



SEIZING THE MOMENT RESHAPING FINANCIAL SERVICES TO BUILD APEC'S POST-PANDEMIC FUTURE

2020 Progress Report

Asia-Pacific Financial Forum ● Asia-Pacific Financial Inclusion Forum ● Asia-Pacific Infrastructure Partnership

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EXECUTIVE SUMMARY

The COVID-19 pandemic highlighted the importance of many initiatives that APEC Finance Ministers have included in the Cebu Action Plan and other initiatives on their long-term agenda, including the digitalization of financial services, financial inclusion, greater resilience and sustainability. A heightened sense of urgency to accelerate progress in these areas in the wake of the pandemic has opened up new opportunities to pursue reforms with greater determination, which the Asia-Pacific Financial Forum (APFF), the Asia-Pacific Financial Inclusion Forum (APFIF) and the Asia-Pacific Infrastructure Partnership (APIP) intend to seize. These three initiatives proposed and overseen by ABAC were established by APEC Finance Ministers as platforms for collaboration to implement proposals, particularly those from business, which the Ministers have endorsed.

This Progress Report reviews the work of these initiatives in the light of the “new normal” brought about by the pandemic and provides perspectives on the way forward. There are three major sections: (a) access to finance, (b) financial market development, and (c) financial resilience and sustainability.

Access to Finance

The work on financial inclusion has focused on building capacity of officials and regulators from developing member economies to develop an ecosystem for digital financial services and to help drive demand for inclusive finance at the base of the economy. The Asia-Pacific Financial Inclusion Forum led by the Foundation for Development Cooperation co-organized with ADB Institute a policy dialogue in 2019 that brought together 17 senior officials from developing Asia-Pacific economies with experts and generated a report that outlined concrete actions for implementation. The virtual 2020 Forum is being prepared in collaboration with the ADB Institute.

The work on financial infrastructure has been directed at assisting economies to undertake legal, policy and institutional reforms to enable greater access to credit for MSMEs, several in collaboration with the World Bank. Various APFF capacity building activities were held to help Brunei, the Philippines, China and Viet Nam resulting in progress of enactment and implementation of secured transactions laws and supply chain finance development. A survey of credit information systems in APEC has been undertaken to establish a baseline that can help in capacity-building efforts. A comprehensive assessment of the state of credit information in the Philippines is also being undertaken to assist in benchmarking against global best practices. In the area of valuation, dialogues are being undertaken led by the International Valuation Standards Council with valuation professionals across the region to apply common standards and improve transparency.

The International Chamber of Commerce is leading the work in launching the APFF Digital Trade Finance Lab to implement the Strategy for the Digitalization of Trade and Supply Chain Finance that APEC Finance Ministers endorsed in 2019. To date, key stakeholders have convened and the scope of the Lab and governance structure agreed upon. A project on the use of technology to combat trade-based money laundering is now being discussed.

Financial Market Development

The work on cross-border practices focuses on providing technical advice and assistance to APEC economies in the application of technology to promote inter-operability and cross-border flows across capital markets.

Progress has been made against two objectives for 2020 – the development of case studies to showcase best practice examples of the use of specific standards to serve as reference point for regulators and officials; and a work plan for dissemination of the case studies and dialogues with regulators, starting with the ASEAN Working Committee on Payment and Settlement Systems.

The work on payments fintech has focused on several matters to implement ABAC recommendations in 2019 that have been endorsed by APEC Finance Ministers. The first is planning the formation and launch of the APFF Digital Payments Advisory Group to provide advice to regulators and regional bodies. The second is developing best practice technical recommendations on instant payments. The third is the Digital Identity Project consisting of a technical report and dialogues with policy makers and regulators. In addition, the Work Stream collaborated with the Emerging Payments Association Asia in conducting a regional survey and drafting the report on Open Banking in the Asia-Pacific, which formed a basis for ABAC's recommendations on open banking this year.

The work to support the Asia Region Funds Passport (ARFP) is focused on facilitating agreement on tax issues which have been an important hindrance to the expansion of membership, and on promoting exchanges between ARFP and the Pacific Alliance funds passport through outreach activities such as webinars that are currently being discussed.

Financial Resilience and Sustainability

APFF is collaborating with the World Bank in organizing a virtual seminar to catalyze the regional catastrophe bond market (an ABAC proposal in 2019 that was endorsed by Finance Ministers) through an issuance for the benefit of Asian developing economies and sharing of experiences on the Pacific Alliance catastrophe bond. This will be under the auspices of the APEC Disaster Risk Financing and Insurance Solutions Working Group.

An ESG Finance Working Group was established this year to assist ABAC in the development of recommendations by hosting six videoconferences that discussed relevant aspects of ESG Finance.

The work on health care financing is being undertaken in collaboration with the APEC Life Sciences Innovation Forum. A series of webinars providing best practices and case studies are scheduled to help economies deploy innovative and alternative health care financing mechanisms.

APFF and APIP are collaborating with the APEC Oceans and Fisheries Working Group and the Virtual Working Group on Marine Debris on a series of webinars to encourage additional investors and share best practices in the development of waste management infrastructure projects in the region.

The work on insurance regulation and accounting has focused on IFRS17 and IFRS9, which have critical implications for long-term investment. The International Accounting Standards Board (IASB) issued final amendments and decided on actions that positively addressed concerns expressed in letters sent by ABAC and in conferences organized by APFF. APFF aims to monitor the process and provide any needed technical inputs. APFF is also actively engaging in dialogues with authorities and standard setters, in collaboration with the insurance industry to assist the International Association of Insurance Supervisors (IAIS) in finalizing the Insurance Capital Standards, in particular with respect to long-term investment. A roundtable with relevant authorities and industry and accounting experts is being prepared to be convened.

Moving Forward

Virtual meeting technology will enable APFF, APFIF and APIP to respond more effectively to the opportunities opening up with the heightened sense of urgency for reform among policy makers and regulators in the wake of the COVID-19 pandemic. Accelerating the digitalization of financial services, legal and institutional reforms to expand access to finance, and the promotion of greater resilience and sustainability will require bringing together expertise from many parts of the region and the world with a wide range of decision-makers and stakeholders in Asia-Pacific economies. We look forward to working with APEC Finance Ministers and other relevant authorities in seizing opportunities for reform to further advance the translation of deliverables in the FMP's long-term agenda into concrete measures and results.

INTRODUCTION

The COVID-19 pandemic has induced an unprecedented rethinking of behavior, structures and processes in many aspects of life, and accelerated the adoption of technology and innovation in households, learning institutions, businesses and governments. In particular, it has highlighted the importance of digital technology and provided a strong political impetus to address policies that can enable its wider application. Many initiatives proposed by business that the APEC Finance Ministers have endorsed over the years were focused on these same reforms that can expand access to finance, modernize financial markets and enhance resilience and sustainability. This Progress Report aims to review the status of these initiatives in the light of the “new normal” brought about by the pandemic and provides perspectives on the way forward.

The Asia-Pacific Financial Forum (APFF), the Asia-Pacific Financial Inclusion Forum (APFIF) and the Asia-Pacific Infrastructure Partnership (APIP) were established by the APEC Finance Ministers to serve as platforms for collaboration among the private sector, the public sector and international organizations to implement proposals that the Ministers have endorsed. These policy initiatives are under the umbrella of the APEC Finance Ministers’ Process (FMP) and the management of the APEC Business Advisory Council (ABAC).¹ Since their establishment, they have attracted the engagement of a wide range and variety of firms and industry associations, regulatory bodies and agencies, and multilateral and academic institutions in the implementation of FMP initiatives, including the Cebu Action Plan (CAP).

These policy initiatives have (a) helped initiate legal, regulatory and institutional reforms in several economies;² (b) provided critical support to regional initiatives;³ and (c) laid the groundwork for structural reforms through the development of roadmaps, strategies, work programs and dialogue platforms.⁴ The Cebu Action Plan provided a clear framework that identified specific initiatives and deliverables where these public-private platforms could play active roles, and helped focus their work and attract subject matter specialists from the private sector to help achieve the objectives set by the Finance Ministers.

This Progress Report covers the work and achievements of these initiatives since the last APEC Finance Ministers’ Meeting held in Santiago in October 2019 until the present and provides information on planned activities until the end of 2020. It focuses on three areas: (a) access to finance for low-income consumers and MSMEs; (b) financial market development and financial market infrastructure; and (c) financial resilience and sustainability.

¹ Their work has covered various areas that are being progressed under the FMP.

- The APFIF, established in 2010, has provided a capacity-building platform for developing economy regulators and officials in working with the private sector to promote access to financial services of low-income populations and micro- and small enterprises.
- The APIP, established in 2011, has been providing advice to officials on policy reforms and measures to develop bankable infrastructure projects that can attract private sector funding. It has contributed to key documents on infrastructure issues produced by the Finance Ministers.
- The APFF, established in 2013, has engaged with various public and private sector bodies in achieving FMP deliverables in areas ranging from data and credit information, secured transactions and insolvency regimes, trade and supply chain finance, capital markets, financial market infrastructure, disaster risk financing and insurance, development of the insurance and pensions industry and the long-term investor base, as well as health care financing.

² These include for example the passage of the new secured transactions law in the Philippines and the introduction of the new warehouse receipts bill in 2018; the enactment of the law on secured transactions in Brunei Darussalam in 2016; the development of legislative reform proposals on secured transactions in China, Thailand and Vietnam; the development of reform proposals on credit information systems in Brunei Darussalam, China, Philippines, Thailand and Vietnam; the introduction of the title-transfer repo in the Philippines in 2015, various specific improvements to regulations, laws, administrative structures and financing mechanisms affecting infrastructure in Indonesia, the Philippines and Thailand.

³ These include the adjustment of rules in the Asia Region Funds Passport in 2016 that enabled Japan to join the scheme; the APFF study on tax implications of ARFP that helped accelerate the signing of the Memorandum of Cooperation; the pilot project for cross-border exchange of credit scores among credit bureaus in the Mekong region in 2016; the successful and smooth mandatory exchange of variation margin for non-cleared over the counter derivatives in 2017; and the improvements on IFRS 17 rules on OCI and CSM.

⁴ These include the Roadmap for Financial Market Infrastructure and the Roadmap for Microinsurance in 2017; and the APEC Roadmap for a New Financial Services Data Ecosystem, Strategy for the Digitalization of Trade and Supply Chain Finance and Essential Elements of an Effective Personal Insolvency Regime.

I. ACCESS TO FINANCE

Implementing FMP initiatives promoting access to finance is being progressed through the APFIF, which focuses on financial inclusion, and the Financial Infrastructure Development Network (FIDN) under the APFF, which focuses on improving MSMEs' access to finance.

Financial Inclusion

The APFIF, whose leadership ABAC has entrusted to the Foundation for Development Cooperation (FDC),⁵ is comprised of multiple programs and provides a capacity building platform to progress CAP initiatives related to financial inclusion, especially initiatives 1A (enabling environment for MSMEs), 1B (financial inclusion and literacy) and 1C (remittance flows) under Pillar 1 (Promoting Financial Integration), aside from other related items under CAP.⁶ Collaborating with FDC in this work are leading institutions including the Asian Development Bank (ADB), the Asian Development Bank Institute (ADBI), Banking with the Poor (BWTP) network, the Consultative Group to Assist the Poor (CGAP), MicroSave, the United Nations Capital Development Fund (UNCDF) and the World Bank.

The APFIF promotes financial inclusion at the base of the economy and its potential to have a positive impact on the poor. This approach aligns with the specific priorities of APEC and themes established by the APEC Host (Malaysia), the Cebu Action Plan, the APEC Action Agenda on Advancing Economic, Financial and Social Inclusion and outcomes of the APEC Financial Inclusion Capacity Building Package Synthesis Report.

Achievements

- FDC and ADBI organized and hosted the 2019 APFIF Policy Dialogue in Tokyo, Japan, and brought together over 50 financial inclusion stakeholders, including 17 senior officials representing 15 Asia-Pacific economies. The Forum provided a platform to build the capacity of participating governments on policy and regulatory issues in developing an ecosystem for digital financial services and driving demand for financial inclusion at the base of the economy.
- The Forum report was published, summarizing the outcomes of the 2019 APFIF Policy Dialogue, including a series of specific and concrete actions for policymakers and regulators to achieve greater financial inclusion. FDC disseminated the report widely, including to stakeholders of the FMP.
- As an outcome of the 2019 APFIF Policy Dialogue, a new ABAC initiative was created to explore the potential for innovative partnerships between NGOs, banks and fintech firms to extend financial products and services to the unbanked and underserved at the base of the economy.

Ongoing Activities

In line with the capacity-building priorities of APEC, particularly in implementing ABAC's previous recommendations on advancing financial inclusion, APFIF is providing advice to policy makers and regulators on concrete actions concerning three topics (summarized below).

Topic 1: The role of microfinance in enhancing opportunity and resilience among the poor post-COVID-19

- Enabling microfinance providers to continue providing services that support the resilience of clients during times of crisis by recognizing microfinance as an essential service, increasing access to liquidity and applying proportionate moratoria to maintain the stability of the broader financial system.
- Enacting reforms that accelerate recovery and lead to more sustainable and effective microfinance providers serving the base of the economy by ensuring that microfinance providers maintain their "high-touch"

⁵ <https://www.fdc.org.au/>

⁶ These include CAP initiatives 2B (data collection and dissemination) under Pillar 2 (Advancing Fiscal Reforms and Transparency), 3B (disaster risk financing and insurance) and 3C (capital market development) under Pillar 3 (Enhancing Financial Resiliency), and 4G (regional connectivity) under Pillar 4 (Accelerating Infrastructure Development and Financing).

models, investing in digital infrastructure which supports ease of adoption at the base of the economy, considering to make key voluntary consumer protection principles mandatory and facilitating recapitalization of finance providers having quality assets through mergers or other collaborative restructuring.

Topic 2: Making digital financial services work for the poor

- Supporting the development of a digital financial services ecosystem that offers greater utility for the unbanked and poor by de-risking digital financial services (DFS), promoting financial and digital literacy, enabling interoperability, giving G2P recipients the freedom to choose where they open their accounts and incentivizing DFS providers to work with non-bank financial institutions to enhance service delivery to the poor.
- Supporting the business case of DFS providers that target and serve the poor by providing financial incentives to support more cash-in-cash-out points, developing digital ID schemes to enable the poor to satisfy KYC requirements more efficiently and collaborating with the private sector and donor institutions to establish regulatory sandboxes or innovation hubs.
- Prioritizing the development of public infrastructure and supervisory frameworks to enhance DFS benefits to the poor by prioritizing investments in core ICT systems, providing clear guidance on protecting the poor from digital risk, ensuring women are provided with equal opportunity to participate and benefit from DFS and establishing rules to support interoperability.

Topic 3: Enhancing the financial health of the poor through e-commerce

- Supporting the establishment and development of e-commerce models which align with the needs of microenterprises at the base of the economy by extending digital infrastructure into remote areas, encouraging rural government offices to facilitate the growth of e-commerce, leveraging existing infrastructure in remote areas to enable e-commerce, prioritizing finance sources to support e-commerce platforms designed to reach the poor, enhancing the affordability and safety of digital technologies and commissioning an update of the 2017 APEC Internet and Digital Economy Roadmap to include a greater focus on e-commerce strategies that target the poor.
- Supporting the transition from cash towards digital mechanisms for e-commerce platforms by exploring possibilities to incorporate digital payments with digital platforms commonly used by the poor and promoting consumer awareness to help address fraud or privacy risks.
- Driving demand and support for the onboarding of micro-merchants onto formal e-commerce platforms by studying local e-commerce markets to understand better their contribution to the economy, livelihoods and gender equality, promoting technology solutions which enable the poor to conduct business online, providing suitable pathways for informal microenterprises to formalize their businesses and establishing a framework for complaints and dispute resolution.
- Supporting the empowerment of women through e-commerce by enforcing women's digital rights, increasing access to smartphones and internet connectivity for women entrepreneurs, facilitating digital and business skills training for women and supporting women-centric technology firms and enterprises within the e-commerce supply chain.

Planned Activities

FDC and ADBI will host the 2020 APFIF policy dialogue virtually. It will be used to discuss the recommendations developed through APFIF and build the capacity of senior government officials and practitioners to support their implementation. The event is tentatively scheduled for early September.

A full report on the topics mentioned above, actions to be taken and case studies, will be published by November 2020 and disseminated to APEC officials, including stakeholders of the Finance Ministers' Process.

Financial Infrastructure Development

The Financial Infrastructure Development Network (FIDN) was established under the CAP as a specialized subgroup within the APFF to progress Initiative 1A (Promote an enabling financing environment for MSMEs, including trade, supply chain and alternative financing mechanisms). It was tasked to draw the support of ABAC, the SME Finance Forum, the World Bank Group and other international organizations to support interested APEC economies in undertaking reforms to develop (a) secured transactions systems; (b) credit information systems; (c) insolvency frameworks; (d) trade and supply chain finance; and (e) innovative financial instruments, especially to expand access to finance for MSMEs.

Secured Transactions Reform

Since its launch in November 2015 under the Cebu Action Plan, the Secured Transactions reform work stream has focused efforts with interested member economies on four primary areas (Secured Transactions 1.0):

- **Law Reform:** Working with member economies to improve secured transactions laws to allow MSMEs to leverage movable assets in line with global best practices, following primarily UNCITRAL's Model Law on Secured Transactions;
- **Registry Reform:** Supporting law implementation and establishment of online, centralized, low-cost movable asset collateral registries;
- **Ecosystem Development:** Fostering enabling industries to support expansion of secured transactions, including valuation practices and collateral management industries;
- **Capacity Building:** Supporting the development of market expertise and awareness of secured lending products among key stakeholders (MSMEs, financial institutions, non-bank financial institutions, and regulators).

Significant progress has been made across interested member economies, with most work focused on Brunei, China, the Philippines, Thailand, and Viet Nam as detailed below. Recognizing the work completed to date and to better align with key ABAC initiatives,⁷ FIDN is working to complement its initial focus, with expanded efforts on the modernization of secured transactions through two key areas (Secured Transactions 2.0):

- **Digitalization:** Strengthening the enabling environment for e-platforms to operate efficiently, through receivables' finance, warehouse receipts and supply chain finance platforms while supporting the digitalization of financing documents and instruments (e.g. digital/e-invoices, e-warehouse receipts);
- **Globalization:** Improving the harmonization of secured transactions systems to expand MSMEs' participation in global trade; driving collaboration among related APEC fora to maximize outcomes (SELI – EC Working Group), APFF Trade and Supply Chain Finance Work Stream and the ABAC MSME and Entrepreneurship Working Group.

Key 2019 Objectives and Achievements

- **Brunei:** Review of current secured transactions law and ecosystem with improvements operationalized
 - Completed by the National Law Center – The Center performed a number of capacity building training classes regarding the reformed Secured Transaction Law, and did specific training for lawyers, judges, regulators, financial institutions, fintech firms and MSMEs, and a potential anchor buyer for supply chain finance. There was particular interest in factoring and supply chain finance.
- **Brunei:** Co-host “Getting Credit 2019”
 - Deferred to 2020 at decision of the Monetary Authority of Brunei Darussalam (AMBD) to hold on

⁷ This include initiatives to help enhance the ability of MSMEs to participate successfully across borders and in global value chains, expand MSME innovative capabilities and global presence through internet and digital economy and e-commerce platforms, in addition to facilitating MSME access to finance, in 2019 and beyond.

a bi-annual basis

- The Philippines: Launch of Secured Transactions collateral registry
 - In progress – The Philippines’ Land Registration Authority is continuing its work to launch the registry; implementing rules and regulations were gazetted on 10 October 2019, which required the implementation of the Registry within six months.
- The Philippines: Passage of the Philippine Warehouse Receipts Act of 2019
 - In Progress. Bills introduced in the House of Representatives (HB03366) on 1 August 2019 and currently pending with the Committee on Trade and Industry; and in the Senate (SB No. 2171) introduced on 23 January 2019 and currently pending second reading.
- The Philippines: Co-hosted the Seventh FIDN Conference
 - Completed. Seventh FIDN Conference held November 2019 in Manila promoting the new secured transactions regime, capacity building and pending Warehouse Receipts Act.
- China: New Civil Code implemented which contains specific Law on Factoring.

Activities Completed to Date (October 2019 – July 2020)

- Ho Chi Minh City, Viet Nam - 4th APEC Supply Chain Finance Conference: How to Develop a Supply Chain Finance Market in the Context of Emerging Economies? (11-2019)
- Manila, Philippines - Seventh FIDN Conference (11-2019)
- Virtual Conference - FIDN: Discussion on Improving the Enabling Environment for Supply Chain Finance in Viet Nam
- Virtual Conference - APFF Accelerating Post-COVID-19 Recovery (05-2020)
- Virtual Conference - FINEX: Financial Inclusion Committee Conference on Strengthening Supply Chain Finance: Addressing Today’s Challenges (07-2020)
- UNIDROIT Working Group - Observer status for drafting of Model Law for Factoring

Credit Information Sharing

Consistent with Part 1 of the 2015 Cebu Action Plan, FIDN has hosted a series of workshops, conferences, and other events to aid member economy policymakers interested in reforming economies’ credit information sharing systems to promote financial inclusion for MSMEs and individuals. Despite the global pandemic, several key efforts focusing on credit information have progressed during 2020.

- The Philippines — Working with APFF, the Makati Business Club (MBC), the Asia-Pacific Credit Coalition (APCC), and PERC have launched a comprehensive assessment of the state of CIS in the Philippines. MBC is conducting interviews of key stakeholders including regulators, the public credit registry, private credit bureaus, and lenders among others. The system in the Philippines will be benchmarked against global best practices including the APFF roadmap for building an optimal financial information system, which has clear applications for CIS. This report is expected to be released by MBC during the Fall of 2020.
- Hong Kong, China —As part of the field research associated with the APEC region CIS survey, the APCC and PERC will be releasing a report in July 2020 on credit information sharing in Hong Kong. The report focuses on recent developments with respect to CIS law as well as new market entrants, and discusses how these developments are likely to impact the financial sector within Hong Kong, and their ability to remain an important global financial services hub. Data gaps, including mortgage payment data, are identified and policy prescriptions are offered.
- APEC region — With the support of the APFF, the APCC and PERC have undertaken research, analysis,

and have fielded a regional survey to establish a baseline for the state of credit information sharing across the region. To date, more than 30 respondents to the stakeholder survey have contributed to the report, as well as issue area experts from the region. This survey is a first of its kind and will be a useful supplement to the World Bank's Ease of Credit analysis and annual Doing Business surveys. The report is expected to be released during the 4th quarter of 2020.

Valuation Practices

Now on its the fourth year of work, the APFF Valuation Practices Work Stream led by the International Valuations Standards Council (IVSC), is advancing the adoption of common valuation standards (IVS) across the Asia Pacific region and helping develop a robust valuation profession to monitor the delivery and use of these standards. The initiative is targeted at both tangible and intangible assets, although the valuation of soft and movable assets is the area of greatest need and attention.

Initially, the initiative was developed to address issues that led to the Global Financial Crisis, when value and valuation were found to be major contributors to the fallout that ensued. IVSC, as the international standard setter, was invited to take a lead role in assisting to bring about the changes and improvements that were considered necessary. More recently, however, the focus has shifted toward inclusive finance and secured lending. This has raised the issue as to how to value and secure the assets offered as security by MSMEs and the Work Stream is providing guidance on the valuation of such collateral as well as working with local VPOs to enhance their credibility in their local market.

There is also an absence of consistency and credibility in the area of business valuation across the APEC region and the regulators in a number of economies have expressed reservations and concerns as to the standard of such valuations and the qualification of those involved. This particularly relates to valuations which are provided for the purpose of fund-raising through IPO or to establish value in relation to major M&A activity. Dialogue and discussions are ongoing with the professional organizations involved as to the need to apply common standards and display greater transparency, so as to provide both the regulator and potential investors with greater confidence in the values which are being used to underwrite these major financial activities.

Most recently, following the advent of COVID-19, there has been a growing focus on resilience and the extent to which measures to mitigate, or the absence thereof are factors impacting on value and valuation. This applies of course not only to major events such as pandemics but also to longer term issues such as climate resilience. At the same time public companies are being pressed to adopt stricter compliance with ESG reporting requirements and this increased emphasis on sustainability will be reflected, through the application of new valuation standards, in the ultimate value of the company's assets. As a result, the Work Stream is seeking to expand opportunities for APEC economies to lead rather than follow in developing a responsible investment valuation code.

Digital Trade Finance Lab (Trade and Supply Chain Finance)

Following the endorsement last year by the APEC Finance Ministers of the *Strategy for the Digitalization of Trade and Supply Chain Finance*, the Trade and Supply Chain Finance Work Stream has been focusing its work on the establishment of the APFF Digital Trade Finance Lab (hereafter referred to as "the Lab"). A kick-off call soft-launch of the proposed Lab took place via video-conference on 20 May.⁸ The International Chamber of Commerce (ICC) is one of several organizations committed to be supporting the Lab, where ICC's involvement shall be fully aligned with its own digitalization of trade and trade finance strategy as well as various dedicated initiatives.

Participants at the kick-off call agreed on the scope of the Lab. Based on the endorsed APFF Strategy Paper, focus shall be mainly on documentary trade finance and to a minor extent on open account trade finance. It was further agreed that the ICC Roadmap for digitalization of trade finance will serve as baseline for APFF's activities in the respective economies/regions. The proposed governance structure consists of various working

⁸ The Lab is currently co-chaired by Mr. David Bischof and Mr. Tat Yeen Yap, both of ICC.

groups as well as of a steering committee composed of the respective chairs of the working groups.⁹

The next step is formulating a set of concrete objectives for the remainder of this year. This will require knowing what is relevant ongoing and planned work for this year by key participants – the ICC Banking Commission, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), the United Nations Commission on International Trade Law (UNCITRAL), the ADB, IFC, and the Bankers Association for Finance and Trade (BAFT). It will also help identify where and how the Lab can support ongoing work by mobilizing interested contributors in areas where greater synergy can be achieved (e.g., by dovetailing activities), and gaps that could be closed directly through activities of the Lab. Based on these the Lab can identify concrete activities to include into its 2020 work plan. A possible deliverable is to agree on a set of specific measures to be recommended to relevant authorities. It can also monitor the COVID-19 situation and see if there is any opportunity for a physical launch event for the Lab.

One project has been proposed so far, which is the use of technology to combat trade-based money laundering, a proposal by Lab participant R3. The objective is to deliver a research paper and a proof-of-concept (POC) proposal. To ensure no duplication of efforts with any other group, confirmation is sought from ICC's Financial Crime group and BAFT. In case of overlap, suggestion shall be made to R3 to act as liaison between that group/those groups and the Lab, and relay any request for specific support from finance ministries, central banks and financial regulators that the Lab can refer to in the APEC Finance Ministers Process.

II. FINANCIAL MARKET DEVELOPMENT

APFF's work on financial market development focused this year on the resumption of the work of the Financial Market Infrastructure (FMI) Cross-Border Practices Work Stream, which focuses on Initiative 3C of the CAP, and the adoption of technology in the FMI payments space. Two of the three deliverables of the CAP initiative on the ARFP (signing of the statement of understanding by finance ministers and signing of the memorandum of cooperation by securities regulators) have been achieved. The remaining deliverable is to increase the number of participating APEC economies in the scheme. The Roadmap for the Development of APEC's Financial Market Infrastructure, which was endorsed by Finance Ministers in 2018, includes action plans for the adoption of technology in FMIs, which APFF is now helping interested regulators to advance.

Financial Market Infrastructure (FMI) Cross-Border Practices

The APFF Financial Market Infrastructure (FMI) Work Stream has focused its work on providing technical advice and assistance to APEC economies as they develop policies to encourage the use and development of fintech. In this respect, the group is making progress against two key objectives for 2020:

- Developing case studies to showcase best practice examples of the use of specific standards and the positive impact it has had increasing interoperability in infrastructures across the APEC region. These cover areas critical to the success of payments and settlement technology in particular and the digital economy in general. The objective is for these documents to create a knowledge base and serve as a reference point for regulators and officials across APEC economies as they look to undertake initiatives to develop their own financial technology sectors. The case studies are under development and the Financial Market Infrastructure (FMI) Work Stream aims to complete the documents by the end of Q3 2020.
- The Work Stream will also agree a plan for dissemination of the case studies. This will include exploring permanent online hosting of the materials, submitting the documents to relevant officials, seeking opportunities to showcase the findings at conferences and roundtable events, as well as meetings with groupings such as the ASEAN Working Committee on Payment and Settlement Systems.

⁹ Additional representatives can be added to the Steering Committee as observers. Details on the creation of work groups will be discussed bilaterally with interested parties and at Steering Committee level. Participants in the call and their respective organizations were invited to indicate their interest in being involved in the Lab initiative and on what work stream they want to be involved in in an active way. The discussion accomplished the objective of getting positive feedback on the proposed focus and structure, process and governance of the Lab, providing the basis for moving forward.

The challenges posed by COVID-19 have impacted the group's work slightly, as it was in a state of transition coming into February, and plans for getting up to speed were negatively impacted due to the inability to hold and attend a number of meetings. The group has established a monthly call schedule and is looking to leverage online channels to complete the work on the case studies.

FMI Payments Fintech

APFF Digital Payments Advisory Group

The APFF Payments Fintech Work Stream is tasked with establishing a digital payments advisory group looking at best practices across APEC, following the endorsement by APEC Finance Ministers of this proposal by ABAC last year. In addition to a focus on instant payments, the group will look to cover the broader digital payments landscape including card payments and other retail payments, B2B payments and emerging fintech payments. The group will consist of experts from across industry, including representatives from the members of the work stream and will serve as a resource for APEC economies for information on digital payments issues. The names and contact details of the group could be hosted on the APFF site. Given the realities of the COVID-19 pandemic, the group will act virtually and be able to hold virtual meetings either individually or collectively. As next steps group members, areas of focus and potential priority economies will be identified. A launch event will also be planned, to highlight the creation of the group to APEC ministers and officials and demonstrate its potential as a resource for APEC policymakers.

Best Practices on Instant Payments

Building on its previous work on instant payments, the work stream will look to advance best practice recommendations across APEC. These include recommendations around developing strong settlement mechanisms; ensuring remitting banks hold enough collateral; establishing a central counterparty to ensure consumer protection; and deploying value adds such as Request to Pay, tokenization, and QR code functionality. The group will work through the APFF and other organizations such as the Asia Business Trade Association to promote these concepts.

Open Banking Report

The APFF Payments Fintech Work Stream collaborated with the Emerging Payments Association Asia (EPA Asia) on a report on Open Banking in the Asia-Pacific, which was published earlier this year.¹⁰ The report found that half of the economies in Asia were either looking into or already actively engaged in open banking and that there is unlikely to be a one-size-fits-all approach to the issue. The following key areas were identified:

- A “whole of government” approach, where regulators, central banks and government agencies are well coordinated
- Development of standardized APIs with consideration of what has been done in other jurisdictions (for example, Australia leveraged the UK standards)
- Consideration of the need for digital ID and strong data governance.

The report was distributed to APEC economies and a series of roundtables and webinars were held to discuss the findings. EPA Asia hosted a Standardization API Proof of Concept on July 16, 2020 where the group used real case examples of Open Banking being used.

Digital identity project

The Emerging Payments Association Asia is also working on a project which will assess the opportunities for developing digital identities across APEC, including:

- Benefits of federated/centralized/hybrid digital ID models
- Challenges across different APEC economies
- Scope to increase financial inclusion, upgrade the fiat currency stack + digitize economies

¹⁰ <https://www.emergingpaymentsasia.org/open-banking/>

- Recommendations for regulators on how to develop these schemes domestically and across-borders

A report will be produced later in 2020 which will be distributed to policymakers across APEC, hosted on the APFF website and the subject of additional amplification events such as webinars and virtual roundtables, among others.

Supporting the Asia Region Funds Passport (ARFP)

Efforts to advance the Asia Region Funds Passport and trans-Pacific cooperation in funds passporting schemes were severely affected by the COVID-19 pandemic. To help regain momentum, the APFF ARFP Work Stream is discussing the holding of webinars on tax issues and sharing of experiences from the ARFP with Pacific Alliance stakeholders.

III. FINANCIAL RESILIENCE AND SUSTAINABILITY

APFF is undertaking work to support CAP Initiative 3B (Disaster Risk Financing and Insurance), which outlines three deliverables: (a) promote private disaster insurance schemes, through collaboration and exchange of information and experience among economies, international organizations and private sector; (b) deepen insurance penetration within their economies and develop regional risk sharing measures; and (c) develop a roadmap for expanding the coverage of micro-insurance (already completed and endorsed by Finance Ministers in 2018) and a network of experts in disaster risk financing in member economies. APFF is also supporting implementation of CAP Initiative 4C (Maximizing PPP's role in infrastructure investment), 4E (Long-term Investment in infrastructure), which has as deliverable the exchange of experiences through existing public and private sector forums for facilitating long-term investment in infrastructure and encouraging increased pension and insurance industry investment in infrastructure and 4F (Urban Development), with its deliverable of sharing knowledge on innovative financing for sustainable urban development.

Disaster Risk Financing and Insurance

Following the endorsement by APEC Finance Ministers last year of ABAC's proposal to undertake actions to catalyze the Asia-Pacific catastrophe bond market and the incorporation of this objective in the APEC Disaster Risk Finance and Insurance Solutions Working Group, the DRFI Work Stream and the World Bank began discussions with several member economies on seminars to advance this initiative in 2020. Due to the COVID-19 emergency measures put in place across the region, the plan to physically hold seminars has been put on hold. However, work on preparing a virtual seminar to be co-organized by ABAC, APFF and the World Bank under the auspices of the APEC DRFI Solutions Working Group is currently ongoing.

The outbreak of COVID-19 may prompt the need to embrace pandemic in the scope of DRFI. Given the differing nature of the risks of pandemic and natural disasters, APFF will continuously monitor the developments of the similar discussions taking place at international bodies such as the IDF, OECD, the Geneva Association and the World Economic Forum, and strategize a solution that meets the regional need, taking into account the learnings from the above sources of knowledge.

ESG Finance

The ESG Finance Working Group has been established in March of this year as part of the APFF Insurance, Health and Retirement Income Work Stream, to deepen the footprint of ESG investment and responsible banking in developing economies.¹¹ APFF aims to provide input to ABAC, policymakers and stakeholders on:

- Developing guidance on taxonomy, tools, framework, and criteria that offers progressive pathway to align with global norms
- Developing APEC-related scenarios to aid and disclosure of climate-related risks

¹¹ The following key challenges and possible solutions have been identified by the APFF:

- **ESG rating and evaluation:** Enhancing reliability of ESG Rating and treating ES and G separately to better reflect different nature;
- **Investment selection:** Ensuring long-term profitability and assessing sustainability impact;
- **Stakeholder education:** Educating all stakeholders not just investors;
- **Investment vs capital rules and regulations:** Balancing long-term investments, risks and regulations;

- Identifying practical approaches to align business practice with ESG goals
- Identifying high-level recommendations on policies, regulations, and actions that the government and regulatory agencies may undertake

APFF has been providing and will continue to provide a forum that brings together governments, regulatory agencies, private sector, and civil society to share challenges, possible solutions¹² and good practices to promote ESG in the Asia Pacific, in collaboration with other international and regional bodies.

The Working Group focused its activities on assisting ABAC in developing its recommendations to the APEC Finance Ministers on ESG Finance, including the roles of long-term investors, to support sustainable development of the Asia-Pacific region. In pursuit of this objective, the Working Group convened six videoconferences,¹³ which covered the following topics:

- Inaugural Meeting of the ESG Finance Working Group, hosted by Amundi on 6 March 2020
- ESG Disclosure and Data, hosted by Bloomberg on 27 March 2020
- ESG Taxonomy, hosted by Amundi on 16 April 2020 (Asia Time)
- Risk and Prudential Regulation, hosted by Nippon Life on 15 May 2020
- Market Standards, hosted by Nippon Life on 27 May 2020
- International Collaboration, hosted by Nippon Life on 10 June 2020

Health Care Financing

The COVID-19 pandemic has underscored the importance of strong health systems and their contribution to economic growth and resilience. As APEC governments face mounting budgetary pressures due to COVID-19's economic impact, new and innovative financing partnerships and mechanisms will be even more important. To help support the development of stronger and more resilient health systems and improve people's access to health services the APFF is continuing its partnership with APEC's Life Sciences Innovation Forum on health care financing.

In 2020, a new initiative was endorsed by APEC on "Enhancing Innovative Healthcare Financing in Pursuit of Strong and Resilient Health Systems." The initiative will involve a series of webinars to provide information, best practices and case studies to enable APEC economies to deploy innovative and alternative health care financing mechanisms. The 2017 APEC Checklist of Enablers for Alternative Health Financing, as well as other tools, will be used to help APEC economies improve their policy and regulatory environment to enable the use of a wide range of healthcare financing solutions to increase the fiscal space for healthcare.

- The first webinar scheduled for July 2020 included studies from the U.S. Agency for International Development on unleashing private capital for global health innovation and applying non-traditional approaches to finance global health goals.
- The second webinar, scheduled for August 2020, will focus on the development of social impact bonds and the use of blended financing arrangements between governments, multilateral development banks, the private sector and other stakeholders to address unmet health needs.
- An economy specific webinar focused on Thailand as well as a webinar on innovative insurance schemes are also planned for 2020.

The goal of these webinars is to develop a library of best practices and case studies so that relevant partnerships

¹² The following approaches are common for sustainable investments by institutional investors:

- **Negative screening:** Exclusions;
- **Positive screening:** Selecting best in class;
- **Thematic investments:** Green bonds, Social bonds, etc.;
- **Active ownership:** Stewardship;
- **ESG Integration:** Multi-factor across the firm;

¹³ Participants included representatives of international and regional organizations, ABAC staffers, banks, securities firms, insurers, consultants, academics, civil society representatives.

and innovative financing mechanisms can be replicated and scaled in interested APEC economies.

Circular Economy Infrastructure

For the 2020 APEC host year, Malaysia put forward “driving innovative sustainability” as one of the top three priorities. Innovative waste management and more effective recycling methods to convert waste to products with commercial value to generate wealth and move towards a more circular economy is a key component of that priority. Additionally, as noted by APEC’s Policy Support Unit, the COVID-19 pandemic reinforces the need for more circular economies so that the region emerges more sustainable and resilient than before.

APIP and APFF are working to support this priority as well as the CAP Initiatives 4C (Maximizing PPP’s role in infrastructure investment), 4E (Long-term Investment in infrastructure), and 4F (Urban Development) by promoting the development of a pipeline of bankable waste management infrastructure projects, facilitating long-term investment in infrastructure by encouraging increased investment by the pension and insurance industry, and creating an enabling environment for PPPs to support a transition to a more circular economy.

This year, the APFF and APIP in collaboration with APEC’s Ocean and Fisheries Working Group, the Virtual Working Group on Marine Debris, the Malaysian Green Technology & Climate Change Centre, and Ocean Conservancy have put forward an APEC endorsed project on “Promoting Investment and Innovation to Combat Marine Litter and Build a Circular Economy in APEC.” The project seeks to increase access to financing and facilitate private sector engagement to promote investment, trade and market creation in industries and activities that enable more circular economies, and encourage innovative financing mechanisms to fund waste management systems and infrastructure. Through a series of webinars planned for 2020 the initiative will encourage the involvement of additional investors and promote the development of land-based waste management projects by sharing best practices on allocating risk to the party best able to mitigate it as well as tools to de-risk investments by the private sector.

The first webinar planned for July 2020 involves government officials, multilateral development banks, impact investors and other stakeholders. Subsequent webinars will include bilateral aid agencies, technology providers, among others to showcase actions that are being tested, identify gaps and opportunities, and share policy solutions that can further support and scale projects to support more circular economies in the APEC region.

Insurance Regulation and Accounting

Since 2013, APFF has been working on promoting the insurers’ and pension funds’ roles to support sustainable, resilient and inclusive growth and development of the Asia-Pacific region. APFF has continued outreach and dialogue with policymakers, authorities, accounting standard setters, international and regional organizations, and stakeholders, promoting the adoption of solvency and accounting regimes¹⁴ that do not discourage insurers from engaging in long-term business and making long-term investment in infrastructure and capital markets.

Insurance accounting

APFF has worked with the International Accounting Standards Board (IASB) and other stakeholders to find solutions on both interrelated standards International Financial Reporting Standard (IFRS) 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* to address issues and concerns identified by APFF. On 25 June 2020, the IASB issued the final amendments to IFRS 17 and deferred the mandatory effective date of IFRS 17 and the temporary exemption to IFRS 9 for qualifying insurers to 1 January 2023, with early adoption permitted. These changes would properly address many of the issues identified by APFF and facilitate implementation in the region, even while there are some remaining practical concerns, including annual cohorts’ issue. APFF

¹⁴ APFF identified the following recommendations on insurance regulation and accounting (submitted in 2015 by ABAC to the IAIS):

- **Bank-centric regulations:** Standards should reflect long-term nature of insurance. Insurers should be allowed to invest in assets with long-term growth opportunities, such as infrastructure investments;
- **Short-term oriented economic regimes:** Economic regime should have a long-term vision. Insurers should be encouraged to make decisions to be good in the long-run rather looking good at a given moment;
- **“One-size-fits-all” models:** Standards should be principle-based and aim to achieve comparable outcome by taking into account the diversity in different economies;

continues to work with relevant parties to find workable solutions (i.e. reflecting mutualization among the contracts across generations).

In general, IFRS 17 is assessed as a workable standard providing for the first time a truly global set of accounting principles. IASB is also working on other accounting topics, such as general presentation and disclosure, and goodwill accounting including related disclosures while the possible change from the impairment only approach to the amortization regime is considered and in focus of the controversial discussions. IASB is keen to receive any new evidence and comments in this regard. Regarding the other important discussions on recycling¹⁵ for equities measured at fair value through Other Comprehensive Income (OCI) ('FVOCI equities'), it is important to note that the European Financial Reporting Advisory Group (EFRAG) advised the European Commission in its technical advice of 30 January 2020 to recommend to IASB to undertake an "expeditious review" of the IFRS 9 in this regard and to provide a solution in line with the IASB's Conceptual Framework for Financial Reporting. The Financial Accounting Standards Board (FASB) is also working on target improvement for long-duration contracts issued by insurance companies under US GAAP¹⁶. APFF intends to monitor those topics and provide input as appropriate.

APFF aims to update analysis on implementation status of IFRS17, including the impact on solvency assessment, and provide implementation support for selected economies in the Asia-Pacific region.

Solvency regime

APFF engaged in continuous outreach and dialogue with policymakers, regulatory authorities, international and regional institutions in coordination with industry bodies, to reflect the long-term nature and incorporate long-term "growth" in global regulatory discussions (i.e. discount rate, calibrations). At its November meeting in Abu Dhabi, the IAIS Executive Committee agreed on Insurance Capital Standards (ICS) Version 2.0 for a five-year monitoring period. During the monitoring period, ICS will be used for confidential reporting and discussion among supervisors in supervisory colleges. The IAIS subsequently published its Level 2 documents on 13 March 2020 and its Level 3 documents on 30 June 2020.

An APFF Roundtable on Insurance Regulations and Accounting is being prepared, inviting IASB, insurance supervisory authorities, accounting firms and industry experts in the Asia-Pacific region. The Work Stream had previously planned this for July in Hong Kong, but it is now considered to be postponed to either later this year or more likely next year.

CONCLUSION

The COVID-19 pandemic caught APEC fora and economies by surprise as they were preparing to discuss and agree on work plans and activities for 2020 in the first quarter of the year. Also affected were ongoing and planned activities implementing the Cebu Action Plan and other deliverables under the FMP work plan, as governments, businesses, multilateral institutions and other stakeholders suspended travel plans, cancelled meetings and seminars and implemented social distancing measures under lockdowns and emergency responses. Uncertainties surrounding the duration of the emergency period complicated the revision of timetables and work plans.

The emergence of virtual meeting technology provided a way of responding to this disruption. Many businesses, multilateral institutions and private sector organizations that have been using this widely before the pandemic

¹⁵ ABAC submitted the following comment on recycling to IASB in 2015 (See also APFF Progress Report 2015): Items of income and expenses presented in OCI should be permitted to be recycled, since it often reflects how an entity conducts 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.

¹⁶ On 10 June 2020, FASB met to discuss the ACLI letter requesting a deferral in the effective date due to the impact COVID-19 virus is having on the implementation of ASU 2018-12 Financial Services-Insurance Contracts (Topic 944). The Board voted 5-2 in favor of a one year extension to the effective date. The effect is that the date change for large SEC filers is extended to 2023, with early adoption permitted. All other insurance entities have an effective date of 2024. An Exposure Draft is expected to be released shortly with a 45 day comment period. ACLI, AICPA Insurance Expert Panel, and the American Academy of Actuaries (AAA) participate in a joint call periodically to discuss implementation issues. The focus has been primarily on the following topics: Market Risk Benefits, Discount rate, and reinsurance. The expectation is that we plan to finish discussions by year-end.

as alternative channels for communication introduced virtual meetings as a substitute for physical meetings. This practice gradually gained acceptance in various work streams of APFF, APFIF and APIP and allowed the resumption of several activities. While there are still technical challenges, the experience has been positive overall with the obvious advantages of virtual compared to physical events – shorter time frames for preparation, the ability to reach a wider range of participants and the convenience of participating from anywhere.

Together with software improvements in response to wider use, virtual meeting technology has enabled these collaborative platforms to regain their momentum. More importantly, it has shown the way to more active and effective engagement in the future that can bring a wider range of stakeholders and experts together to undertake more activities in pursuit of deliverables such as reforms of legal and institutional frameworks for secured transactions, insolvency, credit information, digital trade and supply chain finance, digital payments and settlement, digital identity, data collection and sharing; sharing of best practices in financial inclusion, valuation, design of funds passport initiatives and innovative health financing; design of public-private partnerships in circular economy infrastructure; deepening knowledge of insurance-linked securities as a new element in DRFI frameworks and the impact of accounting and solvency standards on long-term investment; and promoting greater coherence regionally and globally in ESG finance standards, guidance and practices.

Under ABAC's leadership, APFF, APFIF and APIP plan to make use of these innovations in the future. This will enable them to respond more effectively to the opportunities opening up with the heightened sense of urgency for reform among policy makers and regulators in the wake of the COVID-19 pandemic. Accelerating the digitalization of financial services, legal and institutional reforms to expand access to finance, and the promotion of greater resilience and sustainability will require bringing together expertise from many parts of the region and the world with a wide range of decision-makers and stakeholders in Asia-Pacific economies. We look forward to working with APEC Finance Ministers and other relevant authorities in seizing opportunities for reform to further advance the translation of deliverables in the FMP's long-term agenda into concrete measures and results.