- Workshops are scheduled in Brunei and the Philippines to assist Brunei in drafting its new credit information law, and the Philippines in advancing its credit information system.
- The APFF is currently following the development of the Property Chapter of the Civil Code in China, to which APFF experts contributed through workshops last year. APFF is also following the progress of improving Vietnam's secured transactions registration system, to which APFF contributed by convening and hosting workshops in 2017.
- The APFF also started work on a baseline survey of credit information systems across the region to help in measuring progress, making comparisons and setting concrete goals.
- The APFF is collaborating with the ASEAN Bankers' Association, World Bank and the Monetary Authority of Singapore in developing the ASEAN Financial Innovation Network (AFIN).
- The APFF convened this year's Financial Inclusion Forum with senior regulators and industry experts, including the Governor and Assistant Governor of the Bank of PNG, to define specific policies, practices and programs that can improve the lives of people in low-income brackets.
- The APFF continued to help design bankable infrastructure projects through a dialogue with Chinese Taipei in July 2018. Together with the APFF, APFF is also scheduling a dialogue with Indonesia on developing a pipeline of bankable waste-to-energy projects.
- The APFF and APFF are preparing a conference on the Islamic Infrastructure Investment Platform (I3P) on October 2, 2018 in Kuala Lumpur. This year's conference aims to identify concrete actions to progress the deliverables for the 6 I3P work streams identified last year.
- The APFF held informal dialogues with insurance regulators in Hong Kong, Indonesia, Chinese Taipei, Thailand and Singapore on solvency and accounting standards to remove disincentives to long-term investment. APFF convened a roundtable to discuss this with IASB, regulators and industry in October 2017.
- The APFF continued to promote expanded participation in the Asia Region Funds Passport (ARFP) with a visit to Chinese Taipei regulators in October 2017. The APFF also held sessions with the Pacific Alliance to encourage inter-operability of its future scheme with ARFP. APFF promoted wider industry participation in ARFP industry events.
- The APFF is contributing to the work of the APEC Disaster Risk Solutions (DRS) Working Group under the Finance Ministers' Process.
 - The APFF Microinsurance Work Stream held a workshop hosted by the Thai Ministry of Finance in Bangkok to assist Thai regulators enhance current policies and regulations.
 - The APFF Disaster Risk Finance and Insurance (DRFI) Work Stream held a session with the World Bank, Japan Ministry of Finance and Tohoku University on 27 November 2017 in Sendai, Japan to develop ideas to promote integration of science into DRFI.
 - The APFF also developed strategies for utilizing private sector expertise in the financial management of public assets against disaster risks.
- As part of ongoing cooperation between the FMP and the Life Science and Innovation Forum (LSIF), the APFF is developing a pilot project to help enable Thailand to deploy alternative financing mechanisms to expand health care coverage.

The APFF also developed roadmaps, strategies and guidelines to help implement CAP deliverables. In 2017, APFF completed two Roadmaps that are now finalized for consideration by Ministers:

- ***The Roadmap for the Development of APEC's Financial Market Infrastructure***
https://www2.abaonline.org/assets/2018/APFF/Roadmap_for_the_Development_for_APEC_s_Financial_Market_Infra_20180515.pdf
- ***The Roadmap for Expanding the Coverage of Microinsurance***
https://www2.abaonline.org/assets/2018/APFF/Roadmap_Expanding_Coverage_of_Microinsurance_in_APEC_20180515.pdf

This year, APFF completed three major documents, which are as follows:

- ***An APEC Roadmap for a New Financial Services Data Ecosystem.*** This Roadmap provides a tool for promoting consistency of laws and regulations with international principles and practices, and identifies areas where new minimum benchmarks need to be developed. It also points out key considerations and the way forward for individual jurisdictions to undertake reforms and for regional cooperation to be harnessed. The Roadmap covers general data regulation issues including consistency of domestic laws and regulations, expanding the collection and sharing of data, and creating sound frameworks for the collection, storage, sharing and use of data. It also covers issues related to cross-border data flows such as data localization, data privacy, data security, access to data for law enforcement purposes, competitiveness of domestic firms, and regional platforms for enabling use of new technologies in cross-border financial services.
- ***A Strategy for the Digitalization of Trade and Supply Chain Finance.*** Trade and supply chain finance continues to be largely a paper-based and manual process, and thus unnecessarily costly and time-consuming. Many technologies are now available to enable the digitalization and automation of the process, but they cannot be adopted until enabled by law and regulations. The Strategy proposes: (a) undertaking reform of legal and regulatory frameworks and market standards related to digital trade title documents, processes and more efficient trade-based AML; (b) establishing technical inter-operability standards that are cost-efficient, easily adopted and usable across borders; and (c) establishment of an industry cross-agency, cross-ecosystem, public-private sector Digital Lab to coordinate and facilitate communications between different constituencies, identify specific policy challenges and formulating solutions.
- ***Essential Elements of an Effective Personal Insolvency Regime.*** Studies confirm that roughly half of all business start-ups fail within five years after their establishment. Where personal insolvency regimes are inefficient, many entrepreneurs who fail are prevented from making a fresh start for many years. Where personal insolvency regimes are efficient, entrepreneurs that fail are able after a short time to start new businesses. The Essential Elements cover general considerations, role and powers of the Trustee in bankruptcy, standards for commencement of insolvency proceedings, discharge relief, dischargeable debt, exempt property, information infrastructure, enforcement mechanisms, cross-border personal insolvency and measures to help prevent personal insolvency.

With growing collaboration from public and private sector in their activities, APFF, APFIF and APIP hope to help the Finance Ministers translate the CAP into concrete laws, policies, regulations and measures across a wide range of areas in coming years. ***To facilitate these efforts, we recommend the following to the APEC Finance Ministers:***

- ***To acknowledge in their Joint Ministerial Statement these various efforts and achievements in implementing the CAP and encourage intensified public-private collaboration to advance them in coming years.***
- ***To endorse the final versions of the roadmaps for the development of APEC's financial market infrastructure and for expanding the coverage of microinsurance and encourage relevant public sector stakeholders to collaborate in their implementation.***

- *To welcome the roadmap for a new financial services data ecosystem, the strategy for the digitalization of trade and supply chain finance and the essential elements of an effective personal insolvency regime and ask senior finance officials to work with ABAC and the APFF to finalize them in 2019.*