



BUILDING A RESILIENT FUTURE ENABLING FINANCIAL SERVICES TO PROMOTE SUSTAINABILITY, DIGITALIZATION AND RISK MITIGATION

2022 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 caused huge losses in human lives, business income and jobs, disproportionately impacting developing economies, small enterprises and marginalized sections of society. The unprecedented and vigorous response by governments and central banks averted a full-blown recession and crisis, kept the global economy afloat and paved the way for recovery. However, economies now need to deal with the aftermath of the pandemic. This includes record levels of public and private debt, constrained fiscal space, hugely expanded central bank balance sheets, and a return of inflation, this latter now being exacerbated by the very significant economic impact of the current geopolitical conflict.

These developments pose serious challenges to the Asia-Pacific region. The impact of the pandemic is still being felt in most APEC member economies, even as some governments continue to deal with the serious threat posed by new COVID variants. With new macroeconomic realities demanding more restrictive fiscal and monetary policies from governments and central banks and with the prospects of recession beginning to loom on the horizon, more private sources of financing will need to be mobilized in order to support continued economic activity as the public sector undertakes policy adjustments.

There are opportunities in every crisis, and in this particular one they lie in the transformation of the entire economy. Meeting the twin challenges of digital technology and the demand for greater sustainability requires huge investments and major changes in the way businesses, households and governments operate. Under the current circumstances, it has become even more important for the public and private sectors to collaborate in order to effectively enable the financial industry to play its catalytic role in incentivizing businesses and consumers to promote this transformation.

Many initiatives proposed by business that the APEC Finance Ministers endorsed over the years were focused on reforms that can expand access to finance, particularly through digitalization, and enhance resilience and sustainability. This Progress Report covers the work and achievements of the Asia-Pacific Financial Forum (APFF), the Asia-Pacific Financial Inclusion Forum (APFIF) and the Asia-Pacific Infrastructure Partnership (APIP) in promoting the implementation of these reforms since the last APEC Finance Ministers' Meeting until the present and provides information on planned activities until the end of 2022.¹ It focuses on three areas: (a) sustainable finance; (b) inclusive digital finance; and (d) financial resilience.

Achieved Policy Reforms

In addition to various *policy reforms* recently implemented by member economies with support from

¹ 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).

Financial Infrastructure Development Network (FIDN),² the Philippines' Revised Warehouse Receipts Law (House Bill 8698) was passed 196-0 by the House of Representatives last year, while its counterpart bill in the Senate (Senate Bill 2049) has completed its first reading and has been referred to the Committee on Trade, Commerce, Entrepreneurship and Finance.

Financial regulators are also paying more attention to formalizing the relationship between financial institutions and third-party data and data analytics firms. As an example, a new policy on MSME finance issued by the China Banking and Insurance Regulatory Commission in April 2022 contains a section on lender and third-party data collaboration including basic requirements on financial institutions for third party processing of data.

Capacity-Building Activities

Capacity-building activities are important tools to *provide member economies access to expertise and other economies' experiences in implementing priorities* that form part of the FMP work plan. To this end, various dialogues and webinars were held to assist economies in the following areas:

- workshops and establishment of local governance structures for climate-related disclosures;
- financial inclusion;
- credit reporting; personal data governance, data privacy and data analytics;
- secured transactions, factoring and digital supply chain finance systems;
- trade finance;
- digital assets and central bank digital currencies (retail and wholesale);
- valuation practices and standards;
- open data;
- catastrophe bonds;
- pandemic risk insurance;
- insurance regulation and accounting;
- circular economy infrastructure; and
- innovative health care financing solutions.

Promoting Asia-Pacific Perspectives in Global Processes

The APFF participated in international discussions with global regulatory and industry organizations to share lessons and perspectives from its work in APEC economies and *contribute to the shaping of global standards, frameworks and model laws* that incorporate insights from the region into their formulation, and thus promote their applicability to the region's economies. These included discussions on:

- international sustainability standards;
- inter-operable ESG taxonomies;
- transition finance;
- sustainable innovation financing;
- international accounting standards for insurance contracts and financial instruments;
- insurance capital standards;
- electronic registry design and operation;
- coordinated implementation of international standards on receivables finance;
- model law for factoring;
- online dispute resolution; and
- PPPs in pandemic risk transfer solutions

² Among the policy reforms recently implemented by member economies with support from various activities of FIDN are the following:

- The Philippines: Launch of the secured transactions collateral registry in April 2021.
- Viet Nam: The issuance of Decree 21, which brings the secured transactions reform in line with the new Civil Code of 2015, including the explicit recognition of transfer of claims, which is critical for the development of the factoring market.
- China: Consolidation of its moveable property registration into a single agency (Credit Reference Center of the People's Bank of China) on 1 January 2021. This completely replaced local-level filings on inventory and other related assets.

Tools for Reforms and Cooperation

The following documents were developed to *provide tools for policy makers and regulators* in translating high-level recommendations into concrete policies, regulations, collective actions and capacity building measures:

- *APEC Sustainable Finance Development Roadmap (second iteration)*;
- *A Framework to Assess ESG Value Creation*
- *Asia-Pacific Financial Inclusion Forum: The Role of Central Bank Digital Currencies in Financial Inclusion – Proposed Actions for Policymakers and Regulators*; and
- *APFF White Paper on Wholesale Central Bank Digital Currencies*;

Support for ABAC in the Formulation of Recommendations

Several roundtables were convened to *assist the Council in formulating recommendations* to Finance Ministers and Leaders. These focused on the role of macroeconomic and supply-side policies in promoting recovery; identifying key structural reforms to raise productivity; PPPs in pandemic risk transfer; development of effective carbon emissions trading markets; transitional financing for MSMEs; financing sustainable infrastructure; inter-operable open data systems; central bank digital currencies; and the digital market infrastructure for MSME supply chain finance.

Conclusion

The COVID-19 pandemic and its aftermath are posing serious challenges to the economies of the Asia-Pacific region. With governments and central banks finding themselves constrained in using traditional tools to fight economic headwinds and to sustain recovery, it has become more important than ever to enable the business sector to further expand its contributions to economic growth and development. In this process, the financial industry can play a catalytic role to promote inclusive digital infrastructure, sustainability and resilience.

The road ahead for APEC is not totally uncharted, as the ways to make finance more inclusive, innovative, sustainable and resilient have already been the subject of much research and discussion long before the arrival of COVID-19. It only remains for them to be translated into concrete policies, regulations and capacity building measures. The pandemic and its aftermath, and new economic challenges stemming from geopolitical conflict we are facing today, have injected a sense of urgency representing an opportunity that is there to be seized.

The APEC Finance Ministers' Process can take the lead in translating this sense of urgency into individual and collective actions to advance the implementation of these deliverables in the Finance Ministers' multi-year agenda. Much can be achieved by coordinating this with the work of the multilateral organizations and the initiatives of the business sector, as well other relevant APEC fora. As this Progress Report shows, these initiatives continue to provide support to economies in undertaking important reforms, especially in expanding access to finance, and individual economies as well as APEC fora are coming forward to make full use of these platforms for public-private collaboration to advance various initiatives related to digitalization and sustainability.

In this context, we look forward to working with APEC Finance Ministers and other relevant APEC fora and authorities in seizing opportunities for undertaking concrete reforms and capacity building measures that will help our region build a resilient future by enabling financial services to promote sustainability, digitalization and risk mitigation.

INTRODUCTION

The COVID-19 pandemic caused huge losses in human lives, business income and jobs, disproportionately impacting developing economies, small enterprises and marginalized sections of society. The unprecedented and vigorous response by governments and central banks averted a full-blown recession and crisis, kept the global economy afloat and paved the way for recovery. However, economies now need to deal with the aftermath of the pandemic. This includes record levels of public and private debt, constrained fiscal space, hugely expanded central bank balance sheets, and a return of inflation, this latter now being exacerbated by the very significant economic impact of the current geopolitical conflict. Various indicators suggest that the long period of relatively low inflation the global economy has enjoyed is coming to an end.

These developments pose serious challenges to the Asia-Pacific region. The impact of the pandemic is still being felt in most APEC member economies, even as some governments continue to deal with the serious threat posed by new COVID variants. With new macroeconomic realities demanding more restrictive fiscal and monetary policies from governments and central banks and with the prospects of recession beginning to loom on the horizon, more private sources of financing will need to be mobilized in order to support continued economic activity as the public sector undertakes policy adjustments.

There are opportunities in every crisis, and in this particular one they lie in the transformation of the entire economy. Meeting the twin challenges of digital technology and the demand for greater sustainability requires huge investments and major changes in the way businesses, households and governments operate. Under the current circumstances, it has become even more important for the public and private sectors to collaborate in order to effectively enable the financial industry to play its catalytic role in incentivizing businesses and consumers to promote this transformation.

While there remains a number of high-level issues where consensus is still being formed, most of the important steps toward promoting digital transformation and sustainability have already been identified during previous years in APEC. Many of them are enshrined in multi-year action agenda like the Finance Ministers' Cebu Action Plan or initiatives that have been endorsed in various ministerial and Economic Leaders' statements, and only remain to be translated into concrete laws, policies, regulations and capacity building measures that meet the domestic needs and requirements of economies in this very diverse region.

It is on this space where this report is focused. 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).³ They are engaging a wide range and variety of firms and industry associations, regulatory 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

³ 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.

economies;⁴ (b) provided critical support to regional initiatives;⁵ and (c) laid the groundwork for structural reforms through the development of roadmaps, strategies, work programs and dialogue platforms.⁶ The Cebu Action Plan provided a clear multi-year 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 hosted virtually from Wellington, New Zealand on 22 October 2021 until the present and provides information on planned activities until the end of 2022. It focuses on three areas: (a) sustainable finance; (b) inclusive finance; and (d) financial resilience.

I. SUSTAINABLE FINANCE

In 2020, ABAC proposed to the Finance Ministers the establishment of a public-private collaboration platform to help accelerate convergence of sustainable finance policies among APEC's member economies and strengthen the region's voice in the development of common global sustainability frameworks. At their annual dialogue in that year, APEC Finance Ministers welcomed ABAC's recommendations on ESG finance and the proposal to establish the Sustainable Finance Development Network (SFDN) within the APFF.

In their July 2021 statement, APEC Economic Leaders declared their intention to promote sustainable financing and reiterate the importance of economic policies, cooperation and growth that contribute to tackling climate change and other serious environmental challenges. In 2022, the Finance Ministers' Process (FMP) agenda includes sustainable finance as one of its two priorities.

The SFDN's focus is to address the major challenge facing the Asia-Pacific region today, which is the fragmented ESG landscape and the lack of applicable and practical common standards that can guide lenders and investors in incentivizing companies and organizations, especially in emerging markets, to progressively align their practices with sustainable development goals.

Capacity-Building Activities

In December 2021, the SFDN formally launched the first of its local governance structures to support an efficient coordination of efforts around capacity building. The Mexican Task Force for Climate-Related Disclosures (TCFD) Consortium was developed following the successful Japanese Consortium model (also implemented by Sustainable Finance Ireland). The Mexican Consortium organized their first series of six virtual workshops to support capacity building efforts on TCFD implementation, with attendance from stakeholders from Mexico and other economies.

The SFDN and Mexican Consortium brought together a series of regional stakeholders to partner with the Sustainable Stock Exchanges in developing two training workshops on TCFD implementation in Mexico, with the goal of jointly developing further capacity building activities

⁴ 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 Viet Nam; the development of reform proposals on credit information systems in Brunei Darussalam, China, Philippines, Thailand and Viet Nam; 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.

⁵ 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.

⁶ 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.

This program is expected to be launched jointly for Chile, Peru and Colombia.

Developing the SFDN's Agenda, Network and Tools for Cooperation

Welcomed by APEC Finance Ministers in 2021, the SFDN Sustainable Finance Roadmap has been promoted as a work framework to support alignment among economies as well as among the various fragmented initiatives and stakeholders.

In 2022, the network has been actively socializing its role as a private-public landing platform for collaboration, and the roadmap's four focus areas and building blocks as a tool to facilitate efficient coordination. The SFDN was introduced at COP26 Finance Day,⁷ has built a presence in social media⁸ and has been actively interacting with the ecosystem.

Governance Structure

- Secretariat: The Asia Pacific Financial Forum (APFF) invited the Financial Centers for Sustainability Network (FC4S)⁹ to act as the network's secretariat. FC4S, is a collective of 39 financial centers and part of UNDP's Sustainable Finance Hub.
- The Steering committee also works to jointly approve new work streams, appoint their Sherpas, ensure the availability of resources for their appropriate operation, and follow up on their work plans to ensure success on the concrete achievement of the deliverables of the SFDN.
- Initial Work Streams: The network launched five initial work streams: Carbon Markets, Sustainable Infrastructure, MSME Transition Finance, Disclosure and Taxonomy. The first three were created to support ABAC in the development of recommendations to submit to Finance Ministers in 2022 and further on, to support implementation and capacity building efforts. The latter two, were launched to support industry initiatives around baseline priorities in sustainable finance (disclosure and taxonomy) that were recommended by ABAC in 2020.

Supporting the development of recommendations

These three SFDN work streams supported the following ABAC lead economies in developing recommendations to APEC Finance Ministers:

- Carbon Markets: ABAC China
- MSME Transition Financing: ABAC Japan
- Sustainable Infrastructure Financing: ABAC Australia

These work streams organized industry workshops¹⁰ to inform the recommendations for ABAC. In the process, the network is developing a platform of experts that can support efforts around implementation and capacity building for those recommendations that are endorsed by Finance Ministers.

The SFDN also provided support to ABAC and PECC at the Workshop "Promoting Structural Reforms for Sustained Economic Growth in the Asia-Pacific Region" which aimed to inform recommendations to APEC Leaders. The network participated at the panel aimed to identify structural reform priorities and approaches for APEC to promote sustainability

Other Activities

- Disclosure: The SFDN Disclosure Work Stream plan has two main pillars:
 - Supporting and developing local governance structures; and

⁷ COP26: https://twitter.com/SFDN_network/status/1460627804702351364?s=20&t=k9D8xTnb6J5I5twA3skogg

⁸ LinkedIn: <https://www.linkedin.com/company/sustainable-finance-development-network/>

⁹ FC4S: <https://www.fc4s.org/>

¹⁰ These focused on MSME Transition (https://twitter.com/SFDN_network/status/1536995313361244160?s=20&t=k9D8xTnb6J5I5twA3skogg) and Sustainable Infrastructure: https://twitter.com/SFDN_network/status/1516680842915024897?s=20&t=k9D8xTnb6J5I5twA3skogg

- Support to IFRS ISSB in developing a global baseline disclosure standard.
- Local Governance Structures: With the launch of the Mexican Consortium as its first deliverable, the SFDN is promoting the Consortium Model in several jurisdictions, to support an efficient deployment and coordination of capacity building initiatives. The SFDN supported an alliance among like-minded jurisdictions (Japan, Ireland, and Mexico) to collaborate in the promotion and support of local consortia or equivalent governance structures.
- The SFDN is working closely with the International Financial Reporting Standards (IFRS) Foundation's International Sustainability Standards Board (ISSB) in the current process, which is developing a global baseline disclosure standard. This support is divided into three pillars:
 - Support for the ISSB consultation;
 - Support for individual jurisdictions in the development of local disclosure standards; and
 - Continuous capacity building support.
- The SFDN coordinated an effort among the Pacific Alliance economies to support the development of regional inputs to the ISSB Consultation. SFDN also participated in the working group convened by Mexico's Sustainable Finance Committee to support the development of inputs to the ISSB consultation.
- Taxonomy: Following the organization of the 2021 Taxonomy Symposium which promoted a series of taxonomy development principles and advocated for the interoperability of taxonomies, the SFDN Taxonomy Work Stream is ready to support the recently launched Latin American and Caribbean (LATAMC) Taxonomy Working Group,¹¹ which aims to produce a regional baseline taxonomy framework for the region that individual jurisdictions can use in developing their local taxonomies. SFDN is advocating for the coordination and collaboration among developing economies on taxonomy interoperability and plans to support this working group with inputs from the ASEAN experience, with the objective of paving the way for further collaboration towards interoperability among the developing economies in the two regions.
- SFDN is supporting and exploring the establishment of work streams for the following initiatives:
 - Support to US Treasury work stream on Just Energy Transition;
 - Support to ADBI's Roundtable on Transition Finance; and
 - Support to Chinese Taipei's Workshop on Sustainable Innovation Financing.

Upcoming Activities in 2022

Roadmap second iteration: SFDN will be working in the second half of 2022 to develop a second iteration of the work framework of its SFDN Roadmap.

Governance and visibility: SFDN will leverage the process to develop the second iteration of the roadmap work framework to perform a stock-take of initiatives and stakeholders with the goal of exploring the launch of additional work streams, aligned with the Roadmap's building blocks and action items. SFDN is planning to launch the first version of its website in the second half of 2022, which could include a pilot of a collaboration hub, a repository of deliverables by the network's stakeholders and other key players, categorized by the Roadmap's work framework.

Further actions to support transition finance: Further to the support for ADBI's roundtable, SFDN is exploring collaboration with various existing approaches on transition finance, such as, but not limited to the Glasgow Financial Alliance for Net Zero (GFANZ),¹² and to promoting the development of ideas on this topic.

Further actions to support disclosure: The SFDN Disclosure Work Stream is collaborating with the IFRS ISSB and other relevant initiatives around disclosure such as the Transition Plan Taskforce

¹¹ LATAMC Taxonomy Working Group: <https://www.unepfi.org/events/sustainable-finance-taxonomies-a-framework-to-facilitate-low-emission-and-climate-resilient-investment-in-latin-america-and-the-caribbean/>

¹² GFANZ: <https://www.gfanzero.com/>

(TPT).¹³

Further actions to support Taxonomy Interoperability. SFDN is also exploring the development of a framework for taxonomy alignment to transition pathways.

Sustainable Finance Conference: SFDN is currently planning with Thailand an in-person Sustainable Finance Conference on the sides of the APEC Finance Ministers' Meeting in Bangkok in October. The goal of this conference is to provide a stage for:

- Visibility to the 2022 recommendations, SFDN Roadmap second iteration and other significant SFDN Activities;
- Visibility to the key deliverables of the Network's stakeholders;
- Discussion on collaboration and coordination by the major fora such as APEC and G20, as well as other regional groups including ASEAN and Pacific Alliance;
- Visibility to the work by APEC Thailand's FMP workshops and deliverables on sustainable finance; and
- Visibility for the US Treasury (APEC2023) priorities and initiatives on sustainable finance.

This is a pilot initiative that if successful, SFDN would explore organizing on an annual basis as an APEC Forum on Sustainable Finance, on the sidelines of the Finance Ministers' meetings.

Other activities: SFDN will continue various activities in the second half of 2022, such as:

- Collaboration with the Sustainable Stock Exchanges and other stakeholders in supporting capacity building efforts
- Local Governance Structures development and support
- Coordination with the US Treasury on the 2023 priorities and agenda
- Initial preparatory meetings with Peru for 2024 by year end

Finally, SFDN is planning to organize in the second half of 2022 a basic sustainable finance training for ABAC members, staffers, secretariat staff and interested APEC stakeholders, as an initial step to encourage their engagement with the SFDN activities and existing or future local governance structures.

II. INCLUSIVE DIGITAL FINANCE

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

A. Asia-Pacific Financial Inclusion Forum (APFIF)

The Asia-Pacific Financial Inclusion Forum (APFIF) was established as a policy initiative upon the recommendation of ABAC by the APEC Finance Ministers in 2010. Led by the Asian Development Bank (ADB), it aims to deliver the objectives of the FMP related to financial inclusion. APFIF achieves this by facilitating the identification and development of concrete actions that policymakers and regulators can take to extend the reach and value of financial services to everyone, including those at the base of the economy who are most in need. Since its establishment, the APFIF has contributed to policy reform and capacity building across the region across various aspects of financial inclusion, such as financial literacy, remittances, supply chain financing, consumer protection, credit information systems and digital financial services.

2022 APFIF Policy Dialogue – The Role of Central Bank Digital Currencies in Financial Inclusion

The term 'central bank digital currency' or CBDC is an over-arching phrase currently used to describe

¹³ TPT: <https://transitiontaskforce.net/>

a wide variety of potential future digital currencies.¹⁴ The potential implementation of a CBDC is currently being explored, to varying degrees, among all 21 APEC member economies with financial inclusion among the top priorities for its potential implementation. As an emerging technology there is still a great deal of uncertainty pertaining to both the opportunities and challenges a CBDC may create for expanding access to formal financial products and services to the unbanked and underserved. In response, the ADB, in partnership with the Asian Development Bank Institute (ADBI) and with support from the Griffith Asia Institute (GAI), organized the 2022 APFIF Policy Dialogue as a virtual event on 17 June 2022.

This meeting, which has been held annually since 2010, brought together senior government officials from more than 20 Asia-Pacific economies as well as nearly 30 policy and industry experts. Under the theme “The Role of Central Bank Digital Currencies” the roundtable-style dialogue focused on (a) understanding a CBDC and its applications; (b) the opportunities and challenges associated with a CBDC as a driver for financial inclusion; and (c) connecting a CBDC to the existing financial system to enable financial inclusion.

As a result of this dialogue, a series of proposed actions have been developed for the consideration of APEC policymakers and regulators (See Appendix). Some of the key issues addressed within these proposed actions include strategies for selecting appropriate design features of a CBDC to enhance its effectiveness in addressing financial inclusion; building the foundation for a CBDC by addressing the critical pre-conditions for digital financial inclusion; and recognizing and managing risks associated with introducing a CBDC.

These proposed actions aim to support efforts within the FMP to accelerate financial inclusion as a priority area of the Cebu Action Plan as well as to progress the APEC’s Putrajaya Vision 2040 and priorities of the APEC 2022 host economy, Thailand, both of which call for greater progress in achieving greater inclusion, sustainability and digital innovation for the region.

B. APFF Financial Infrastructure Development Network (FIDN)

The Financial Infrastructure Development Network (FIDN) was established under the Cebu Action Plan (CAP) as a specialized subgroup within the APFF to progress various priorities under the Cebu Action Plan. 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;¹⁵ (b) data ecosystem; (c) credit information systems; (d) trade and supply chain finance; and (e) valuation practices.¹⁶

¹⁴ A unifying definition of a CBDC is not straightforward because it can be designed to deliver multiple functions and purposes. The Bank for International Settlements (BIS) describes a CBDC as “a digital payment and settlement medium denominated in the national unit of account that is a direct liability of the central bank. CBDC represents a third form of central bank money that coexists with the two other forms: banknotes and bank reserves.” Bank for International Settlements. 2022. *CBDCs in emerging market economies*. BIS Papers No. 123. Basel, Bank for International settlements.

¹⁵ Since its launch in November 2015 under the Cebu Action Plan, the Secured Transactions Reform Working Group has focused its efforts to assist economies on four primary areas: (a) law reform (working with member economies to improve secured transaction laws to allow MSMEs to leverage moveable assets in line with global best practices, following primarily UNCITRAL’s Model Law on Secured Transactions); (b) registry reform (supporting law implementation and the establishment of online, centralized, low-cost moveable asset collateral registries); (c) ecosystem development (fostering enabling industries to support expansion of secured transactions, including valuation practices and collateral management industries); and (d) capacity-building (supporting the development of market expertise and awareness of secured lending products among key stakeholders, including MSMEs, financial institutions, non-bank financial institutions and regulators). Significant progress has been made across the region, with most work focused on Brunei, China, Philippines, Thailand, and Vietnam as detailed below. Recognizing the work completed to date and to better align with key ABAC initiatives to enhance the ability of MSMEs to participate successfully across borders and in global value chain and expand their innovative capabilities and global presence through internet and digital economy and e-commerce platforms, in addition to facilitating MSME access to finance, FIDN is working to complement its initial focus, with expanded efforts on the modernization of secured transactions through two key areas: (a) digitalization (strengthening the enabling environment for e-platforms to operate efficiently, through receivables’ finance, warehouse receipt, and supply chain finance platforms; while supporting the digitalization of financing documents and instruments (e.g digital/e-invoices, e-warehouse receipts). and (b) globalization (Improving the harmonization of secured transaction systems to expand MSME participation in global trade; driving collaboration among related APEC fora to maximize outcomes).

¹⁶ Now on its fifth year of work, the APFF Valuation Practices Working Group led by the International Valuations Standards Council

Achieved Policy Reforms

In addition to various policy reforms recently implemented by member economies with support from FIDN,¹⁷ the Philippines' Revised Warehouse Receipts Law (House Bill 8698) was passed 196-0 by the House of Representatives last year, while its counterpart bill in the Senate (Senate Bill 2049) has completed its first reading and has been referred to the Committee on Trade, Commerce, Entrepreneurship and Finance.

Financial regulators are also paying more attention to formalizing the relationship between financial institutions and third-party data and data analytics firms, which remains a major focus of FIDN's work in China. As an example, a new policy on MSME finance issued by the China Banking and Insurance Regulatory Commission (CBIRC) in April 2022 contains a section on lender and third-party data collaboration including basic requirements on financial institutions for third party processing of data.

Capacity Building

The FIDN held the following capacity-building workshops to share best practices with relevant stakeholders from member economies:

- *China*: Closed-door Roundtable on Data Sharing Ecosystem during the APFF 2021 China Conference (October 2021, Beijing);¹⁸
- *China*: Roundtable on Good Data Governance for Responsible Digital Finance during the 2021 Shanghai Forum (30 October 2021, Shanghai);¹⁹
- *Viet Nam*: 10th FIDN Conference regarding the Modernization of Secured Transactions Regime for Warehouse Finance Development in Vietnam (7 December 2021, Hanoi);²⁰
- *Viet Nam*: Collaboration in the IFC-Viet Nam Ministry of Justice-Swiss Cooperation Office webinar on Factoring Agreements with Transfer of Claims (14 January 2022, Virtual); and
- *China*: Roundtable Discussion on Strengthening Personal Data Governance in Financial Institutions jointly organized with the Global Digital Finance Center (Hangzhou) ABAC (11 May 2022).²¹

(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.

¹⁷ Among the policy reforms recently implemented by member economies with support from various activities of FIDN are the following:

- The Philippines: Launch of the secured transactions collateral registry in April 2021.
- Viet Nam: The issuance of Decree 21, which brings the secured transactions reform in line with the new Civil Code of 2015, including the explicit recognition of transfer of claims, which is critical for the development of the factoring market.
- China: Consolidation of its moveable property registration into a single agency (Credit Reference Center of the People's Bank of China) on 1 January 2021. This completely replaced local-level filings on inventory and other related assets.

¹⁸ The participants took stock of the progress in legal and regulatory strengthening on personal data in China, and discussed their implications for financial services providers. Among others, different frameworks required for credit reporting agencies and third party data & data analytics firms were emphasized, new data infrastructures necessary for inclusive digital finance were highlighted, and collaboration between financial institutions and third party data companies was encouraged as a new element for deepening financial inclusion.

¹⁹ The meeting reviewed the latest trends in personal data governance framework in APEC Economies, and found that more and deeper regulations are being introduced. These are going to have major impacts on financial services under digital transformation. At the same time, authorities in some APEC Economies are developing new types of data infrastructure to support ID validation, KYC compliance, consent management, alternative data sharing, etc., going beyond traditional credit reporting. These will benefit financial institutions which have the necessary digital capacities to effectively deliver services online.

²⁰ The meeting under-scored the fact that, in the developing APEC Economies, inventory finance is significantly less developed, compared to receivables finance. Yet, such a form of financing is equally important for SMEs and agri-businesses. Experts introduced the business rationale, operations practice and legal structuring of warehouse finance (financing against goods in monitored or controlled warehouses). Participants highlighted the demands for better secured transactions framework as well as the need for specific sector standards on warehouse finance.

²¹ This was an event for financial institutions to share their practical response to the growing scrutiny and regulation on personal data

Development of Global Best Practices

The FIDN also participated in international workshops to identify best practices that can be applied in APEC member economies, as well as share the lessons from its work in the region's developing economies to help in the development of model laws. These include:

- Working Group 4 Virtual Session for the UNIDROIT Model Law for Factoring (1 Dec 2021);
- Working Group 5 Virtual Session for the UNIDROIT Model Law for Factoring (16 May 2022);
- Working Group Virtual Session 4 for the UNIDROIT Model Law for Warehouse Receipts (28 Feb - 2 March 2022);
- Working Group Virtual Session 4 for the UNIDROIT Digital Assets and Private Law Project (2-4 November 2021);
- Working Group Virtual Session 5 for the UNIDROIT Digital Assets and Private Law Project (7-9 March 2022);
- 4th Virtual Conference on International Coordination of Secured Transactions Reform: Coordination in Practice and Enhancing Access to Credit (10 Jun 2021);
- APEC Strengthening Economic Legal Infrastructure (SELI) Workshop on Modernizing Secured Transaction Legal Regimes in APEC Economies through International Instruments and Effective Dispute Resolution Mechanisms (25-27 May 2022, Tokyo); and
- Collaboration with the International Valuation Standards Council (IVSC) in the production of the Perspective Paper *A Framework to Access ESG Value Creation* to develop thought leadership in how ESG can be addressed from a business valuation perspective.

Planned and Prospective Activities for the Rest of 2022

The FIDN is currently preparing the following activities:

- Virtual Regional Focus Group Meeting to discuss how to improve the supply chain finance ecosystem in the Philippines (4Q 2022);
- FIDN Conference, Viet Nam (4Q 2022);
- Virtual Seminar for Online Dispute Resolution in the context of Supply Chain Finance (co-hosted with APEC SELI, Q3 2022);
- Joint Seminar with UNIDROIT on secured transactions reform and movables financing in Indonesia;
- Virtual regional session on data governance in financial institutions during the Shanghai Forum (Nov 2021);
- Webinar on data privacy in collaboration with APEC, including discussion on privacy enhancing technologies to look at how technologies can augment data privacy in cross-border activities;
- Webinar on data security in collaboration with APEC to discuss a possible Framework for Digital Trust;
- Focus group meeting on draft data governance guideline for financial institutions in China; and
- Webinar on leveraging movables finance to support women SME finance.

C. APFF Digital Trade Finance Lab (Trade and Supply Chain Finance)

Tool for Reforms and Cooperation: APFF Digital Trade Finance Lab Combating Trade-Based Money Laundering (TBML) Whitepaper

Following the endorsement in 2019 by the APEC Finance Ministers of the *Strategy for the Digitalization of Trade and Supply Chain Finance*, the APFF Trade and Supply Chain Finance Working Group moved to establish the APFF Digital Trade Finance Lab (hereafter referred to as “the Lab”) in 2020 and designed its scope.²²

processing. The focus was on how to develop a proper internal data governance structure within FIs to minimize the compliance risk and maximize the business value of leveraging data and analytics for financial services. As this is a relatively new challenge for most financial institutions, it was generally felt that industry associations should develop practice guidelines based on consensus for financial institutions.

²² Participants at the kick-off call held in May 2020 agreed that, 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

Following its completion of the Whitepaper on Combating Trade-Based Money Laundering (included in the 2021 Progress Report), the APFF Digital Trade Finance Lab (hereafter referred to as “the Lab”) moved to propose a Proof-of-Concept (POC) on the use of trade and maritime data available from data aggregators for financial institutions to augment their trade finance transactional compliance checks.

The proposed POC would be led by S&P Global (formerly known as IHS Markit), which informs that it has data gathered of 97% of global trade prices from individual customs organizations, and can make available such data organized by economy, HS Code and unit price covering commodities and manufactured goods. The Lab has been in discussion with a technology vendor as a potential collaborator and joint leader for this POC, to showcase how use of privacy enhancing technologies could be deployed to protect financial institutions’ data sent to perform checks against such third-party sources. The Lab is open to other providers of privacy enhancing technologies who may wish to contribute to the POC.

Contingent on agreement to be reached by the mentioned parties and the Lab, the terms of reference and the availability of financial institution participation and resources for the POC, work on the POC is expected to commence in the second half of 2022 with targeted completion of the POC in Q1 2023. Details of the POC and its results will be documented, and shared with recommendations determined therefrom, in the next Progress Report.

D. APFF Financial Market Infrastructure Network

Financial market infrastructures (FMIs) are the pillars of financial market integrity and serve to facilitate the efficient and cost-effective flow of investment across markets. APFF’s recent work focused on standards and inter-operability to enable technology to be used in various aspects of FMIs, including payments, clearing and settlement. With the extensive efforts globally surrounding Central Bank Digital Currencies (CBDCs), much of the focus has been in regard to the goals, needs, impacts, and requirements within the region specific to CBDC implementation and development. In addition, the Network’s Payments Working Group is undertaking work on open data.

1. Central Bank Digital Currencies

Capacity Building

The FMI Network collaborated with the Institute of International Finance to convene a Virtual Symposium on December 1, 2021 concerning Designing Inter-Operable Central Bank Digital Currencies for the Future Asia-Pacific Digital Economy.

This Symposium brought together private and public sector participants for a broad ranging discussion on the issues and opportunities in implementing CBDCs in the region. This included key contributions from Bank of Thailand, Bank of Japan, BIS Innovation Hub, ADB, the Atlantic Council and key institutions in the private sector.

Tools for Reforms and Cooperation

To assist policy makers and regulators in the design of policies and regulations, the FMI Network developed a white paper examining the current environment of CBDCs, specifically concerning wholesale CBDCs. This paper provides a curated collection of existing work globally and a review of the key issues and discussions during the December 2021 Symposium. Based on this foundation, the paper presents a set of recommendations for the Asia-Pacific region regarding wholesale CBDCs.

Other Activities

The FMI Network collaborated and provided panelists for the roundtable of experts of APFF’s retail CBDC seminar on June 17, 2021.

Planned and Prospective Activities for the Rest of 2022

structure consists of various working groups as well as of a steering committee composed of the respective chairs of the working groups.

The FMI Network will contribute to the holding of the following APFF activities for the rest of the year:

- Convening the APFF Roundtable on Digital Currencies (November 2022); and
- Focusing its regular monthly discussions on developing possible APEC initiatives related to FMI issues around digital assets (non-fungible tokens, escrow function, delivery versus payment to customer, use as collateral, types of digital assets), ESG, CBDCs and FMI resiliency.

2. Open Data

On 14 February 2022, the APFF hosted a workshop in collaboration with ASEAN Bankers Association and the Emerging Payments Association Asia to assess the current state of open data across the Asia-Pacific region. The workshop was attended by regulators, financial institutions, fintech firms and other interested stakeholders.²³

Capacity-Building

In an effort to reach a wider group of stakeholders, the partnership with the ASEAN Bankers Association and the Emerging Payments Association (EPAA) is continuing. EPAA includes collaboration with IIF, which participated in the above-mentioned workshop.

Planned and Prospective Activities for the Rest of 2022

The work on Open Data will continue throughout 2022. A workshop will be held on 19 July which will further guide the work for the rest of the year and into 2023. A special focus will be given to the impact of in-market regulations around data localization regulations on the potential of an Open Data regional framework. In the consecutive workshops, focus will be given to presenting use cases, and for those use cases to be compared between markets and regions.

III. FINANCIAL RESILIENCE

APFF seeks to promote financial resilience through its work on (a) disaster risk financing and insurance; (b) insurance regulation and accounting; (c) promoting circular economy infrastructure; and (d) health care financing.

A. Disaster Risk Financing and Insurance

Since 2015, the APFF Disaster Risk Financing and Insurance (DRFI) Network has been assisting the

²³ The workshop identified 12 key points point (see report in appendix) which pointed to four overarching themes

- Theme 1: Whole-of-Government Approach: Harmonizing licensing requirements can make it easier and more attractive for fintechs and other such organizations to participate in a licensing regime, lead to mutual recognition across borders, and ensure that fintechs are subject to oversight and accountability across the same borders. Harmonized standards could also address the challenges of "data sovereignty".
- Theme 2: Standardization, Harmonization and Cross Border Integration: The workshop recommended the recognition of a standard and a level of harmonization, for at least those basic elements of Open Data for which there is no contention, so there is some consistency. Standardization supports an open, free-to-use standard, with the networks and regulation under the control of each government. The benefit is that companies can exchange technology, learnings, and practices globally. They can also more easily integrate if the need arises. There is understanding that "API standard" is not a full solution. They provide technical specifications but little coordination around how they are implemented and how to secure high performance.
- Theme 3: Developing Economies: Today, a producer in a developed economy has better access to online markets than those in developing economies, which is why we say Open Data could benefit developed economies more. However, we suggest that Open Data can improve governance, empower citizens, create economic opportunity and help solve complex public problems in developing economies. The impact of Open Data on developing economies depends on the attention that governments give to the definition of the problems to be solved, the management of resources, partnerships across sectors, risk management and transparency of governance. In particular, the potential benefits of Open Data to developing economies relies on digital access being fully inclusive for the population.
- Theme 4: The Need for a Commercial Voice: This commercial view has been missing from many purely government-led efforts. As such we urge that implementation approaches pay attention to this commercial aspect of Open Data in order to generate a stronger solution that can enable commerce and the commercial markets to provide more significant benefits to consumers accessing Open Data.

APEC Working Group on Regional Disaster Risk Financing Solutions to jointly promote DRFI in the region as envisaged in the Cebu Action Plan. Key actions of the DRFI Network over the past couple of years have been centered on catalyzing the region’s catastrophe bond market. In addition, the COVID-19 pandemic revealed the importance of preparedness for the next catastrophe.

Catastrophe Bonds

The first APEC Virtual Workshop on Catastrophe Bonds was held on 23-24 September, 2020, as a collaboration between the World Bank Group, APFF/ABAC and APEC. The second virtual workshop was held on 19 October, 2021, co-organized by the World Bank Group, the Hong Kong Insurance Authority, APEC and APFF/ABAC, with a geographic focus on Guangdong-Hong Kong, China-Macao Greater Bay Area. Building on the previous two events, the third virtual workshop is under planning aimed for October 2022, focusing on Indonesia.

Preparedness for the Next Catastrophe

The devastating consequences of COVID-19 demonstrated the necessity for better mechanisms to increase economic resilience and preparedness against future pandemics – even more so as the likelihood of occurrence of another pandemic event of similar or larger magnitude is estimated to be around 25% within the next 10 years. In response, a virtual roundtable “Enhancing the Region’s Resilience through PPPs in Pandemic Risk Transfer” was held on 20 April, 2022, hosted by ABAC Philippines and Globe. The agenda, crafted by Munich Re, outlined the design of a Public-Private Partnership solution for pandemic risk transfer. The proposal is to grow a specialty market segment to the desired scale with public sector support. Transactions have already taken place in other geographical areas, which demonstrates its feasibility. It was further discussed how these concepts could best be implemented in the APEC region, given their high risk exposure. The focus was on pilot transactions with a low threshold for implementation, including a pilot project session which shed light on the tourism industry in Thailand and was followed by a workshop with local stakeholders in Bangkok in June. Putting the learnings from the roundtable in practice, there is an ongoing activity to promote private sector-led pilot cases in the region.

Other Activities

The APFF DRFI Network has been observing the developments taking place at international initiatives which share the objective of promoting DRFI, particularly that of the Insurance Development Forum (IDF). Most notably, at the IDF Summit 2022, it launched the Global Risk Modeling Alliance (GRMA) program, which aims to facilitate wider adoption of open-source risk modeling platforms. The devastating natural disasters revealed the importance of ex-ante financing for APEC economies to be better prepared for the next catastrophe, learning from existing frameworks that reflect specific features of each region. Keeping this in mind, APFF DRFI Network continues to assist APEC in promoting financial resilience of the region. The APFF DRFI Network endeavors to make the most of its network with the IDF and other international fora to assist the implementation of DRFI schemes in the APEC region.

B. Insurance Regulation and Accounting

Since 2013, APFF has been working on promoting the insurers’ and pension funds’ roles to support the sustainable, resilient and inclusive growth and development of the Asia-Pacific region, through the APFF Insurance and Retirement Income Network. 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 regimes²⁴ that do not

²⁴ APFF identified the following issues and recommendations on insurance regulations and accounting (submitted in 2015 by ABAC to the IAIS. See also APFF Progress Report 2015):

- **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

discourage insurers from engaging in long-term business and making long-term investments in infrastructure, capital markets and funding innovations.

Accounting

Progress of Accounting Standards Reform

APFF has been working with the International Accounting Standards Board (IASB) and other stakeholders to find solutions to both interrelated standards IFRS17 *Insurance Contracts* and IFRS9 *Financial Instruments* to address issues and concerns identified by APFF. This was done through various approaches over the years, including comment letters proposed by APFF and issued by ABAC, international workshops and dialogues with individual officials. APFF continues analysis on implementation status of IFRS17 and IFRS9, including the impact on solvency assessment, and provide implementation support as needed in the Asia-Pacific region.

As for IFRS17, the IFRS Interpretations Committee and the IASB are working on remaining interpretation issues²⁵ on IFRS17. Regarding IFRS9, the IASB is considering the issue of the recycling ban²⁶ for equities measured at fair value through other comprehensive income or OCI ('FVOCI equities') as part of its Post-Implementation Review (PIR) on IFRS 9, focusing it on classification and measurement and to include the recycling issue into it. APFF monitors these discussions and coordinate with other relevant stakeholders.

Solvency regime

Ongoing Advocacy Activities

With respect to solvency regime, APFF has been engaging in continuous outreach and dialogue with policymakers, regulatory authorities, international and regional institutions in coordination with industry bodies, to reflect the long-term nature of the insurance business in global regulatory discussions and to avoid dis-incentivizing insurers from supporting long-term growth, in particular quality infrastructure investments. In November 2019, the International Association of Insurance Supervisors (IAIS) agreed on Insurance Capital Standards (ICS) Version 2.0 for a five-year monitoring period. During the monitoring period, ICS are being used for confidential reporting and discussion among supervisors in supervisory colleges.

As part of its work on the ICS over the 2020-2024 Monitoring Period, the IAIS had a consultation (on 7 December 2020) on whether there should be a differentiated capital treatment of certain eligible infrastructure (both equity and debt) as well as strategic equity investments within the ICS. In that context, the IAIS received input from the public regarding quantitative and qualitative material and data sources that could be used to support the aforementioned work. APFF worked with other stakeholders, such as Geneva Association²⁷, which submitted comments in line with the APFF recommendations²⁸. The IAIS tentatively decided to treat eligible infrastructure debt as a separate

the diversity in different economies;

²⁵ For example, the IFRS Interpretations Committee concluded its discussion on the issue of transfer of insurance coverage under a group of annuity contracts under IFRS17 at its June meeting with decisions to be considered by the IASB at its July meeting.

²⁶ ABAC submitted the following comment on recycling to IASB in 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.

²⁷ Founded in 1973 by the CEOs of global insurers, The Geneva Association is an international insurance think tank that produces and distributes high-quality research and analysis on global strategic insurance and risk management issues. Its objective is to develop and promote a wider understanding on the unique role and importance of insurance in economies and for societies through publications, conferences and active discourse with policymakers, regulators, supervisors, academics and other key constituents.

²⁸ See APFF Progress Report 2016 to the APEC Finance Ministers for the high-level recommendations: https://www2.abaonline.org/assets/2016/3%20Shenzen/1_2016_APFF_Report_Final.pdf

asset class, and is still considering the treatment of strategic equities. The IAIS published its ICS technical specifications in 2022, and is holding a series of consultations and technical discussions, for which APFF continues to provide inputs on relevant areas through the coordination with both regional and international stakeholders.

Planned Activity for 2023 (postponed from 2021-22)

The APFF plans to hold an *APFF Roundtable on Insurance Regulations and Accounting*, inviting IFRS Foundation, insurance supervisory authorities, accounting firms and industry experts in the Asia-Pacific region. Topics to be included are IFRS17, IFRS9, Sustainable Reporting, as well as Solvency Regime. Issues identified during the roundtable will be used as basis for further dialogue with standard setters and stakeholders. It was initially planned in the fourth quarter of 2021 or the first quarter of 2022, but due to pandemic, it is now targeted in 2023 (the venue or the format of the roundtable to be determined).

ESG Investment and Sustainable Finance

The ESG Finance Working Group was established in March 2020 to deepen the footprint of ESG investment and responsible banking in developing economies and provide input to ABAC in drafting recommendations to the APEC Finance Ministers on ESG Finance. The APFF aims to advocate ABAC high-level recommendations²⁹, and Asia-Pacific Infrastructure Partnership (APIP) and Sustainable Finance Development Network (SFDN) technical guidance to promote sustainable investment by insurers, pension funds, and other long-term institutional investors.

Ongoing Advocacy Activities

APFF continues to dialogue with policymakers and standard setters, including the International Sustainable Standards Board (ISSB), IFRS Foundation, Task Force on Climate-Related Financial Disclosures (TCFD), the IAIS, the United Nations Principle of Responsible Investment (UNPRI) and Net Zero Asset Owners Alliance (NZAOA), and to provide a forum that brings together governments, regulatory agencies, private sector, and civil society to share challenges, possible solutions and good practices to promote ESG in the region, in collaboration with other international and regional bodies. APFF worked with other stakeholders, such as the Geneva Association and the Global Federation of Insurance Associations (GFIA), which submitted comments in line with the APFF recommendations. While most of the work on ESG and sustainable finance are engaged through the SFDN, the working group continues to provide specific input from the long-term institutional investors' perspectives, such as insurers and pensions funds³⁰.

²⁹ The ABAC recommendations included the following high-level principles that should govern efforts to promote the integration of ESG factors in financing decisions: Strive toward a common global ESG taxonomy or set of standards that is practical, globally applicable and readily adapted to the needs of users across diverse jurisdictions at different levels of economic, social and political development. It would need to have the following characteristics:

- Principles-based rather than prescriptive;
- Globally consistent;
- Flexible in approach and acknowledging, e.g., different shades of green and brown instead of a binary choice between green and brown, and that is open to different speeds of adoption;
- Dynamic, taking into account future changes in the level of sustainability of assets and activities due to technological developments;
- Adaptable and easily implementable;
- Broad coverage of activities and financial products; and
- Inclusive and adhering to the global pledge that no one should be left behind.

Also recommended was to devote sufficient attention to social and governance factors, which are less developed than environmental factors.

³⁰ Institutional investors usually follow any or all of five main approaches to sustainable finance, which are as follows:

- Negative screening (exclusion);
- Positive screening (selecting the best in class);
- Thematic investments (green and social bonds);
- Active ownership (stewardship); and
- ESG integration (multi-factor across the firm).

C. Circular Economy Infrastructure

As 2022 APEC host, Thailand has prioritized developing a leader-level declaration to advance APEC's sustainability objectives and comprehensively address environmental challenges. This declaration, tentatively called the "Bangkok Goals on Bio-Circular-Green (BCG) Economy" seeks to *inter alia* advance resource efficiency and sustainable waste management and explore a framework to advance and facilitate the transition to a circular economy.

Capacity-Building

Key to advancing the Bio-Circular-Green (BCG) Economy will be capacity building efforts, voluntary technology transfer on mutually agreed terms, and the exchange of knowledge, expertise and best practices. Additionally, it will be critical to continue efforts to promote infrastructure development, financing, and investment, while utilizing the latest science, technology, and innovations.

In support of this priority the APFF and APIP are working through the Chemical Dialogue on an APEC project³¹ approved this year to explore how chemical recycling can support a circular economy. In particular, the work will explore enabling policies and regulations to unlock additional financing and incentivize the development of infrastructure to support a more circular economy including the need for common terminology and standards. Part of this work will include a series of webinars, the first of which was held in July 2022.

D. Health Care Financing

The APFF was pleased to see the endorsement of the APEC Healthcare Financing Roadmap³² which outlines a multi-year plan to advance APEC's health financing objectives and help interested economies increase access to healthcare by expanding the role of the private sector and exploring the use of innovative and alternative financing models to deepen the level of coverage provided in APEC economies.

Capacity-Building

In an effort to achieve the objectives outlined in the APEC Healthcare Financing Roadmap and make measurable progress towards its key metrics a policy dialogue was held in December 2021. In 2022 the work on regional webinars was continued including a webinar on the impact of the COVID-19 pandemic on health system financing (July 2022).

Planned and Prospective Activities for the Rest of 2022

The work on health care financing will continue throughout 2022 with a particular focus on advancing private insurance in interested APEC economies. As an example, work is underway to support a health care system reform white paper that is currently under development by the Government of Malaysia. We are also exploring interest in developing a more formalized coalition of stakeholders interested in advancing private health insurance throughout the APEC region.

IV. OTHER INITIATIVES

Enhancing Valuation Practices

The APFF Valuation Practice Working Group led by the International Valuation Standards Council (IVSC) continues its efforts to advance the adoption of common valuation standards across the Asia-Pacific Region and to foster the development of a robust valuation profession to monitor and deliver these standards. Our ability to visit during COVID-19 has been constrained, but given that access

³¹ Additional information on the APEC project CD 01 2022S "Leveraging Chemical Recycling in a Circular Economy" may be found here: <https://aimp2.apec.org/sites/PDB/Lists/Proposals/DispForm.aspx?ID=3003>

³² The APEC Healthcare Financing Roadmap may be accessed at: http://mddb.apec.org/Documents/2021/MM/HLM-HE/21_hlm-he_007.pdf

post-COVID is now possible to many economies the Group is planning a series of visits over the next 12 months to those economies who have expressed interest to understand and adopt best valuation practices.

In this regard and given the demand for advice on best practice, IVSC established a presence in Singapore with the support of the Singapore Government and the relevant professional bodies and the big four to enable it to better serve the needs of the region.

A major initiative upon which IVSC has embarked is to produce a series of Perspective Papers covering important matters relating to value and valuation and focusing on the impact of inflation on valuation and the cost of capital, ESG, intangibles and the growing influence of digital assets in the investment world.

In particular these include:

- How the current inflationary environment impacts value and valuations and the cost of capital;
- Exploring the concept of human capital and how it generates value for organizations and how such value should be recognized;
- Putting value at the core of ESG Evaluation and Confirmation as well as the ability to accurately, consistently and quantitatively measure the value of its components; and
- Addressing the valuation of Digital Assets including non-fungible tokens and currency tokens which are now more accessible to investors through new technologies, exchanges and digital ledgers.

Supporting the Development of Regional Funds Passports

The Asia Regional Fund Passport (ARFP) has had a slow uptake ever since its initiation in February 2019. This was primarily due to travel interruptions as the market outreach started close to the onset of COVID. Currently only one fund has been launched out of New Zealand and the Joint Committee of participating regulators is currently reviewing the ARFP scheme to understand how the current framework could be enhanced to widen its appeal and take-on. The APFF working group has submitted a memo for the Joint Committee's consideration of feeder fund structures in the ARFP scheme and the committee has concluded that it will not consider this at the moment as it is not aligned with the fundamentals of the ARFP's foundation of recycling Asian investments. The next virtual committee meeting was held in July.

CONCLUSION

The COVID-19 pandemic and its aftermath are posing serious challenges to the economies of the Asia-Pacific region, most of which face record levels of public and private debt, constrained fiscal space, hugely expanded central bank balance sheets, and a return of inflation, this being exacerbated by the severe economic impact of current geopolitical conflicts. With governments and central banks finding themselves constrained in using traditional tools to fight economic headwinds and to sustain recovery, it has become more important than ever to enable the business sector to further expand its contributions to economic growth and development. In this process, the financial industry can play a catalytic role to promote inclusive digital infrastructure, sustainability and resilience.

The road ahead for APEC is not totally uncharted, as the ways to make finance more inclusive, innovative, sustainable and resilient have already been the subject of much research and discussion long before the arrival of COVID-19. Solutions are already enshrined in the Finance Ministers' Cebu Action Plan from 2015 and the FMP agenda and identified in past ministerial statements. It only remains for them to be translated into concrete policies, regulations and capacity building measures. The pandemic and its aftermath, and new economic challenges stemming from geopolitical conflict we are facing today, have injected a sense of urgency representing an opportunity that is there to be seized.

The APEC Finance Ministers' Process can take the lead in translating this sense of urgency into

individual and collective actions to advance the implementation of these deliverables in the Finance Ministers' multi-year agenda. Much can be achieved by coordinating this with the work of the multilateral organizations participating in the FMP – the ADB, IMF, OECD and World Bank – and with the initiatives of the business sector, as well other relevant APEC fora.

As this Progress Report shows, these initiatives continue to provide support to economies in undertaking important reforms, especially in expanding access to finance. Individual economies as well as APEC fora are coming forward to make full use of these platforms for public-private collaboration to advance various initiatives related to digitalization and sustainability. In this context, we look forward to working with APEC Finance Ministers and other relevant authorities in seizing opportunities for undertaking concrete reforms and capacity building measures that will help our region build a resilient future by enabling financial services to promote sustainability, digitalization and risk mitigation.

APPENDIX



ASIA-PACIFIC FINANCIAL INCLUSION FORUM

*The Role of Central Bank Digital
Currencies in Financial Inclusion*

Proposed Actions for
Policymakers and Regulators

In partnership with



INTRODUCTION

The Asia-Pacific Financial Inclusion Forum (APFIF) is a policy initiative established in 2010 under the APEC Finance Ministers' Process, housed within the APEC Business Advisory Council (ABAC). The primary purpose of the Forum is to identify concrete actions policymakers and regulators can take to expand the reach of financial services to the underserved. The annual APFIF Policy Dialogue provides a platform for policymakers, regulators, development experts and industry leaders to take an active role in validating and refining the proposed actions developed through the APFIF initiative and achieve consensus for effective pathways for progress. These proposed actions are distributed through official APEC channels to support the work of the APEC Finance Ministers' Process.

A distinctive feature of the Forum is its broad view of financial inclusion as an enabler of inclusive growth and development in all its manifestations – financial, economic and social - and its strong focus on those at the base of the economy and the potential for financial inclusion to have a positive impact on the poor. This approach aligns with the priorities of APEC including:

- Priority areas established by the APEC Host (Thailand) under the theme “*Open. Connect. Balance.*”
- The APEC Putrajaya Vision 2040
- The Cebu Action Plan, 2015 (i.e. promoting domestic strategies for financial inclusion and literacy) as well as its revised implementation strategy endorsed by APEC's Finance Minister's in 2021

To support these priorities, and recognizing the important role technology and innovation has in driving greater financial inclusion, in 2022 APFIF adopted the theme “*The Role of Central Bank Digital Currencies in Financial Inclusion*”. Under this theme, the APFIF initiative has examined this emerging technology and developed a series of proposed actions to support APEC's policymakers and regulators currently exploring or interested in designing a CBDC to advance financial inclusion. Specific issues explored through the APFIF initiative in 2022 include:

- Understanding a central bank digital currency and its applications
- The opportunities and challenges associated with central bank digital currencies as a driver for financial inclusion
- Connecting central bank digital currencies to the existing financial system to enable financial inclusion

The 2022 Asia Pacific Financial Inclusion Forum is led by the Asian Development Bank (ADB) and co-organized with the Asian Development Bank Institute (ADBI) and the APEC Business Advisory Council (ABAC); and supported by the Griffith Asia Institute (GAI).

PROPOSED ACTIONS FOR POLICYMAKERS AND REGULATORS

As interest in CBDCs grows globally, the findings from ongoing research and pilot programs will contribute to the collective understanding of the potential challenges and opportunities they represent. These findings will also provide greater clarity on how impactful a CBDC may be as a mechanism to enhance the reach and value of formal financial products and services to the unbanked. Based primarily on the experiences of the Asia-Pacific region, the following proposed actions intend to provide guidance to policymakers and regulators on ways they might prepare for and develop a CBDC that can be successful in achieving greater financial inclusion.

Proposed Action 1: Consider which design features of a CBDC will be most effective for financial inclusion

There is no one-size-fits-all model when it comes to CBDC design. Economies need to carefully consider what specific design features will result in the best financial inclusion gains in terms of both expanding access to formal financial products and services as well as enhancing the financial health of individuals or

businesses through effective usage. Achieving this requires determining the key constraints for financial inclusion within the local economy and mapping these constraints to specific CBDC design features that can play a role in overcoming them. As part of this process, policymakers and regulators should consider the following points:

- ***Determine how CBDC design features would be recognized and impacted by current policies and regulations.*** How an economy chooses to design its CBDC may result in various unforeseen policy or regulatory challenges which could have a significant impact on its viability to address financial inclusion. Certain design features, such as whether the CBDC is wholesale or retail, account-based or token-based, may be treated differently according to established legal frameworks. In the context of cross-border CBDC transactions, this issue also highlights the importance of assessing and standardizing regulatory and legal frameworks between economies.
- ***Weigh the costs and benefits of a CBDC against other potential solutions for addressing financial inclusion.*** While the prospect of implementing a CBDC to accelerate financial inclusion gains is appealing, it's important that governments and other stakeholders consider if it is indeed the most appropriate solution, or if this solution can complement already existing initiatives by Central Banks to advance financial inclusion. With technology evolving at such a rapid pace, so too are opportunities to develop new innovative solutions to address financial inclusion constraints. Implementing a CBDC is a significant challenge and requires a high level of expertise, financial resources, and reliable infrastructure to operate effectively. Before committing to such a major investment, governments should consider the specific financial inclusion barriers most prominent in their economy and assess whether alternative technology solutions may actually be more effective or cost efficient.
- ***Pursue collaborations with other governments in the region to understand and address cross-border implications.*** Joint assessments through cross-border collaborations can be a useful strategy to understand how a CBDC may be recognized in different jurisdictions. This may be especially important for transactions involving CBDCs to operate effectively between economies, including implications for international remittances. For example, high remittance receiving economies may need to consider regulatory reforms to address the potential for currency substitution when a CBDC is transferred from another economy and used in local markets.

Proposed Action 2: Prioritize addressing the required pre-conditions for successful digital financial inclusion

As a digital product, a CBDC will encounter the same challenges currently experienced by service providers attempting to introduce digital financial services to the financially excluded. This includes persistent constraints such as limited trust in technology, reliance on the cash economy, or inadequate financial and digital literacy. These issues are exacerbated in developing economies where significant portions of the population also lack access to affordable or reliable infrastructure necessary for participating in the digital economy such as internet connectivity or even stable electricity networks. For a CBDC to be a viable solution for these disadvantaged groups, efforts must be made to create an environment where all consumers are both capable and comfortable using digital products and services. Examples of critical areas governments may need to consider for a CBDC to be a successful driver of financial inclusion include:

- ***Leverage the existing system of regulated financial intermediaries to distribute a CBDC and provide access channels.*** The inclusion of non-bank services providers is especially important for meeting financial inclusion objectives, as it ensures access channels for those who are less connected with the formal financial system or the digital economy (i.e. those in remote areas). The use of existing networks can also support offline functionality of a CBDC, which is critical for remote communities which often have limited internet coverage or reliable access to electricity.
- ***Address onerous identification and KYC requirements.*** Identification requirements, especially for small transactions, are a critical barrier for financial inclusion. Integrating a CBDC with a

national digital identification system, simplifying due diligence requirements through reforms, and promoting remote onboarding or eKYC methods, such as tiered eKYC based on transaction amounts, can strengthen a CBDC's impact on financial inclusion.

- **Address financial and digital literacy needs.** Governments can play a major role in building awareness, level of skills, and trust in digital financial services through campaigns and public-private partnerships targeting disadvantaged segments of the population. Building trust in a CBDC will be of particular importance as many segments of the population may be resistant to moving beyond cash as the preferred medium of exchange. Society will need to have confidence in not only the CBDC, but also the technology systems used to facilitate it within the economy.
- **Foster interoperability among multiple dimensions.** For a CBDC to become a viable currency option for all members of society it will need to have broad adoption and integration throughout the economy. This requires ensuring interoperability across digital payment and settlement systems, including credit transfers, payment cards and mobile money as well as cross-border CBDC systems for international remittances. Data portability is also an important aspect of interoperability as it enables users to use their credit history to access other financial products and services.

Proposed Action 3: Recognize and manage the risks associated with introducing a CBDC

A CBDC creates the unique prospect of putting central bank money in the hands of individuals and businesses, bringing new and potentially serious risks. One of the most significant risks associated with introducing a CBDC is the prospect of it directly competing against present day fiat currencies, commercial banks and the financial services sector, in general. The resulting impact on financial sector stability could have detrimental effects on financial inclusion. Examples of specific actions governments may need to take to ensure the safety and effectiveness of a CBDC include:

- **Establish safeguards to mitigate the prospect of CBDCs' crowding out or directly competing with the commercial banking sector and financial services industry.** Depending on how CBDC is designed, it can have different impact on banking and the finance sector. Some examples of measures which could help reduce potential negative impacts on financial sector stability include ensuring that a CBDC is not interest bearing or implementing a two-tiered system for CBDC distribution. Conducting CBDC pilot programs and introducing the currency in a staged and progressive adoption plan can help to better identify and understand potential risks and support the development of appropriate mitigation measures.
- **Invest in enhancing cybersecurity technology and capabilities.** Every individual or business using a CBDC will be exposed to potential risks including fraud, privacy breaches, human error, and others. Without adequate consumer protection policies combined with and education programs (i.e. financial and digital literacy) in place to combat these issues the perceived value of CBDC among potential users could be compromised. This issue may present a good opportunity for central banks to collaborate with the private sector to, for example, boost cybersecurity knowledge and capabilities or to undertake pilot programs with the aim of testing and reforming policy and regulatory frameworks as needed.