



ADVANCING THE APEC VISION FOR FINANCE

2024 Progress Report

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

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EXECUTIVE SUMMARY

Since its establishment, APEC has pursued a vision of “building a new economic foundation for the Asia-Pacific that harnesses the energy of our diverse economies, strengthens cooperation and promotes prosperity.” Following the outbreak of the Global Financial Crisis, the Finance Ministers issued their *Kyoto Report on Growth Strategy and Finance*, where they identified priorities for securing future growth. In 2015, the Finance Ministers launched the Cebu Action Plan (CAP) that identified action programs for promoting financial integration; advancing fiscal reforms and transparency; enhancing financial resilience; and accelerating infrastructure development and financing.

While many tangible results have been achieved under the CAP since its launch and several ongoing efforts continue to be progressed, APEC member economies continue to face challenges in realizing the Finance Ministers’ stated goal of stronger, more sustainable and more balanced growth in the region. Through the years, the Ministers have reiterated what needs to be done to address these challenges. Thus, an important undertaking where attention needs to be focused is the translation of the Finance Ministers’ calls to action into concrete laws, policies, regulations and measures in individual economies as well as into concrete forms of regional cooperation.

It is on this process 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).

This Progress Report covers the work and achievements of these initiatives since the last APEC Finance Ministers’ Meeting hosted by the USA in San Francisco in November 2023 until the present and provides information on planned activities until the end of 2024. It focuses on three areas: (a) sustainable finance; (b) inclusive finance; and (c) financial resilience. In addition, the Report also describes new efforts to intensify engagement with local stakeholders in member economies in order to increase support for activities being undertaken to help them implement deliverables that the Finance Ministers have identified. Following are some of the key achievements and activities undertaken in pursuit of progress in these three areas:

Sustainable Finance

- The APFF Sustainable Finance Development Network (SFDN) launched the first of its local governance structures to support coordination of efforts around capacity building for sustainable finance, the Mexican TCFD Consortium, developed following the successful Japanese Consortium model. Discussions are continuing with Thailand, the Philippines and Chile regarding the establishment of similar local governance structures.
- The APFF SFDN provided support and speakers in the series of workshops held on the sides of FMP meetings on carbon pricing and non-pricing measures and clean energy transition, as well as private sector inputs to the discussions at FMP meetings.

- The APIP and APFF SFDN convened with ABAC a virtual seminar on Financing Just Energy Transition on 11 April.
- The APIP and APFF SFDN provided support and speakers for the FMP seminar on sustainable infrastructure held on 28 May in Urubamba.
- The APFF SFDN supported and co-organized various roundtables and webinars on intellectual property financing for sustainable innovation, interoperability and integrity of voluntary carbon markets, sustainable supply chains and transition financing to help develop and implement ABAC's recommendations to the APEC Finance Ministers.
- APFF participated as official observer in the UNIDROIT Working Group on the Legal Nature of Voluntary Carbon Credits.
- APFF SFDN plans to support a high-level seminar on sustainable finance being proposed to be held on the sides of the APEC Finance Ministers Meeting and commits to support activities of the proposed FMP initiatives on sustainable finance.

Inclusive Finance

- The Asia-Pacific Financial Inclusion Forum (APFIF) convened the *Policy Dialogue Enabling Green MSME Finance through Technology* on 30 May in Urubamba, Peru, and produced a summary of its results, which is a series of proposed actions for consideration by policy makers and regulators related to (i) enabling a viable and effective open data ecosystem; (ii) the potential of artificial intelligence to drive new solutions for green financing; and (iii) supporting financial sector innovation and technology adoption.
- The APFF Financial Infrastructure Development Network (FIDN) Credit Information Working Group undertook the following:
 - follow-on analysis and technical advisory services on the development of the credit information system in the Philippines in support of the Credit Information Corporation, the Securities and Exchange Commission, the Department of Finance and the Credit Bureau Unit of the Bangko Sentral ng Pilipinas (central bank); and
 - participation in the International Committee on Credit Reporting (ICCR), a body jointly organized by the IFC and the IMF.
- The APFF FIDN Data Ecosystems Working Group undertook the following:
 - convened an online meeting to disseminate the APFF Guiding Principles for the Development of Interoperable Open Data System to market players in China; and
 - organized two discussions on the formal data and data analytics market with regulators and market players in Viet Nam.
 - Together with the IFC, the Working Group plans to assist Viet Nam in developing its data and analytics industry and promoting the formalization of third party data and analytics market outside the credit reporting industry. It is also collaborating with the APEC Data Privacy Subgroup on privacy enhancing technologies (PETs) and plans to support a proposed hybrid event hosted by Chinese Taipei in early 2025.
- The APFF FIDN Secured Transactions Working Group undertook the following:
 - provided inputs and recommendations that assisted Viet Nam in passing its revised law on credit institutions (improving the regime for factoring);
 - organized a conference with the Ministry of Justice of Viet Nam in November 2023 to support reforms on the use of digital assets as a new class of movables collateral for the benefit especially of MSMEs;
 - co-organized two training workshops with the Supreme People's Court of Viet Nam on secured transactions law implementation for commercial law judges;
 - supported Brunei Darussalam with capacity building sessions on secured transactions system development;
 - held a regional conference on digital supply chain finance in late 2023 in Singapore;

- participated in the discussions and formulation of the UNCITRAL Guide on Access to Credit for Micro-, Small and Medium Sized Enterprises, the UNCITRAL Model Law on Warehouse Receipts and the UNIDROIT Model Law on Factoring; and
- contributed to the discussions on secured transactions reform for common law and civil law jurisdictions of the APEC Economic Committee's Strengthening the Economic and Legal Infrastructure (SELI) Friends of the Chair group.
- The Working Group is currently planning to organize several events to support the Philippines' effort to develop the movables finance market and support Viet Nam's efforts to develop non-deposit taking lenders as new finance providers and its green and climate movables financing and warehouse finance markets.
- The APFF FIDN Intellectual Property Financing Working Group collaborated with ABAC in developing an APEC work plan (*Promoting Intellectual Property Financing for Sustainable Innovation: A Reform Strategy for APEC Economies*) for enabling the use of intellectual property rights to finance sustainable innovation projects through a joint virtual workshop held on 9 May.
- The APFF Digital Trade Finance Lab completed a proof-of-concept (*Analysis of Financial Institution Trade Transaction Data to Uncover Instances of Goods Mispricing to Combat Trade-Based Money Laundering*) on the use of trade and maritime pricing data for financial institutions to augment their trade finance compliance checks for trade-based money laundering. It also supported ABAC in developing its recommendations on deep-tier supply chain financing and sustainable supply chains through jointly co-organized roundtables.
- The APFF Valuation Working Group is promoting awareness in member economies on the updated International Valuation Standards published in January 2024 that will become mandatory in January 2025.

Financial Resilience

- The APFF Disaster Risk Financing and Insurance Network undertook the following:
 - supported the APEC Working Group on Regional Disaster Risk Financing Solutions in promoting DRFI in the region as envisaged in the CAP;
 - organized the virtual workshop *Back to Basics and a Step Forward* for member economies on 31 May;
 - continued work on the pilot project for Thailand to establish an Epidemic Risk Markets Platform as a methodology for addressing pandemic risk;
 - supported ABAC in developing recommendations on hydrometeorological risk financing and insurance through a joint virtual roundtable on 20 June; and
 - convening the session entitled *Bringing Resiliency to the Asia-Pacific – the Role of Disaster Risk Financing and Insurance* on 19 June in Himeji, Japan as part of the Understanding Risk Forum 2024 organized by the World Bank.
- The APFF Insurance and Retirement Income Network undertook the following:
 - supported the International Accounting Standards Board (IASB) through workshops and dialogues in finding solutions to IFRS 17 (insurance contracts) and IFRS 9 (financial instruments) that do not result in disincentives for long-term equity investments, especially in infrastructure and sustainable transition projects;
 - facilitated more active Asia-Pacific inputs to the development of the Insurance Capital Standard (ICS) through dialogues with policymakers, regulatory authorities, and international and regional institutions, in particular with respect to the risk charge on long-term equity, which will significantly impact investment in Asian corporate bond markets; and
 - supported the International Association of Insurance Supervisors (IAIS) in convening its November 2023 annual conference in Tokyo, Japan.
 - The Network is currently planning to convene an *APFF Roundtable on Insurance Capital Regulations and Sustainability Reporting* in Hong Kong, China in Late 2024.

- The APFF Pensions and Retirement Income Working Group collaborated with ABAC in developing an APEC work plan for enabling pension funds to expand the range of their investments in private markets, including infrastructure, private equity and private credit among others, through the joint roundtables *Mobilizing Pension Funds for Growth* held virtually on 27 March and *Mobilizing the Asia-Pacific Region's Pension Funds for Growth* held in person on 31 July in Tokyo, Japan.
- The APIP and the APFF Circular Economy Infrastructure Working Group collaborated with the APEC Chemical Dialogue to share best practices and case studies from jurisdictions implementing policies that support investment in waste collection, recycling and disposal infrastructure, and are currently collaborating with the Chemical Dialogue on a survey of priorities and capacity building needs for implementing Extended Producer Responsibility policies to support financing for waste management infrastructure.
- The APFF Health Care Financing Working Group is co-organizing a sustainable health financing roundtable in the 4th quarter of 2024 to help Malaysia harness public-private partnerships in increasing investment in its health system.

Outreach to Member Economy Stakeholders

Following the holding of the APFF China Conference in 2021 and 2023 in Beijing, China, APFF jointly with the ASEAN Business Advisory Council convened its inaugural Southeast Asia Conference on 17 May in Bangkok, Thailand.

Conclusion

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, sustainability, and resilience. 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 better future by enabling financial services to promote sustainability, digitalization and resilience.

INTRODUCTION

Since its establishment, APEC has pursued a vision, encapsulated in the Economic Leaders' 1993 Blake Island Vision Statement, of "building a new economic foundation for the Asia-Pacific that harnesses the energy of our diverse economies, strengthens cooperation and promotes prosperity." In that same declaration, the Leaders announced the convening of the first meeting of APEC Finance Ministers "to consult on broad economic issues including macroeconomic developments and capital flows" that can help them "address some of the challenges facing the region, including ensuring non-inflationary regional growth, financing investment and infrastructure development, and promoting capital market development."

Following the outbreak of the Global Financial Crisis and the consequent challenges it presented, the Finance Ministers, in their Joint Statement in 2010, emphasized the importance of taking "policy measures to achieve stronger, more sustainable and more balanced growth in the region." To help APEC advance toward this goal, the Ministers issued their *Kyoto Report on Growth Strategy and Finance*, where they "identified priorities for securing future growth, namely, rebalancing and strengthening global demand, pursuing sound fiscal management, and enhancing finance to key sectors such as infrastructure, small and medium enterprises, households and green investment."

In 2015, the Finance Ministers announced in their Joint Statement their agreement on a voluntary and non-binding ten-year roadmap to "create an APEC community that is more prosperous, financially integrated, transparent, resilient, and connected." This roadmap, called the Cebu Action Plan (CAP) identified action programs under four pillars, namely: "(i) promoting financial integration; (ii) advancing fiscal reforms and transparency; (iii) enhancing financial resilience; and (iv) accelerating infrastructure development and financing."

While many tangible results have been achieved under the CAP since its launch and several ongoing efforts continue to be progressed, APEC member economies are facing challenges both old and new that need to be confronted in order to realize the Finance Ministers' stated goal of stronger, more sustainable and more balanced growth in the region. Among the old challenges are the persistent barriers to greater cross-border flow of finance arising from the diversity of legal, regulatory and institutional infrastructure of member economies, remaining trade and investment policies that limit cross-border delivery of financial services, and the lack of the needed physical and market infrastructure and policy environment to ensure that the benefits of the freer flow of finance are shared widely and equitably across economies and within societies.

New challenges have emerged from more recent developments, the most important of which are the challenges of fiscal sustainability, climate change, growing threats from natural disasters (including pandemics) and economic fragmentation. These are all interrelated, in the sense that deteriorating fiscal space means increased vulnerability of member economies to climate change and other catastrophes. Economic fragmentation arising from geopolitical conflicts and the uncoordinated introduction by individual economies of legal, policy and regulatory frameworks around data flows and digital and green transformation is creating new barriers to cross-border trade and investment and hindering opportunities for the mobilization of the large amounts of capital that are available across the region to finance inclusive, sustainable and resilient growth.

Fortunately, many of the solutions to these challenges are not unknown. Through the years, the Finance Ministers in their statements have reiterated what needs to be done. In their 2023 Joint Statement, for example, the Ministers called for, among other things:

- "mobilizing and aligning finance urgently and systematically, at scale, and from all sources, including through comprehensive climate-related policies, creative tools, and continued dialogue and cooperation among stakeholders;"
- "designing and implementing clear frameworks and policies that enable public and private sector investment to achieve climate goals including climate adaptation;"
- "promoting and improving the credibility, depth, efficiency, and interoperability of voluntary carbon markets;"
- "development of tools, taking into account the latest scientific developments and different

domestic circumstances, to align financing with climate goals, such as transition plans and pathways, taxonomies, and investment benchmarks, while also exploring ways to enhance interoperability among approaches;”

- “efforts to maintain high regulatory standards, close regulatory and data gaps, and promote financial stability as the digital asset landscape evolves” and “continued communication, information sharing, and consultation among member economies to achieve these outcomes;”
- engaging “with international organizations and standard-setting bodies, as appropriate, about recommendations for the responsible development of digital assets, while also respecting applicable domestic legal frameworks;”
- “strengthening digital infrastructure, accelerating digital transformation, and reducing the digital divide as articulated in the Putrajaya Vision 2040;” and
- “continued collaboration and dialogue among finance ministries, international financial institutions, private sector organizations, and other stakeholders within the FMP” to achieve these shared goals.

Thus, an important undertaking where attention needs to be focused is the translation of the Finance Ministers’ calls to action into concrete laws, policies, regulations and measures in individual economies as well as into concrete forms of regional cooperation. It is on this process 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).¹

By engaging a wide range and variety of firms and industry associations, regulatory agencies, and multilateral and academic institutions, these policy initiatives have (a) helped initiate legal, regulatory

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.

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 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 by the USA in San Francisco in November 2023 until the present and provides information on planned activities until the end of 2024. It focuses on three areas: (a) sustainable finance; (b) inclusive finance; and (c) financial resilience. In addition, the Report also describes new efforts to intensify engagement with local stakeholders in member economies in order to increase support for activities being undertaken to help them implement deliverables that the Finance Ministers have identified.

I. SUSTAINABLE FINANCE

In 2020, the APEC Business Advisory Council (ABAC) proposed to the APEC Finance Ministers the

² These include for example the following:

- *Brunei Darussalam*: Enactment of the new law on secured transactions (2017); initiation of capacity building to build the credit information system (2017); launch of the collateral registry (2018); initiation of a training program on secured transactions law for judges, regulators and lenders (2019)
- *China*: Establishment of the PPP Center (2014); Capacity building to help design new Civil Code chapters on secured transactions and insolvency and electronic warehouse receipts (2016); upgrading of the collateral registry (2018); introduction of a new framework for the data/analytics industry (2018); licensing of a second domestic credit bureau (2018); implementation of factoring and secured transactions in the new civil code (2020); consolidation of the movable property registry under one agency (2021); introduction of banking regulation on lender and 3rd party data collaboration including basic requirements on financial institutions for 3rd party data processing (2022)
- *Indonesia*: Enactment of a new land acquisition law to speed up the infrastructure PPP process (2012); introduction of new regulation on viability gap funding (2013); establishment of the PPP Center (2014); establishment of a cabinet-level committee to coordinate infrastructure PPP policies (2013); an 800% increase in funding for infrastructure project preparation (2015); and introduction of a new regulation on availability payment (2015).
- *Mexico*: Launch of Mexican Task Force on Climate Related Financial Disclosures (TCFD) Consortium (2021)
- *The Philippines*: Introduction of new rules allowing unsolicited proposals for infrastructure PPP (2012); establishment of a cabinet-level infrastructure PPP governing board (2013); strengthening of the PPP Center's authority (2013); amended regulations on single borrower limit for loans to PPP projects (2013); agreement to enable title-transfer repo transactions in the capital market (2018); enactment of the new secured transactions law (2018); passage in the House of Representatives of the new warehouse receipts bill (2023); establishment of the new data format and IT system for full-file comprehensive credit reporting (2018); issuance of catastrophe bond for the Philippines under the World Bank's Capital at Risk Notes Program (2019); and launch of the new secured transactions collateral registry (2020).
- *Thailand*: PPP Act streamlining approval process (2013) and establishment of a PPP committee to coordinate project approval and procedures (2013).
- *Viet Nam*: Initiation of steps to build the credit information system (2015); new legislation to broaden the scope of assets used as collateral (2017); introduction of consumer protection rules for credit reporting (2018); decree bringing the secured transactions reform in line with the 2015 Civil Code; and including explicit recognition of claims critical for factoring market development (2021).

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; agreement by Chinese Taipei to join the ARFP initiative as observer in 2018; and the improvements on IFRS 17 rules on OCI and CSM in 2017; improvements by IASB and FASB on long-duration insurance contracts in 2018; initiation of a pilot project for cross-border exchange of credit reports in the Mekong region in 2018; and final amendments to IFRS 17 and temporary exemption to IFRS 9 for qualifying insurers in 2019.

⁴ These include the *Roadmap for the Development of APEC's Financial Market Infrastructure* and the *Roadmap for Expanding the Coverage of Microinsurance* in APEC in 2017; the *APEC Roadmap for a New Financial Services Data Ecosystem* (2019), *Strategy for the Digitalization of Trade and Supply Chain Finance* (2019); *Essential Elements of an Effective Personal Insolvency Regime* (2019). *APFF Digital Trade Finance Lab Combating Trade-Based Money Laundering White Paper* (2021); first and second iterations of the APFF Sustainable Finance Development Roadmap (2021-22); *APFF White Paper on Wholesale Central Bank Digital Currencies* (CBDCs) (2022); *Guiding Principles for the Development of Interoperable Open Data Systems in the Asia-Pacific Region* (2023); and *Common Principles for the Development of Interoperable Wholesale CBDCs* (2023).

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

The SFDN's focus is to address the major challenges facing the Asia-Pacific region today, which are 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.

In their 2021 Declaration, the APEC Economic Leaders announced their intention to promote sustainable financing and reiterated the importance of economic policies, cooperation and growth that contribute to tackling climate change and other serious environmental challenges. In 2022, the APEC Finance Ministers' Process included sustainable finance in their work plan as one of its two priorities.

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 TCFD Consortium was developed following the successful Japanese Consortium model (also implemented by Sustainable Finance Ireland – International Sustainable Finance Center of Excellence).

- With financial support from Germany's GIZ and in coordination with the Mexican Sustainable Finance Council, the activities of the Consortium in 2024 included a capacity building program consisting of 16 training modules. Additionally, the first private sector-led bottom-up climate scenario analysis pilot for the Mexican financial sector was launched, in coordination with the Mexican Ministry of Finance and the Bank of Mexico and with a wide set of stakeholders playing various roles (observers, operational, financing and legal advisors, among others). This pilot has been set to extend until mid-2025.
- The consortium and SFDN continue their participation in the International Sustainability Standards Board (ISSB) Capacity Building Partnership Framework. SFDN is currently collaborating with the Peruvian Ministry of Economy and Finance and Ministry of Environment, the UK Embassy and Peru's University of the Pacific to explore the development of a local consortium, the Centre of Excellence in Sustainable Finance. SFDN has also published, together with the United Nations Development Program (UNDP) and the UN Environment Program (UNEP), a paper *The Consortium Approach to Sustainability Reporting*⁵ that provides a roadmap for the development of such local governance structures for capacity building, and which is being used in Peru as guideline for a systematic approach.
- Discussions are continuing with Thailand, the Philippines and Chile regarding the establishment of local governance structures in those economies.
- SFDN has engaged the Hong Kong University of Science and Technology (UST) with the Peruvian Pacific University, to share their experience in their green finance bachelor program.
- SFDN continues to support the Glasgow Financial Alliance for Net Zero (GFANZ) Latin American and Caribbean network and is incorporating transition planning capacity building as part of the Mexican TCFD Consortium program.

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

- In April, the SFDN organized a mission to Hong Kong, China to meet with the local sustainable finance stakeholder community and onboard them into the activities of the APFF. The SFDN Sherpa participated in the local launch of the Task Force on Nature-related Financial Disclosures

⁵ <https://www.fc4s.org/wp-content/uploads/2023/12/Consortium-Approach-to-Sustainability-Report-design-251123.pdf>

(TNFD) and interacted with current SFDN stakeholders and other local public and private sector players.

- The SFDN Sustainable Finance Catalog (formerly roadmap), was presented at the FMP meetings as a potential tool to support the upcoming FMP Sustainable Finance Initiative. A new iteration is planned, subject to discussions at the FMP level.
- The SFDN Sherpa also participated in a Peruvian UK Embassy High Level Sustainable Finance workshop and actively engaged there in developing an ecosystem enabling working group. SFDN is currently exploring a potential initiative under this working group to develop a local open repository of sustainable finance information to support investors and capital mobilization.

Governance Structure

- The SFDN governance structure is undergoing a period of revision. The Financial Centers for Sustainability (FC4S) has stepped down as the Secretariat and its replacement is currently under consideration. The upcoming SFDN governance structure will take into consideration its upcoming participation at the FMP Sustainable Finance Initiative, to identify which structure better serves this new context.

Supporting FMP Priorities

- This year, SFDN provided support and speakers to the FMP Chair in the series of workshops developed on the sides of the FMP meetings: These were the Clean Energy Transition Workshop and the Workshop on Domestic Carbon Pricing and Non-Pricing Measures, both held on 21 February in Arequipa and the Sustainable Infrastructure Financing Workshop held on 28 May in Urubamba.
- SFDN also provided private sector inputs to the discussion at the Senior Finance Officials' Meeting (SFOM) and the Finance and Central Bank Deputies' Meeting (FCBDM) on the Sustainable Finance Initiative proposed by the FMP Chair.

Supporting the Development and Implementation of Recommendations

These are the activities in 2024 where SFDN has participated either in a supporting or co-organizing role in the first semester of 2024:

- *11 April, Webinar Financing Just Energy Transition:* This Webinar, jointly organized by APIP, APFF SFDN and ABAC, brought together key stakeholders to identify concrete steps toward the implementation of ABAC's 2023 proposal to establish a bond fund that can help finance energy transition in developing APEC member economies by substantially addressing one of the major challenges, foreign currency risk.
- *9 May, Webinar on Intellectual Property Financing (Leveraging on IP to finance sustainable innovation):* This focused on the development of an APEC work plan for the implementation of ABAC's 2023 recommendation to promote legal and regulatory reforms to enable intellectual property (IP) financing and IPR ownership, to help in the alignment of laws, regulations, business practices, and market development with international standards and best practices.
- *23 May, Washington DC, First Roundtable on Interoperable Voluntary Carbon Markets (Legal Issues):* This initiative was a response to the growing interest in APEC and its member economies on VCMs, especially following the discussions on the subject during last November's ABAC Working Lunch with APEC Finance Ministers in San Francisco. ABAC has decided to commence work on this topic this year, with the objective of developing proposed pathways for APEC to enable the development of interoperable VCMs in the region. The outcomes of discussions have been incorporated in ABAC's 2024 Report to the APEC Finance Ministers.
- *11 June, Virtual Roundtable on Sustainable Supply Chains:* This Roundtable identified the key elements required to enable businesses to better measure and reduce emissions across their supply chains. It also aimed to raise greater awareness of the role that trade data and technology solutions

and financing programs can play in supporting such activities, and to identify ways for APEC to provide a collaborative platform to support member economies in promoting more sustainable supply chains.

- *20 June, Second Roundtable (Virtual) on Interoperable Voluntary Carbon Markets:* This Roundtable discussed the landscape of VCMs in the region, explored the challenges facing interoperability among them and considered the requirements and pathways for future interoperability.
- *12 July, Kumamoto, Japan, Seminar on Sustainable/Transition Finance* (in conjunction with the ADB ASEAN +3 Bond Market Forum (ABMF): This seminar discussed how to move forward in developing a common framework to promote the development of climate finance transition roadmaps for key sectors in each economy, and establishing climate disclosure consortia within member economies to promote coordination among relevant public and private sector stakeholders domestically and support regional coordination, robust and standardized disclosure across the region, active engagement in the ongoing efforts of the International Sustainability Standards Board (ISSB) and adoption of future standards.
- *31 July, Tokyo, Japan, Roundtable on Advancing Interoperable Voluntary Carbon Markets in the Asia-Pacific Region:* This Roundtable explored the potential of an interoperable network of VCMs among interested APEC member economies, in collaboration with international institutions and with regulators.
- *1 August, Tokyo, Japan, Workshop on Financing Energy Transition in Developing Economies:* This workshop, jointly organized by APIP, APFF SFDN and ABAC Japan, discussed the challenges involved in making long-term investments in energy transition projects attractive for institutional investors. It discussed the indexation of borrower servicing liabilities and investor returns to a global currency basket that can substantially reduce foreign currency risk and raise overall returns for institutional investors.

APFF also participates as official observer in the UNIDROIT Working Group on the Legal Nature of Verified Carbon Credits,⁶ and was represented in the following events:

- 12 October 2023, Rome, Italy: First Session of the Working Group on the Legal Nature of Verified Carbon Credits.
- 22-24 April 2024, Rome, Italy: Second Session of the Working Group on the Legal Nature of Verified Carbon Credits.

Further sessions, also in Rome, are scheduled on 4-6 September 2024, 15-17 January 2025 and 2-4 April 2025.

Planned Activities for the Rest of 2024:

- 20 October, Lima, Sustainable Finance High Level Seminar (on the sides of the APEC Finance Ministers' Meeting).
- Fourth Quarter 2024, Hong Kong, China, Workshop on Sustainable Reporting.
- APFF SFDN's engagement with the FMP Sustainable Finance Initiative activities.

II. INCLUSIVE FINANCE

Implementing FMP initiatives promoting access to finance is being progressed through the Asia-Pacific Financial Inclusion Forum (APFIF), which focuses on financial inclusion, the APFF Financial Infrastructure Development Network (FIDN), which focuses on improving MSMEs' access to finance, the APFF Digital Trade Finance Lab, the APFF Financial Market Infrastructure Network and the APFF Valuation Standards and Practices Working Group.

⁶ <https://www.unidroit.org/work-in-progress/verified-carbon-credits/#1637156948432-1d04168e-7a08>

A. Financial Inclusion

The Asia-Pacific Financial Inclusion Forum (APFIF) was established as a policy initiative of the Finance Ministers' Process (FMP) to facilitate the identification and development of concrete actions that policymakers and regulators can take to extend the reach and value of financial services to the unbanked or underserved.

2024 APFIF Policy Dialogue – Enabling Green MSME Finance through Technology

Across the Asia-Pacific region, micro, small and medium enterprises (MSMEs) are often recognized as the backbone of economic growth. As extreme weather events increase in both intensity and frequency, millions of poor and vulnerable people who rely on MSMEs for their livelihood are faced with growing challenges. However, MSMEs are also significant producers of greenhouse gas (GHG) emissions, making them a critical segment for achieving decarbonization goals. Green finance products and services are therefore critically important to support both the green transition of MSMEs to combat climate change as well as building their resilience against climate-induced economic shocks. To bridge the green financing gap which many MSMEs face, new technology solutions are emerging to overcome barriers and increase access.

To better understand the opportunity innovative technology provides for enabling the green financing of MSMEs, the Asian Development Bank (ADB), in partnership with ABAC and with support from the Griffith Asia Institute (GAI), organized the 2024 APFIF Policy Dialogue in Urubamba, Cusco, Peru on 30 May 2024 alongside the annual APEC Senior Finance Officials' Meeting.

Under the theme *Enabling Green MSME Finance through Technology*, this year's Policy Dialogue featured prominent financial inclusion and technology experts to highlight recent technology innovations and explore specific policy approaches which could enable technology to have a greater impact on MSME green financing.

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 (i) enabling a viable and effective open data ecosystem; (ii) the potential of artificial intelligence to drive new solutions for green financing; and (iii) supporting financial sector innovation and technology adoption.

These proposed actions aim to support efforts within the FMP in 2024, under APEC Peru's leadership, to accelerate innovation, digitalization, and sustainable growth. Through the lens of financial inclusion, this includes addressing key priorities of enhancing digital financial education, reducing economic informality, empowering underserved communities, and enabling open finance.

B. Financial Infrastructure Development

The Financial Infrastructure Development Network (FIDN) was established as a work stream within the APFF to progress various priorities under the Cebu Action Plan (CAP). It was tasked to draw the support of ABAC, the SME Finance Forum, the World Bank Group's International Finance Corporation and other international organizations to support interested APEC economies in undertaking reforms to develop (a) secured transactions systems;⁷ (b) data ecosystem; and (c) credit

⁷ 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 Viet Nam 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,

information systems.

Credit Reporting and Data & Analytics Market Development

Philippines: APFF FIDN has been working with ABAC Philippines in undertaking follow-on analysis and technical advisory services concerning the credit information sharing system in the Philippines. This has involved interactions with the Credit Information Corporation operating under the aegis of the Securities and Exchange Commission (SEC) and the Department of Finance, as well as the Credit Bureau Unit of the BSP (Central Bank of the Philippines). ABAC Philippines, APFF, and the Policy and Economic Research Council's (PERC's) Asia Pacific Credit Coalition will continue to host workshops and provide technical assistance and advisory services for the balance of 2024 as requested by the BSP.

International Committee on Credit Reporting (ICCR): APFF FIDN is an official participant in the ICCR, a standard setting body on credit reporting jointly organized by the International Finance Corporation (IFC) and the International Monetary Fund (IMF). In addition, it facilitates the recruitment of new members to the ICCR from among the APEC member economies (currently recruiting Canada) and is involved in editing recent reports on alternative data and the relationship between public credit registries and private credit bureaus. The Sherpa of the APFF Credit Information Working Group and PERC are currently serving as consultants to the World Bank Group and are undertaking a study on the use of sex-disaggregated data to promote financial inclusion among women borrowers and women-owned MSMEs. The ICCR has asked for the participation of the APFF in recruiting respondents from among regulators, public credit registries, and private credit bureaus in the APEC member economies. FIDN continues to explain the growing importance of non-credit-reporting data & analytics services and the need for a proper regulatory framework.

APFF FIDN's technical advisory services for any aspect of developing, implementing, maintaining and improving credit information sharing system remain available to all member economies upon request.

China: In the second half of 2023, an online meeting was held in China to disseminate the APFF *Guiding Principles for the Development of Interoperable Open Data Systems*. This was organized by FIDN together with the Emerging Payments Association Asia (EPA), Global Digital Finance Center (GDFC) and IFC of the World Bank Group. The speakers presented to the Chinese market players various aspects of the Guiding Principles, highlighting their importance for open finance and for achieving domestic and cross-economy data inter-operability. In China, the Guide on Personal Data Governance for Digital Financial Institutions finalized last year with FIDN support has been used for relevant work on about 10 financial institutions during the current period, e.g., assessment on the existing personal data governance framework for a digital bank.

Viet Nam: In Viet Nam, FIDN has continued to advocate for the need of a formal data & data analytics market by organizing two discussions with the regulators and the main market players. IFC is currently setting up a technical assistance project in this area. For the next period, FIDN will focus efforts on helping Viet Nam to develop its data & analytics industry and will keep on promoting the formalization of 3rd party data & analytics market outside the credit reporting industry across the Region.

Data Ecosystems: After the APFF Data Ecosystems Working Group presented on Privacy Enhancing Technologies (PETs) at the APEC Data Privacy Subgroup (DPS) meeting in Seattle in August 2023, it was agreed that the two groups would collaborate on future work. The next step in this collaboration is a proposed hybrid event hosted by Chinese Taipei tentatively scheduled for January 2025.

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).

Secured Transactions Reform & Movable Asset (Movables) Finance Development

The following activities were undertaken:

- *November 2023, HCMC, Viet Nam.* An APFF-FIDN Conference was organized with the Ministry of Justice to deliberate on the need for and practice of using digital assets as a new class of movables collateral under secured transactions. Apart from the local speakers, FIDN mobilized speakers from the USA, Singapore, IFC and the International Chamber of Commerce (ICC). Participants recognized that, as the digital economy grows, there will be more and more digital assets (*e.g., digital documents, digital negotiable instruments, crypto assets, data assets, virtual rights*). Business borrowers can leverage these to finance themselves, particularly by the SMEs in digital businesses and by the innovative firms. The requirements for regulatory support and institutional building on digital assets as a collateral are higher than those for physical assets. Governments and financial authorities need to understand and take necessary steps.
- *Viet Nam: Revision of the Law on Credit Institutions.* At the request of the banking industry, and as organized by IFC, FIDN provided inputs and recommendations to the law revision process and participated in several consultations. FIDN partner, FCI (Factors Chain International), also contributed some materials and insights. The revised law was approved in early 2024. Among others, the new law created a better regime for factoring by removing the restrictions on non-recourse factoring. This is a key change that has been suggested by FIDN for a few years.
- In the second half of 2023, a regional conference on promoting digital supply chain finance (SCF) was held in Singapore, organized by FIDN and APFF Trade Finance Lab in collaboration with FCI and Lendscape. More than 100 participants from across the Region joined the event, including some from North America. The meeting discussed the implications of geopolitical changes, supply chain re-alignment and fiscal and banking sector pressures on SCF; reviewed the latest SCF risk trends, development of digital platforms for both supply chain management (SCM) and SCF, and the rising demands for digital SCF in the Region; and highlighted the options available for Asia-Pacific market players.
- In May 2024, two training workshops on secured transactions law implementation were organized with the Supreme People’s Court of Viet Nam for commercial judges. A Canadian expert was the main presenter. The experience of several APEC Economies in this area were shared. Among others, it was emphasized that, although interests from outright transfer of receivables (factoring) and financial leasing, among others, are already registered in the collateral registry, the judicial authorities need to allow these to participate in the priority scheme.
- In May 2024, FIDN participated in the inaugural APFF-ASEAN BAC Southeast Asia Conference 2024 on “Creating a Digital, Sustainable, and Resilient Regional Ecosystem to Empower MSMEs” which addressed opportunities for regional economies in Digital Trade and Supply Chain Finance, Financial Infrastructure for Expanded MSME Finance amongst other topics to both in person and online attendees consisting of industry professionals, regulators and relevant government participants from APEC and ASEAN member economies.

For the next period, FIDN will continue to support the movables finance market development efforts in the Philippines which is still at an early stage. Several events are expected on that front. In Viet Nam, FIDN will focus on the development of non-deposit-taking lenders as a new category of movables finance providers, further deepening of the warehouse finance market, and the promotion of *green and climate movables finance*. At the regional level, FIDN will keep on facilitating knowledge sharing among the Economies in secured transactions reform and movables finance development.

Additionally, Brunei Darussalam has continued to engage in secured transaction reform capacity building with eight topics over a two-year period, which include in person and online engagements to develop capacity on topics such as risk management, product and fintech across legal professionals, financial industry participants, entrepreneurs and regulators.

FIDN continues to monitor the progress in the Philippines of the Revised Warehouse Receipts Law (House Bill No 198), which was passed by the House of Representatives in May 2023 and referred to the Senate (SBN-2173) where it has been referred to the Committee on Trade, Commerce, Entrepreneurship and Finance.

To develop and highlight global best practice resources available to member economies, FIDN notes that the 56th Commission Session of UNCITRAL on 3-21 July 2023 adopted the recommendations on access to credit for MSMEs consolidated as the UNCITRAL Guide on Access to Credit for Micro-, Small and Medium Sized enterprises and that the 57th Commission Session of UNCITRAL on 22 June-12 July 2024 adopted the Model Law on Warehouse Receipts as well as its Guide to Enactment and requested the Secretary General to publish each of these materials. FIDN has additionally further contributed to the UNIDROIT Model Law on Factoring with participation in working group sessions for drafting the “Guide to Enactment for the UNIDROIT Model Law on Factoring.”

FIDN has continued to collaborate across other APEC fora to broaden the scope of activities and their effectiveness across member economies, most notably with the Economic Committee and its Strengthening the Economic and Legal Infrastructure (SELI) Friends of the Chair group. In October 2023, FIDN participated in SELI’s hybrid workshop on Secured Transactions Reform: Developing Tailored Approaches for Common Law and Civil Law jurisdiction which was attended by a number of APEC member economy stakeholders.

Intellectual Property Financing

The IP Financing Working Group collaborated with ABAC in developing an APEC work plan for enabling the use of intellectual property rights (IPRs) to finance sustainable innovation projects. This work plan was developed to help implement ABAC’s recommendation in 2023, which the APEC Economic Committee is considering for adoption as part of its work on Strengthening Economic and Legal Infrastructure. It was developed over a process involving several discussions, including the workshop *Setting the Stage for IP Financing: The Connection between MSME Financing, Innovation and Sustainability* co-organized on 9 May by ABAC Hong Kong, China and ABAC Singapore; it is detailed in the document *Promoting Intellectual Property Financing for Sustainable Innovation: A Reform Strategy for APEC Economies*.⁸

The overarching objective of the work plan is to offer policy guidance to establish an enabling ecosystem for Intellectual Property (IP) finance in the APEC region. By leveraging the intrinsic economic value of IP assets, it is possible to bridge the financing gap small businesses face, thereby fostering sustainable innovation and economic growth. The document proposes a work plan consisting of a product-focused reform strategy to address the challenges hindering the widespread adoption of IP-based financing. This strategy focuses on identifying and resolving hurdles that limit the use of IP assets as collateral. To this end, specific secured lending products, from IP-backed loans to securitized instruments and blockchain-based solutions with secured data integrity, have been identified as suitable financing mechanisms for APEC economies.

The proposed strategy is product-focused, adaptable, and scalable. It accommodates the diverse legal frameworks and economic needs of APEC economies while ensuring alignment with international standards and promoting economic integration. It involves a three-phase roadmap: diagnostic, sandbox/pilot, and reform, with each phase involving key stakeholders such as policymakers, regulators, legal experts, and market participants. The next steps include identifying and coordinating key stakeholders, such as key policymakers (governments and regulators) and international organizations (multilateral development banks and standard setters), identifying economies ready to implement the strategy, and defining an action plan based on the selected products.

The document containing the proposed work plan is divided into three sections. Section I introduces the role of intellectual property rights (IPR) in financing sustainable innovation and presents various credit products that use IPR as collateral. Section II discusses the challenges to IPR-based finance,

⁸ <https://www2.abaconline.org/content/download/22635671>

focusing on uncertainties regarding legal title over IP and coordination failures between different areas of law, such as secured transactions law, financial regulation, and relevant IP laws. Section III outlines the product-focused reform strategy to address these challenges and presents its rationale, advantages, and mechanics. The document concludes with a roadmap to execute the proposed work plan, detailing the next steps to execute it.

C. Digital Trade Finance

The APFF Digital Trade Finance Lab has completed work on a Proof-of-Concept (POC) on the use of trade and maritime pricing data available with S&P Global Market Intelligence for financial institutions to augment their trade finance compliance checks for trade-based money laundering. This POC was intended to address the current challenges facing financial institutions in their efforts to identify goods mispricing (over- and under-invoicing) in trade finance transactions. The POC follows the publication of the 2021 Whitepaper on Combating Trade-Based Money Laundering and was led by S&P Global Market Intelligence which tested data from participating financial institutions against its repository of goods pricing data from regulatory sources such as customs authorities worldwide.

The POC demonstrated the use of algorithms to translate goods description to HS Codes, to which pricing data from regulatory sources are attached. The key findings of this POC that include areas of success and further improvements are documented in the paper *Analysis of Financial Institution Trade Transaction Data to Uncover Instances of Goods Mispricing to Combat Trade-Based Money Laundering*⁹ dated July 2024.

The Lab contributed to the 2024 ABAC whitepaper *Unlocking Trade Data Flows with Digital Trust using Interoperable identity Technology*.

The Lab also supported the work of ABAC and APFF by contributing to discussions at the following events:

- 7 September 2023, Singapore: APFF Lab and APFF FIDN Conference on “Promoting Digital Supply Chain Finance in APEC Economies: Market Growth and Risk Control”.
- 1 November 2023, Ho Chi Minh City: APFF FIDN Conference on "New Class of Properties in Secured Transactions".
- 10 April, Virtual Roundtable on Promoting Interoperable Digital Trade Information Collaboration Platforms and Deep-Tier Supply Chain Financing (DTSCF) in the Asia-Pacific Region: This virtual roundtable identified key elements of common principles¹⁰ for interoperable

⁹ <https://www2.abaconline.org/content/download/22635621>

¹⁰ Following are the key elements of the Common Principles for Interoperable Deep-Tier Digital Supply Chain Finance:

A) Across-the-Board Collaboration

- 1) Public-Private Partnership. While digital platforms may be government-led or private sector-led, both public and private sectors need to be involved in the process.
- 2) Cross-Industry Collaboration. All the major players in the trade ecosystem – buyers and suppliers, logistics companies (shipping companies, air lines, freight forwarders), financial service providers (banks, non-bank lenders and insurance companies, fintech firms) need to be involved in the identification of pain points, design and implementation of digital trade information collaboration platforms.
- 3) Whole of Government Support. In order to provide seamless connectivity, effectiveness and efficiency, governments need to provide a framework for collaboration among relevant agencies. These may include trade ministries, finance ministries, economic/planning ministries, interior and local government ministries, defense and security ministries, ministries/agencies responsible for the digital and data ecosystem, transport ministries, health ministries, environment ministries, civil aviation authorities, customs authorities, central banks, financial regulators, maritime and ports authorities, police, coast guard, civil defense and armed forces.
- 4) International Collaboration. Economies need to promote interoperability of laws, policies, regulations and digital platforms by leveraging global initiatives, bodies and processes (e.g., UNCITRAL, UNIDROIT, OECD, standard-setting bodies) and regional processes (ASEAN, ASEAN Plus 3, APEC, Pacific Alliance) and initiatives (ASEAN Single Window, parallel wholesale CBDC initiatives, as well as bilateral G2G collaboration). However, it is important to design and implement regional and bilateral collaborative schemes with a view toward future global interoperability.

B) Key Areas of Collaboration

- 1) Development of a Movable Asset Finance Ecosystem. As a way to organize receivables and inventory finance, SCF is a more advanced form of movables finance. Deep-tier SCF is, in turn, an advanced form of SCF. Without sufficient development of

deep-tier digital supply chain finance platforms that APEC and the public and private sectors in its member economies, in collaboration with international organizations, can adopt (a) to advance the development of interoperable digital trade information collaboration platforms among economies participating in the DTCN; and (b) to address the legal, regulatory and policy challenges hindering the wider adoption and scaling of DTSCF.

- *11 June, Roundtable on Promoting Sustainable Supply Chains in the Asia Pacific Region:* This Roundtable identified the key elements required to enable businesses and companies to better measure and reduce emissions across their supply chains. It also raised greater awareness of the role trade data/tech solutions and financing programs can play to support such activities, and for APEC to provide a collaborative platform to support member economies in this process and identified concrete regional initiatives to promote more sustainable supply chains.
- 17 May 2024, Bangkok: Asia-Pacific Financial Forum & ASEAN-BAC Southeast Asia Conference 2024 on “Creating a Digital, Sustainable and Resilient Regional Ecosystem to Empower MSMEs”.

The APFF Digital Trade Finance Lab collaborated with ABAC in the development of the Digital Trade Connect Network (DTCN) through 7 virtual meetings as of end-July 2024 – on 31 October 2023, 1 December 2023, 25 January 2024, 7 March 2024, 30 April 2024, 18 June 2024 and 19 July 2024.

D. Financial Market Infrastructure

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

the overall movables finance market, it is not likely that SCF will happen in major scale, not to mention deep-tier SCF. This is thus essential for a healthy and functioning supply chain financing environment. The key elements are (a) clear, effective and efficient secured transactions legal frameworks; (b) judicial effectiveness and understanding; (c) an active lending industry competent in movables financing; (d) supportive financial regulations and supervisory practice, (e) efficient and reliable support services (collateral management, credit enhancement among others); (f) business borrowers who understand SCF mechanisms; (g) e-platforms linking up value chain actors; (h) priority segments (e.g., factoring, financial leasing, financing backed by receivables; bonds or notes backed by receivables); (i) support of relevant ministries and local governments; and (j) sector capacities (e.g., industry associations, industry guidelines and sector standards and guidelines, data).

- 2) Common Understanding/Convergence of Standards, Definitions and Legal Frameworks around Technology, Data and Documentation related to Trade and Supply Chain Finance. Examples are international rules governing international distribution of corporate data, alignment of legal frameworks governing electronic documents (e.g., UNCITRAL’s MLETR), laws and regulations enabling DTSCF models, dispute resolution mechanisms, use of blockchain and level of KYC/AML requirements across jurisdictions.

C) Key Strategies

- 1) Building Block Approach. While the existence of multiple global, regional and bilateral initiatives carries the risk of increasing fragmentation, it also offers opportunities to move ahead without reinventing the wheel. Through coordination and collaboration, economies can leverage what has already been developed in ASEAN, ASEAN Plus 3, APEC and the G20 as well as in bilateral G2G initiatives to find pathways to convergence or common understanding.
- 2) Win-Win Collaboration. Initiatives can progress more effectively if they are able to identify the stakeholders who can reap the most benefits (which may be different from one economy to another) and mobilize them in advancing policy and regulatory reforms.
- 3) Platform-Based Approach. A platform-based approach digitally connecting buyers and all suppliers from the 1st to the nth tier of the supply chain can enable DTSCF to unlock capital for the deeper-tier MSME suppliers, enable data flows and traceability, address, and track sustainability and ESG performance and link performance to financing incentives.
- 4) Analysis of MSMEs’ Needs. The starting point of any effort by an economy to promote the digitalization of trade and supply chain finance should be the identification of MSMEs’ needs, since MSMEs are intended to be the main beneficiaries of such initiatives and the required policy components, including those related to improved access to finance, financial and digital literacy, consumer protection and protection of data privacy and security, among others.
- 5) Fostering Financial Innovation. By encouraging the adoption of new technology applications to digitalize trade and supply chain finance through regulatory approaches that allow innovative firms to serve low-income markets, economies can enable new solutions that can accelerate financial inclusion.
- 6) Incentivizing Adoption. The public sector and multilateral institutions can contribute to wider adoption of DTSCF by providing innovative incentives. These may include establishment of risk-sharing programs with banks, recognition of payment obligations used in DTSCF as enforceable obligations of payment to the holder across jurisdictions, development of key performance indicators around MSME lending volumes and ESG reporting across supply chains and designing more appropriate capital charges for ESG-linked financing solutions.

focused on the development of inter-operable open data systems in member economies and initial discussions on digital assets.

Open Data

This year, the FMI Network focused on promoting awareness and adoption of the *Guiding Principles for the Development of Interoperable Open Data Systems*¹¹ and discussions to further deepen understanding of various aspects.

- To promote awareness and adoption of the Guiding Principles, a presentation was made at the Open Finance Workshop of the APEC Senior Finance Officials in Urubamba, Peru on May 27.
- Further discussions were undertaken during a webinar co-organized by APFF and the Emerging Payments Association Asia on May 21, focusing on the use case for open data by MSMEs.¹²

Digital Assets

The FMI Network is currently undertaking to collect existing documents and inventory the landscape of digital assets as defined through different taxonomies, projects and methods.

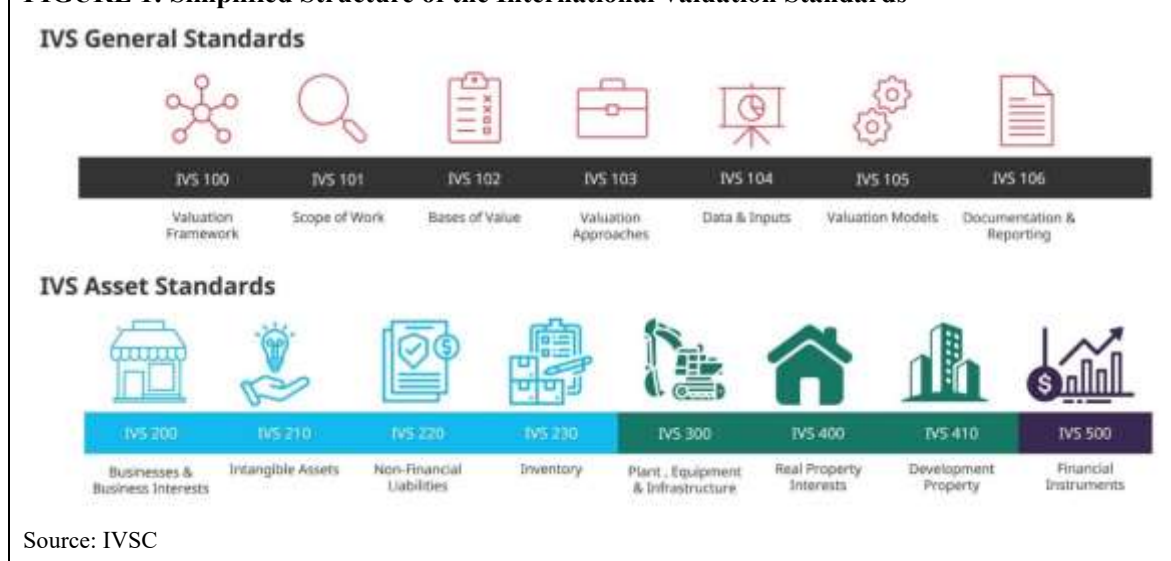
E. Valuation Standards and Practices

The APFF Valuation Working Group focused its efforts on promoting the work of the International Valuation Standards Council (IVSC) on the updated International Valuation Standards (IVS), which was published on 31 January 2024 and will become mandatory on 31 January 2025. The IVS, which form a set of high-level, principles-based standards for the practice of valuation, cover the valuation of all assets and liabilities and provide an internationally agreed 'best practice' framework that is widely recognized as the global standard for valuation today. [See Figure 1.]

¹¹https://www2.abaonline.org/assets/2023/Reference_Documents/Reference%2003%20Open%20Data%20Guiding%20Principles%202023-07-24.pdf

¹² Key takeaways from the discussions were as follows:

- **Trust in the Data Ecosystem:** Trust is the linchpin for successful data collaboration and sharing. Building trust requires a comprehensive approach involving technical standards, operational infrastructure, and regulatory/legal frameworks. Trust enables stakeholders to share data securely and ethically, fostering innovation and sustainable development.
- **Interconnectedness of Data, Payments, and Trade:** Data, payments, and trade are intricately linked, with data serving as the backbone connecting these elements. The flow of data facilitates efficient payments and trade, ultimately driving economic growth and prosperity, particularly for SMEs. It is important to recognize the significance of data access and sharing in fostering innovation and competitiveness in SMEs and economies.
- **Transformation through Open Data:** Open data initiatives have the potential to transform economies by making data more accessible, shareable, and trustworthy. Open data promotes innovation, competition, and financial inclusion, unlocking new opportunities for businesses and individuals. Overcoming challenges such as privacy concerns and regulatory hurdles is crucial for realizing the full potential of open data.
- **Challenges in AML and Regulatory Complexity:** Anti-money laundering (AML) efforts face significant challenges, with a large portion of money laundering remaining undetected. Addressing AML requires the development of trustworthy AI solutions and regulatory frameworks that balance innovation with safety. Simplifying regulatory complexity and enhancing privacy through technologies like privacy-enhancing tools are essential for effective AML.
- **Federated Data and Public-Private Collaboration:** Federated data systems, which distribute data across multiple sources while ensuring security and integrity, offer a promising approach to data governance. Collaboration between the public and private sectors is vital for establishing effective data governance frameworks. Balancing the roles of both sectors in data governance can lead to more agile and responsive approaches to data management.
- **Friction Reduction and Transition to Open Finance:** Reducing friction in data sharing processes, particularly in areas like AML and counter-terrorism financing (CFT), is essential for improving effectiveness and efficiency. Transitioning towards open finance models expands beyond open banking to encompass broader financial data sharing, promoting innovation and competition. Leveraging government data, such as tax records, can facilitate the creation of smart, scalable, and federated data systems.
- **Value of the Journey Despite Challenges:** Despite the complexity and challenges involved, the journey towards open finance and cross-border data collaboration is deemed valuable. The industry should recognize the pivotal role of SMEs in driving economic growth and the potential benefits of data collaboration for SMEs, especially in cross-border contexts. Perseverance and collective efforts are important in overcoming challenges and realizing the potential benefits of open finance and data collaboration.

FIGURE 1: Simplified Structure of the International Valuation Standards

These new Standards include several changes that are consistent with the goals of ABAC and APFF. Two changes stand out:

- *Improvement in the structure of the Standards to reflect the changing requirements of stakeholders.* These improvements include more exhaustive disclosures of information that contribute to the robustness of valuations.¹³
- *Expansion of Environmental, Social and Governance (ESG) considerations in valuations:* (a) The valuer should be aware of relevant legislation and frameworks in relation to the ESG factors impacting a valuation. (b) The impact of significant ESG factors should be considered in determining the value of a company, asset or liability. (c) ESG factors and the ESG regulatory environment should be considered in valuations to the extent that they are measurable and would be considered reasonable by a valuer applying professional judgement.

Overall, the growing acceptance of the IVS as well as the increased sophistication of the valuation profession across the target economies are consistent with the policy goals. Specifically, the IVS usefully complement several schemes implemented or contemplated across these economies that seek to improve the financing of assets and businesses based on Intellectual Property (IP), and more broadly, on intangible assets.¹⁴ The Standards are also being increasingly used in the adjudication of disputes. For instance, the valuation of an asset-based IVS generally carries more weight before a tribunal than one that is not. This also allows easier cross-border comparisons, which is important in IP, especially given the prevalence of transactions involving two or more economies. Ultimately, robust valuations based on the IVS can help improve access to finance of projects consistent with policy goals.

III. FINANCIAL RESILIENCE

¹³ These include (a) agreed scope of the work, (b) assets and/or liabilities being valued, (c) the identity of the valuer, (d) client, (e) intended use, (f) intended users, (g) valuation currency(ies) used, (h) valuation date(s), (i) basis (bases) of value adopted, (j) approach or approaches adopted, (k) method or valuation models applied, (l) significant data and inputs used, (m) environmental, social and governance inputs used and considered, (n) significant or special assumptions and/or limiting conditions, (o) findings of a specialist or service organization, (p) value and rationale for valuation, (q) IVS compliance statement, and (r) date of the report.

¹⁴ For instance, there is a perception that IP “trades at 20 cents on the dollar” and that there is a persistent gap between the “value” of IP and the “price” it is transacted at. The inference is therefore that valuations are unreliable. However, robust valuations based on the IVS differentiate between the intended uses of valuations, especially between a valuation done at the inception of a financing and one done for the purposes of liquidating a business. Such clarity reduces the perceived inconsistency.

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 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.

Below activities by the APFF DRFI Network constitutes an important part of the APEC DRFI Working Group under the APEC Finance Ministers Process. It has been included in the 2024 Work Plan and been reviewed each year end.

Catastrophe Bonds

Building on a series of workshops on Catastrophe Bonds held since September 2020, on 13 May 2024, a virtual workshop entitled "Back to Basics and a Step Forward," co-organized by ABAC and APFF was held. Speakers from the Asian Disaster Reduction Center and OECD delivered a learning session on the overview of possible solutions related to DRFI, and a case study of how Japan's earthquake insurance system responded to catastrophic earthquake events was shared by the Ministry of Finance, Japan. The virtual workshop was designed to encourage finance ministry officials to work together with offices in charge of disaster risk reduction, to identify financial instruments of DRFI fit for an economy's needs and resources, and to learn from real-life examples in utilizing DRFI in the face of natural disasters.

Preparedness for Pandemic Risks

The COVID-19 pandemic demonstrated the necessity for better mechanisms to increase economic resilience and preparedness against future pandemics, especially as risk models confirm a high likelihood of occurrence and estimate a probability of around 25% for the next severe pandemic occurring within 10 years, as also illustrated by the current media reports on avian influenza. ABAC recommended under its 2022 Report to APEC Finance Ministers to incorporate the Epidemic Risk Markets Platform as a methodology for addressing pandemic risk. Following the recommendation, significant engagement discussions among APEC economies on developing public-private partnerships (PPPs) for pandemic risk transfer have taken place. However, pilot implementations in the region are still outstanding.

In other parts of the world or other frameworks, progress has been more tangible. In Africa, outbreak response cost financing solutions have been successfully implemented. In Western Africa, the launch of the first-ever pandemic resilient federal loan program is imminent. In Latin America, an airport operator has proactively purchased pandemic business interruption insurance, following an incentive to do so if available on the market. Within Australia, there are advanced discussions on an innovative insurance financing solution for vaccination campaigns in response to epidemic outbreaks. Most private sector pandemic business interruption policies continue to be sold in the US and in Europe. The Thai pilot continues, however remains a primarily private sector project for the time being, thus not addressing affordability via contingent credit.

Hence, the primary focus within the APFF DRFI network needs to be on identifying suitable pilot implementations to create market momentum. These could be small in size and, from a technical point of view, have low implementation hurdles. Pilot implementations could provide outbreak response financing or ensure that investments become shock resilient.

Other Activities

The APFF DRFI Network has been deepening its involvement in international initiatives which share the objective of promoting DRFI, particularly that of the Insurance Development Forum (IDF). Such efforts led to the IDF's contribution to the practical discussion on promoting hydrometeorological

risk financing and insurance, which was co-organized by ABAC and APFF in June 2024.

In an attempt to attract further global support, at the “Understanding Risk Forum 2024(UR24),” organized by the World Bank and held in Himeji, Japan in June 2024, the DRFI Network hosted an individual session entitled “Bringing Resiliency to the Asia-Pacific -The Role of Disaster Risk Financing and Insurance-”. The panel discussion invited speakers from ABAC, IDF and Japan International Cooperation Agency, where it shared the growing need for DRFI to counter the ever-intensifying threat of natural disasters, recognizing the existing public and private sector DRFI platforms, the necessity to build a stronger DRFI system by fully understanding each other’s capabilities and challenges, and highlighting the importance of inter-agency collaboration.

B. Insurance Regulation and Accounting

Since 2013, APFF has been working on promoting insurers’ and pension funds’ roles to support the 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 regulatory and accounting regimes that do not discourage insurers from making long-term investment in infrastructure, capital market and funding innovations.

International Outreach and Public-Private Sector Dialogues

APFF has been undertaking outreach and dialogue with policymakers, authorities, standard setters, international and regional organizations, and other stakeholders to promote the adoption of solvency and accounting regimes¹⁵ in line with the Cebu Action Plan’s Deliverable 4.E “Exchange experiences through existing public and private sector forums, including APFF, for facilitating long-term investment in infrastructure and encouraging increased pension and insurance industry investment in infrastructure”¹⁶ through the APFF Insurance and Retirement Income Network (IRIN). Recent efforts have focused on three areas: accounting, solvency regime and sustainable financing.

Accounting

APFF has been working with the International Accounting Standards Board (IASB) and other stakeholders to find solutions to IFRS 17 *Insurance Contracts* and IFRS 9 *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.

IFRS 17 replaces IFRS 4 *Insurance Contracts*, an interim standard which was meant to limit changes to existing insurance accounting practices, while introducing mainly disclosure requirements, and hence has allowed insurers to continue using different accounting policies to measure insurance contracts they write in different economies.¹⁷ IFRS 17 was issued by the IASB in May 2017 and amended in June 2020. Subsequently, in December 2021 the IASB published a narrow-scope

¹⁵ 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 the diversity in different economies;

¹⁶ https://www.apec.org/meeting-papers/sectoral-ministerial-meetings/finance/2015_finance/annexa

¹⁷ Under IFRS 17, insurers apply consistent accounting principles for all insurance contracts. IFRS 17 requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts, and to recognize profits as services are delivered and to provide information about insurance contract profits the company expects to recognize in the future. This happens via the recognition of the contractual service margin (CSM) being an integral part of the insurance contracts liabilities unless the simplified model for short-term duration contracts (premium allocation approach or PAA) is applied. Overall, IFRS 17 is capable of increasing the transparency of the insurance business for investors and other users of financial statements, and is meant to ensure comparability within the industry and with other industries likewise.

amendment to IFRS 17's transition requirements to enable entities to improve the usefulness of the comparative information presented on initial application of IFRS 17 and IFRS 9. IFRS 17 is effective from 1 January 2023. A company had a right to choose to apply IFRS 17 before that date, but only if it also applied IFRS 9 and IFRS 15 *Revenue from Contracts with Customers*. It is important to note that many insurers have used the temporary exemption from applying IFRS 9, which is effective from 1 January 2018 for all other entities, and have instead continued to apply the predecessor standard IAS 39 *Financial Instruments: Recognition and Measurement*. This exemption no longer applies when IFRS 17 became effective.

The implementation of IFRS 17 varies by different Asia-Pacific economies. While IFRS 17 is adopted to be effective in 2023 in most economies at the same time with the member jurisdictions of the European Union, it is planned to be effective in 2025 in Indonesia, Philippines, and Thailand and in 2026 in Chinese Taipei, and considered to be effective in 2027 in Viet Nam. In China, CAS 25 (as revised) aligns with IFRS 17 effective in 2023 for listed companies and in 2026 for other companies. In Japan, IFRS 17 is permitted effective from 2023 for the consolidated statement of listed companies. APFF continues its analysis on implementation status of IFRS 17 and IFRS 9, including its indirect impact on solvency assessment, and provides implementation support as needed in the Asia-Pacific region.

Regarding IFRS 9, as part of its Post-Implementation Review (PIR) on IFRS 9, the IASB considered the issue of the prohibition to recycle realized gains¹⁸ in profit or loss for sales of equities measured at fair value through other comprehensive income or OCI ('FVOCI equities') but decided at its October 2022 meeting to maintain the recycling prohibition arguing that they had not identified any evidence that the requirements had impacted entities' investment decisions. However, till then many insurers have been using IAS39 or local GAAPs, which permit recycling. A change to allow the recycling of realized gains or losses from equity to the profit or loss account would remove the existing accounting disadvantage for long-term equity investments where realized gains and losses must remain in equity, as well as bring IFRS 9 in line with the IASB's Conceptual Framework.

APFF analyzes whether the application of IFRS 9 would create a disincentive for long-term equity investments, such as sustainable investments. APFF also monitors the discussions on other relevant accounting topics which may affect the long-term roles of insurers. In this regard and while acknowledging the IASB's decision from October 2022, the recycling ban on FVOCI equity instruments in IFRS 9 should be foreseen as an essential element of the future Post-implementation Review on IFRS 17, specifically because of the inherent linkage between IFRS 9 and IFRS 17 from the insurance industry perspective being a major institutional long-term investor, contributing to long-term growth and financial stability on global capital markets.

Solvency regime

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.

The Insurance Capital Standard (ICS) is being developed as a consolidated group-wide capital standard for Internationally Active Insurance Groups (IAIGs). It consists of three components: valuation, qualifying capital resources, and a standard method for the ICS capital requirement. The ICS will be the quantitative component of ComFrame. The purpose of the ICS is to create a common language for supervisory discussions of group solvency to enhance global convergence among group

¹⁸ 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.

capital standards. ICS Version 2.0 for the monitoring period was agreed by the IAIS Executive Committee in November 2019. The five-year monitoring period is for confidential reporting and discussion in supervisory colleges from the beginning of 2020. During the monitoring period, ICS results will not be used as a basis for triggering supervisory action. Following the end of the monitoring period, the ICS will be implemented as a group-wide prescribed capital requirement.

On 23 June 2023 the IAIS launched the final consultation (due by 21 September 2023) in preparation for adoption of the ICS by the end of 2024, which will provide a consolidated, risk-based measure of capital adequacy for IAIGs. In parallel, the United States is developing an Aggregation Method (AM) to a group capital calculation, which, if deemed comparable, will be considered an outcome-equivalent approach for implementation of the ICS. After the consultations, dialogues, and discussions, IAIS published the ICS data collection Technical Specifications, together with Questionnaire, Template and Yield Curve on 27 June 2024.

The proposed ICS incorporates policy changes made to ICS version 2.0, based on data and feedback collected during the monitoring period as well as dialogues with stakeholders, which included several improvements in line with previous views expressed by the APFF¹⁹. In addition to feedback on the ICS itself, the IAIS is collecting input on the foreseeable economic impact of ICS implementation on product availability, business models and financial markets, as previously suggested by the APFF. Utilizing the APFF platform, some Asian insurers developed and submitted a joint comment letter to the IAIS and engaged in a joint dialogue with representatives of the IAIS to provide input from Asia-Pacific perspectives. Some of the recommendations have been reflected in the revised specifications.

One key remaining issue is risk charge on long-term equity. Unlike Solvency II in Europe, the proposed ICS would not include special treatments for long-term equity investments and may penalize equity holdings by insurers in ICS jurisdictions because it would impose high capital charge²⁰. Under European Solvency II, long-term shareholdings are allowed to have their risk factor reduced to 22% if they meet eligibility requirements such as a holding period of more than five years or a stress test. Since Asian corporate bond markets tend to be less developed than those in Europe, it would be important for Asian insurers to take the potential growth in Asia market through long-term shareholding under appropriate risk management. APFF supports the similar treatments on long-term equity holding in ICS. There are many economies²¹ that would consider revising their own regulations based on the ICS and European Solvency II. These capital standards will play an important role in designing regulatory systems in Asia. APFF continues to convene dialogue among industry, policymakers and regulatory authorities, providing input on relevant issues through coordination with both regional and international stakeholders. In addition to the ICS, the IAIS is conducting several other relevant consultations. APFF also covers and monitors those topics.

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

¹⁹ See APFF Progress Report 2016 to the APEC Finance Ministers for the high-level recommendations: https://www2.abaonline.org/assets/2016/3%20Shenzhen/1_2016_APFF_Report_Final.pdf "

²⁰ In case of infrastructure-related equity, 37% in emerging market economies and 27% in developed economies. In case of other equity, 48% in emerging market economies and 35% in developed economies.

²¹ The following are some examples of regulatory reforms in Asia:

- China: C-Ross Phase II, economic value-based regulation similar to European Solvency II, started from 2022;
- Hong Kong, China: HK-RBC, economic value-based regulation similar to European Solvency II, started from 2024;
- Japan: J-ICS, economic value-based regulation similar to ICS, will be introduced in 2025;
- Korea: K-ICS, economic value-based regulation similar to ICS, has already been implemented in 2023;
- Malaysia: Malaysia RBC has been reviewed and the Exposure Draft for the new framework, which is similar to ICS, will be issued in 2024;
- Singapore: Singapore RBC II, economic value-based regulation similar to European Solvency II, has already been implemented;
- Chinese Taipei: TW-ICS, economic value-based regulation similar to ICS, will be introduced in 2026;
- Thailand: Comparability assessment between ICS and Thailand RBC II, economic value-based capital requirement, will be implemented after the introduction of IFRS 17 in 2025.

recommendations to the APEC Finance Ministers on ESG Finance. The APFF aims to advocate ABAC high-level recommendations²², and coordinates with Asia-Pacific Infrastructure Partnership (APIP) and Sustainable Finance Development Network (SFDN) to promote sustainable investment by insurers, pension funds, and other long-term institutional investors with particular focus on two areas: Transition finance²³ and Ecosystems for financing innovations that promote SDGs.

Ongoing Advocacy Activities

APFF continues its dialogue with policymakers, standard setters, and other global initiatives, including the International Sustainability Standards Board (ISSB), IFRS Foundation, Task Force on Climate-Related Financial Disclosures (TCFD), Task Force on Nature-Related Financial Disclosures (TNFD), the IAIS, the Principle for Responsible Investment (PRI)²⁴, Glasgow Financial Alliance for Net Zero (GFANZ), and Net Zero Asset Owners Alliance (NZAOA), and provides a forum that brings together governments, regulatory agencies, private sector, and civil society to share challenges, possible solutions and good practices to promote sustainable finance in the region, in collaboration with other international and regional bodies.

On 26 June 2023, the ISSB issued its inaugural global sustainable disclosure standards IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* to create a common language for disclosing the effect of climate-related risks and opportunities on a company's prospects, after a series of consultations and technical discussions over 18 months.

In May 2021, the IAIS published an initial Application Paper on the Supervision of Climate-related risks in the Insurance Sector. Since then, the IAIS has closely monitored developments in global climate change mitigation efforts, climate science and how supervisory practices to manage climate-related risks have evolved. The IAIS is working to develop guidance papers and supporting materials.

APFF works with the Geneva Association²⁵ and the Global Federation of Insurance Associations

²² Some institutional investors establish transition finance frameworks that clearly indicate concrete evaluation criteria with reliable and transparent contents, and support companies' decarbonization efforts from the mid- to long-term perspective. One example is that of an asset owner developing specific standards consistent with international guidelines such as ICMA, OECD, ASEAN, which includes the following components:

- conduct the evaluation whether a company's long-term plan is in line with an internationally credible, science-based pathway that is consistent with the Paris Agreement pursuing a 1.5°C target ("Paris Pathway");
- support a company's overall activities as an institutional investor by evaluating the company's long-term plan and strategy, rather than just focusing on individual technologies; and
- cope with changes in a company's long-term plan in order to evaluate the plan, considering uncertainty in the future, through ongoing monitoring and dialogues.

²³ 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.

²⁴ Principles for Responsible Investment (PRI or UNPRI) is a United Nations-supported international network of institutional investors working together to implement its six principles. The principles offer a framework of possible actions for incorporating environmental, social, and corporate governance factors into investment practices across asset classes. As of March 2023, it has more than 5,000 signatories from nearly 100 economies representing approximately US\$120 trillion.

²⁵ 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

(GFIA)²⁶ and other stakeholders to reflect Asia-Pacific points of view in their recommendations in various relevant consultations. While most of the work on ESG and sustainable finance is done through the SFDN, the APFF IRIN continues to provide specific input from the long-term institutional investors' perspectives, such as insurers and pensions funds²⁷.

Recent Activities in 2023 3Q/4Q, and 2024 1Q/2Q

- ***Collaboration with PRI In-Person Conference***, held on 3-5 October 2023 in Tokyo, hosted by the PRI with Nippon Life Insurance Company as lead sponsor, which is the world's leading responsible investment conference, convening over 1,000 delegates to hear the latest developments, discuss best practice and network. This was the first PRI visit to Asia in seven years, held with an aim to engage in dialogue with Asian stakeholders.
- ***Collaboration with IAIS Annual Conference***, held on 9-10 November 2023 in Tokyo, hosted by the Japan Financial Services Agency (JFSA), inviting insurance supervisors and industry experts around the world. The GFIA, the Life Insurance Association of Japan (LIAJ) and the General Insurance Association of Japan (GIAJ) worked with the IAIS to discuss key issues, including those relevant to the Asia-Pacific.

Planned and Prospective Activities for the Rest of 2024

- The APFF plans to hold an ***APFF Roundtable on Insurance Capital Regulations and Sustainability Reporting***, which will take place in Hong Kong, China hosted by Deloitte in collaboration with Nippon Life Insurance Company, Prudential Plc. and the Hong Kong University of Science and Technology, inviting ISSB, insurance supervisory authorities, accounting firms, industry experts and academics in the Asia-Pacific region. Topics to be included are the Insurance Capital Standards and Sustainability Reporting. Issues identified during the roundtable will be used as a basis for further dialogue with policymakers and stakeholders. It was originally planned to be held in 2023 but has been postponed to 2024 4Q (dates to be determined).

C. Pensions and Retirement Income

The Pensions and Retirement Income Working Group collaborated with ABAC in developing an APEC work plan for enabling pension funds to expand the range of their investments in private markets, including infrastructure, private equity, and private credit among others, where there are important funding gaps that need to be bridged. The Working Group collaborated in organizing the Roundtable *Mobilizing Pension Funds for Growth*, which was held on 27 March. The Roundtable explored ways for APEC member economies to facilitate the successful adoption of various innovations, such as the use of emerging managers, that have been introduced in several advanced economies and are being considered in some developing economies.

The first session discussed the current landscape of pension fund investing in the region, and the challenges and opportunities in various markets. In the second session, participants considered ideas and lessons from experience and identified principles and measures that can be considered by economies to expand pension funds' ability to play a larger role in financing growth while enabling

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.

²⁶ Established on 9 October 2012. Through its 42 member associations and 1 observer association, the Global Federation of Insurance Associations (GFIA) represents the interests of insurers and reinsurers in 68 economies. These companies account for around 89% of total insurance premiums worldwide. Its secretariat is based in Brussels.

²⁷ 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).

them to achieve improved risk-adjusted returns. The event brought together experts, practitioners, and key stakeholders to discuss these issues and develop recommendations that have been incorporated in the 2024 ABAC reports to the APEC Finance Ministers and Economic Leaders.

D. Circular Economy Infrastructure

Completed Activities

This year, work focused on Extended Producer Responsibility (EPR) policies, which can support financing for waste management systems by shifting the financial burden of waste management from municipalities to producers, encouraging manufacturers to design products with reduced environmental impact, and generating funds through fees or take-back programs that can be reinvested into waste collection, recycling, and disposal infrastructure. In 2023, the APFF, APIP and the APEC Chemical Dialogue collaborated to share best practices and case studies from jurisdictions that are implementing chemical recycling policies that support a circular economy and private sector companies that are investing in this innovative technology to scale up recycling in the United States and globally.

Planned Activities for the Rest of 2024

Building on these previous efforts a survey is currently being conducted within the Chemical Dialogue to ascertain priorities and capacity building needs with respect to implementing EPR policy schemes. The results of this survey are to be presented to APEC economies at the Chemical Dialogue meeting in August 2024 and will be used to develop a set of best practice principles and recommendations for use by APEC economies and will be put forward for endorsement in 2025 during Korea's APEC host year.

E. Health Care Financing

Completed Activities

The health financing initiative within the APFF seeks to increase private sector involvement in the healthcare system and implement new innovative financing mechanisms to help governments expand access to healthcare. At the 13th APEC High-Level Meeting on Health and the Economy in 2023, APEC Health Ministers noted their interest in partnering with the private sector to supplement the base level of healthcare provided to all citizens (e.g., through commercial health insurance), expanding value and performance-based financing, and noted that aging populations and the rise of non-communicable diseases (NCDs) necessitated additional investments in healthcare systems.

In the ministerial statement²⁸ APEC economies noted that “sustainable health financing and innovative digital health solutions ...are all integral to healthy people and healthy economies” that “additional investment is needed for resilient, equitable, and sustainable health systems” as well as noting “the importance of both public and private sector solutions, and innovative health financing strategies” while committing to “strengthening our public-private sector partnerships.”

To carry this work forward the APFF plans to work with interested APEC economies to utilize the APEC Checklist of Enablers for Alternative Health Financing²⁹, implement the APEC Healthcare Financing Roadmap³⁰, and build the capacity of officials to advocate for health system strengthening using data and evidence.

Planned Activities for the Rest of 2024

The Malaysian Ministry of Health has developed a [*Health White Paper for Malaysia \(HWP\)*](#) which outlines a 15-year plan to reform the economy's health system. Importantly, the paper was submitted

²⁸ The 13th APEC High-Level Meeting on Health and the Economy statement may be found at: <http://www.apec.org/meeting-papers/sectoral-ministerial-meetings/health/chair-s-statement-of-the-13th-apec-high-level-meeting-on-health-and-the-economy>

²⁹ The APEC Checklist of Enablers for Alternative Health Financing may be found at: https://www.apec.org/Meeting-Papers/Sectoral-Ministerial-Meetings/Health/2017_health_him/checklist

³⁰ The APEC Healthcare Financing Roadmap may be found at: <https://www.apec.org/healthfinancing/Roadmap>

to Malaysia's parliament to prevent political changes from impeding progress. As part of the white paper there is a recognition that Malaysia is currently under-investing in health and that increased investment is needed to realize the much-needed reform. The paper goes on to note that “publicly managed health funding from various sources including the government, individuals and companies needs to be gradually increased to 5% of GDP.” The financing pillar of the reform paper also notes the need to diversify sources of health funding, pool risk, and increase the effectiveness of health spending.

To achieve these objectives Malaysia has called for an independent monitoring body and has repeatedly stressed the importance of public-private partnerships to achieve the paper's stated goals. To help the government of Malaysia achieve these goals a sustainable health financing roundtable meeting will be held in Q4 of 2024 to help develop specific and actionable recommendations that may be taken forward to assist Malaysia with its health reform goals. The work is also intended to be of use to other APEC economies interested in engaging with the private sector to strengthen their health system.

In addition, a multi-stakeholder workshop convening government, academic, civil society, and industry experts will be held in Bangkok in Q4 2024 specifically focused on the development of an immunization financing action plan.

IV. OUTREACH TO MEMBER ECONOMY STAKEHOLDERS

One of the key learnings from APFF's experiences in collaborating with member economies is the need for high-level government support and a whole-of-government approach in undertaking reforms and the need to overcome coordination challenges arising from the siloed structure of government in many economies. Support for specific reforms from the business sector, especially in those industries that will be most affected as beneficiaries, is also an important success factor that can facilitate policy action. In this context, the APFF introduced a new mechanism, namely domestic or sub-regional networks, to build wider and stronger stakeholder support for specific reform initiatives in member economies to implement APEC FMP deliverables as part of its work plan.

These networks aim to bring relevant high-level government and business sector stakeholders together to discuss (a) current initiatives being undertaken or planned by APFF in individual member economies and (b) priorities of individual member economies and how APFF's work to promote APEC FMP deliverables align with and support their goals. In addition, activities are open to participation by APEC, ABAC and APFF networks to understand developments more deeply in individual economies/sub-regions and to learn experiences and insights that can be useful for other member economies.

In 2021 in Beijing, ABAC and APFF collaborators in China arranged to co-organize with APFF the first of such activities, which was the APFF China Conference. In 2023, the Second APFF China Conference was held in Beijing.

The 2024 APFF-ASEAN BAC Southeast Asia Conference

APFF, together with ABAC and the ASEAN Business Advisory Council (ASEAN BAC) collaborated to hold on 17 May 2024 APFF-ASEAN BAC Southeast Asia Conference, hosted in Bangkok by the Thai Bankers' Association with the support of Bangkok Bank and the Government of the UK. The conference, bearing the theme *Creating a Digital, Sustainable and Resilient Regional Ecosystem to Empower MSMEs*, provided a platform for public-private, cross-industry, cross-agency and cross-border dialogue by bringing key stakeholders together to focus on work in various areas of specific relevance to Southeast Asia's economies.

In this inaugural conference, discussions focused on empowering MSMEs through APFF's undertakings in four major areas: the end-to-end digitalization of trade and supply chain finance, the financial infrastructure for expanded financial access, financing sustainable transition of enterprises, and creating resilient ecosystems that MSMEs need for continued growth through disaster risk

financing. The conference brought together business sector leaders, government officials and experts from academe and multilateral institutions, led by the APEC Executive Director, the Deputy Secretary General for ASEAN Economic Community, the APFF Chair and the ASEAN BAC Chair.

CONCLUSION

The consequences of recent geopolitical, social, and economic developments 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. 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 for many years. 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 multiple challenges 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 the 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, sustainability, and resilience. 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 better future by enabling financial services to promote sustainability, digitalization and resilience.

APPENDIX

2024 APEC ASIA–PACIFIC FINANCIAL INCLUSION

Enabling Green MSME Finance through Technology

Urubamba, Cusco, Peru
30 May 2024

Proposed Actions for Policymakers and Regulators



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 Forum aims to identify concrete actions policymakers and regulators can take to expand the reach of financial services to the underserved. 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 dimensions – financial, economic and social - and its strong focus on those at the base of the economy and the poor. This approach aligns with the priorities of APEC including those established by the APEC Host (Peru) in its priority “More Digital” and the subtopics of Open Finance and Digital Financial Education, as well as the APEC Putrajaya Vision 2040 which calls for promoting innovation, digitalization and sustainability.

To support these priorities, and recognizing the important role technology can play in advancing financial inclusion and delivering a sustainable future, in 2024 APFIF adopted the theme “*Enabling Green MSME Finance through Technology*”. Under this theme, which builds upon the work of the 2023 APFIF, the APFIF initiative is examining the importance of innovative technology solutions to further enable micro, small, and medium enterprises (MSMEs) to access green financing.

Despite the economic importance of MSMEs, they are also significant producers of greenhouse gas (GHG) emissions, making them a critical segment for achieving decarbonization goals. Faced with growing environmental threats resulting from climate change, millions of poor and vulnerable people who rely on MSMEs for their livelihood are faced with growing challenges to meet their needs.

Against this backdrop, green finance products and services have the potential to support both the green transition of MSMEs as well as building their resilience against climate-induced economic shocks. Recognizing the challenges MSMEs face to accessing formal finance, their opportunities for green transition or resilience-building through financial products are often limited. Innovative technology solutions are now emerging which have the potential to overcome these barriers and enable more MSMEs to access green financing.

Working closely with APEC stakeholders, including financial inclusion and technology experts from across the region, the 2024 APFIF initiative resulted in the development of a set of proposed actions to support APEC's policymakers and regulators in addressing the green financing needs of MSMEs through technology solutions. These recommendations have been framed to support APEC Peru's priorities within the FMP in 2024, namely the promotion of innovation and digitization to advance financial inclusion and bridge gaps to empower groups with untapped market potential as well as facilitating sustainable growth for resilient development through innovative financing mechanisms.

The 2024 APFIF initiative is led by the Asian Development Bank (ADB), in partnership with the APEC Business Advisory Council (ABAC) and supported by the Griffith Asia Institute (GAI).

PROPOSED ACTIONS FOR POLICYMAKERS AND REGULATORS

Access to finance is a common challenge for MSMEs globally. However, the provision of green finance brings additional unique challenges. These include addressing a lack of awareness of the availability of green finance or its benefits, administrative or compliance costs, limited skills or knowledge associated with sustainable behaviors, lack of incentives or support measures, or fragmented markets constraining availability. To overcome these challenges, a variety of technology solutions are emerging which have the potential to further expand the quantity and quality of green financing for MSMEs. Appropriate policy and regulatory frameworks are needed to fully realize the potential of technology-enabled green financing.

Proposed Action 1: Take steps towards more effective use of data

Due to its potential to address many of the challenges associated with green MSME financing, including reducing financing costs or creating more awareness of their profiles and financial needs, technology is not just a useful tool but in many cases may be a necessity. A core component of effective technology approaches is the use of data. However, each economy will have different levels of experience or capabilities relating to the collection and use of data. In this context, policymakers should consider developing effective data frameworks for green financing by:

- Engaging in public-private dialogue to better understand how inclusive finance approaches can support vulnerable populations, including MSMEs, respond to the challenges of climate change and enhance access to high quality data to develop the most effective solutions. With this objective in mind, developing inclusive finance frameworks³¹ that provide detailed guidance for policymakers and financial institutions in key impact areas (mitigation, resilience, adaptation and transition) is essential. Such frameworks can facilitate the design of targeted policies and provision of green finance solutions, including data sharing.
- Working with the private sector to establish a green data management framework which can be provided as a public good. Building on the open-banking concept, the framework could be used to increase access to relevant data, shared between financial service providers, to enhance access to green finance while ensuring the use of data is compliant with privacy requirements. Policymakers are encouraged to refer to the “Guiding Principles for the Development of Interoperable Open Data Systems in the Asia-Pacific Region³²” developed by the APEC Business Advisory Council (ABAC) and the Asia-Pacific Finance Forum (APFF) which provides detailed advice on how APEC member economies can collaborate towards the harmonization and standardization of open data frameworks that ensure interoperability, accessibility, and scalability of safe and secure open data and payment systems.
- Investing in, or better leveraging existing, relevant technology infrastructure including cloud services, cybersecurity measures and blockchain solutions which can help lay a foundation for enabling secure and efficient data collection, sharing, and usage. Policymakers can also play a role in promoting the standardization of Application Programming Interfaces (APIs) as a critical component of digital infrastructure that could significantly enhance green financing opportunities in the future. By adopting an open API strategy. Open API strategies could enable the development of new green financing business models or expand the reach of green finance to underserved customers by enabling third-party access points to green finance services. For example, financial service providers could be able to improve interoperability of data systems and use it for green finance solutions, including more accurate assessments on the environmental impact of investments or improved accountability to reduce instances of greenwashing. Enabling an effective open API strategy requires, among other elements, the development of a comprehensive regulatory framework which accounts for data protection and encryption, access controls, standards to enable interoperability, or accountability and dispute resolution mechanisms.

Proposed Action 2: Build the ground for artificial intelligence solutions in green finance

Artificial intelligence (AI), including generative AI (Gen-AI), has emerged as a powerful tool with significant potential to be leveraged within the finance sector to increase access to finance, including green finance. For example, AI can be used to support credit scoring (i.e. rapid assessment of non-structured data such as social media), enhance customer support, raise awareness of products or services, or train loan officers. AI can also be used for know-your-customer (KYC) compliance and cybersecurity. Each of these examples has the potential to significantly lower costs for financial service providers, with savings passed on to customers to make green finance

³¹ See: <https://www.centerforfinancialinclusion.org/wp-content/uploads/2024/02/Green-Inclusive-Finance.pdf>

³² See: <http://www2.abaconline.org/content/download/22632171>

more viable or appealing. To support the use of AI as a tool for green MSME finance, policymakers could:

- Work with the private sector to create an ecosystem which enables the effective collection, sharing and use of data (see Proposed Action 1). The use of AI requires large quantities of high-quality data. Getting a functional data ecosystem established is therefore an important first step.
- Establish clear regulations and guidelines to govern the use of AI within the financial sector. These regulations should focus on addressing key issues such as ensuring transparency and accountability. Concerning green finance specifically, it is also important to ensure that regulations define clear standards for what qualifies as green finance, and that AI models are aligned with these criteria.
- Support pilot programs, including potential funding, which utilize AI and demonstrate its practical application as a solution for green MSME financing. By identifying and promoting successful AI models, policymakers can play an important role in encouraging adoption among financial service providers and enhance access to green MSME finance. While not all economies are in the same development stage in the adoption of AI frameworks, experimental approaches and pilots in green MSME finance may be expand the reach and of technologies to traditionally excluded groups.
- Prioritize the development of AI solutions which directly support the ability of MSMEs with Scope 3 reporting. Addressing Scope 3 reporting is one of the greatest challenges to combating climate change and is largely tied to the environmental impact of MSMEs. Technology or AI solutions which can help MSMEs better understand and report on their environmental impact could have major implications for their ability to access green finance.

Proposed Action 3: Create an enabling environment for finance sector innovation and support technology adoption

Increasing MSME access to green finance through technology solutions requires efforts to support and promote innovation throughout the finance sector. By encouraging financial service providers to invest in research and development new technology solutions can be identified to address environmental issues. Furthermore, policymakers can play an important role in promoting the adoption of technology solutions, which providers and MSMEs alike may resist. Some examples of approaches policymakers could use to achieve this include:

- Establishing innovation hubs to promote collaboration, creativity, research, and sharing of knowledge and resources. Innovation hubs can be especially effective at bringing together stakeholders from multiple sectors, including finance, technology companies, academia, government, or enterprise and formulate meaningful partnerships which lead to tailored technology solutions for green MSME finance.
- Developing incentive schemes to encourage financial service providers to pursue the development of innovative technology solutions to enhance the availability of green finance to MSMEs. Policymakers can consider the range of tools they have at their disposal to create such incentives such as tax breaks, low-interest loans, green bonds, or subsidies which can be designed to align with the development and use of specific technology solutions or regulatory incentives such as temporary regulatory compliance relief for financial service providers which have committed to integrating new technology solutions for their green finance operations targeting MSMEs.
- Taking a lead role in enhancing awareness of the potential of technology solutions and building trust in their application for green finance. Many financial service providers and MSMEs are resistive to technology adoption for a variety of reasons such as cost concerns, lack of expertise, security or privacy concerns, perceived complexities, or customer preferences. Policymakers help to address these issues by creating regulatory sandboxes, or promoting interoperability and industry standards for technology integration.
- Investing in digital financial education programs with a focus on green finance can improve the scope and utilization of technology solutions among MSMEs. A combined approach, where digital and financial skills are developed in tandem, is important. Green or climate finance modules can be developed to improve the understanding of key concepts (e.g. resilience, adaptation, climate-related risks), make the provision of green finance solutions accessible and action-oriented, and personalize programs to customers' needs.