

20 August 2015

Hon. Cesar V. Purisima

Chair, APEC Finance Ministers' Meeting
Secretary of Finance
Republic of the Philippines

Dear Secretary Purisima:

I am pleased to convey to you, enclosed, this year's ABAC Report to APEC Finance Ministers.

Recent developments in financial markets have underscored the uncertainties in the minds of investors today about the sustainability of global economic growth. We believe that APEC has an important role to play in addressing the causes of these uncertainties by promoting the inclusive and broad-based growth that will transform the entire Asia-Pacific region into a strong and resilient engine of the global economy. In particular, we wish to highlight the significant contributions that improved access to finance, deeper, more liquid and regionally integrated capital markets, increased investment in infrastructure and a more developed long-term institutional investor base can make to this process.

Reforming our region's financial systems is critical to achieving this objective, and ABAC welcomes the Finance Ministers' decision to launch the Cebu Action Plan (CAP) to provide a roadmap for this undertaking. ***We particularly support the following initiatives currently being considered for inclusion in the CAP:***

- *Financing of micro, small and medium enterprises (MSMEs) and supply chains.* We endorse the proposal to establish a public-private Financial Infrastructure Development Network (FIDN) to help build credit information systems and improve policy frameworks for secured transactions and the use of movable assets as collateral. We also recommend initiatives to promote an enabling environment for trade and supply chain finance and alternative financing mechanisms, and to identify best practices for strengthening MSMEs' resilience against unexpected events, disasters and financial crises.
- *Expanding financial inclusion.* We welcome the proposal to use the Asia-Pacific Forum on Financial Inclusion as a platform for sharing experiences on policy innovations to promote financial inclusion and literacy. We propose that efforts be included to develop a regional model framework as a helpful reference to support member economies in designing domestic financial inclusion strategies through public-private collaboration, and discuss digital finance issues within the context of global and regional efforts.
- *Microinsurance.* We endorse the proposal to utilize the Asia-Pacific Financial Forum (APFF) as a platform for a network of experts from the public and private sectors and multilateral organizations to help expand the coverage of microinsurance in member economies.
- *Disaster risk financing (DRF).* We welcome proposals to harness the APFF in building a network of public and private sector experts who can collaborate to develop sound financial and insurance markets to secure public trust in DRF products; improve disaster risk evaluation; and raise public awareness of disaster risk.
- *Pipeline of bankable infrastructure projects.* We recommend that the CAP include initiatives to accelerate the development of a pipeline of bankable infrastructure projects through collaboration among the APEC PPP Experts Advisory Panel, the Asia-Pacific Infrastructure Partnership (APIP); the Global Infrastructure Hub; and the Urban Infrastructure Network (UIN).

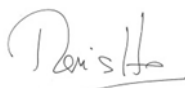
- *A greater role for the insurance and pension industries.* We recommend that the APEC PPP Experts Advisory Panel be tasked to identify best practices in establishing private funds for equity investment in infrastructure involving public-private collaboration; as well as standards, policies, regulations and practices that impact the appetite of insurers and pension funds for investing in long-term infrastructure projects. We recommend APFF as a platform for sharing experiences in retirement income reforms to promote the growth of the pension industry and availability of long-term funds. We also suggest the inclusion of capacity building training programs to help officials design effective policies to attract long-term investments.
- *Development and integration of capital markets.* We welcome the proposal to use APFF as a platform for improving capital market depth and liquidity in the region. As key deliverables, we recommend undertakings to promote an enabling legal and regulatory environment and capacity building to accelerate the development of repo and derivatives markets; improve availability of relevant information needed by capital market investors; and develop financial market infrastructure and practices to facilitate cross-border portfolio investments. We also underscore the importance of improving transparency of financial regulations and establishment of fair and coherent regulatory environment as a frontier for future work.
- *Asia Region Funds Passport.* We recommend that the CAP include regional public-private sector dialogues using APFF as a platform to facilitate its early enlargement to include a critical mass of participating jurisdictions, the key success factor for the scheme from the viewpoint of the industry, as well as its interoperability with other regional mutual recognition frameworks and identification of ways to effectively deal with other issues.

In addition, we propose broad collaboration across APEC fora on cross-cutting initiatives that impact the financial sector. In particular, we suggest that Finance Ministers support the efforts of the Regional Investment Analytical Group (RIAG) in developing indicators to help enhance investment flows in the region, as well as ABAC's collaboration with the International Valuation Standards Council (IVSC) to improve valuation practices across APEC economies.

We invite Finance Ministers to consider these recommendations, which are explained in greater detail in the enclosed report.

We thank the Finance Ministers for giving us the opportunity to contribute our views to the development of the CAP, in collaboration with our partners in APFF, APIP and the Asia-Pacific Forum on Financial Inclusion, through the various discussions hosted by the Philippines this year. We look forward to discussing these matters with the Finance Ministers during our upcoming dialogue in Cebu and to the successful conclusion of this year's AFMM.

Yours sincerely,



Doris Ho

ABAC Chair 2015

Attachments: *2015 ABAC Report to APEC Finance Ministers*
Annex A: Asia Pacific Financial Forum (APFF) 2015 Progress Report to the APEC Finance Ministers
Annex B: Advisory Group on APEC Financial System Capacity Building 2015 Report on Capacity Building Measures to Strengthen and Develop Financial Systems



**APEC Business Advisory Council
Report to APEC Finance Ministers
2015**

20 August 2015



2015 ABAC Report to APEC Finance Ministers

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2015 ABAC Report to APEC Finance Ministers

Recent developments in financial markets have underscored investors' uncertainties about the sustainability of global economic growth. Unprecedented monetary and fiscal stimulus has not restored world economic growth to pre-crisis levels, even as concerns over accumulating public and private sector debt are once again being heightened by events such as the Greek crisis. With traditional export markets in advanced economies unlikely to provide sufficient fuel to restore the dynamism of the world economy, attention is fixed on the role that Asia-Pacific emerging markets can play as a new major engine of global economic growth.

To play this role, however, they need to undertake significant structural reforms, in particular by promoting favorable conditions for inclusive and broad-based growth. Reforming our region's financial systems is critical to achieving this objective, given the central role of finance in the economy. The region faces many challenges, including small businesses' and low-income households' lack of access to finance, difficulties in attracting private sector funding of infrastructure and continued vulnerability of communities and supply chains to the impact of natural disasters, among others.

ABAC believes that APEC can play an important role in meeting these challenges. In this context, ABAC welcomes the Finance Ministers' decision to launch the Cebu Action Plan (CAP) to provide a unified roadmap for the development of our region's financial markets and services, including their regional integration. We are delighted to support the CAP, particularly through the initiatives entrusted to ABAC by Finance Ministers – the Asia-Pacific Financial Forum (APFF), the Asia-Pacific Infrastructure Partnership (APIP) and the Asia-Pacific Forum on Financial Inclusion.

This year's report focuses on key issues that are also touched upon in the CAP, as well as a small number of other related issues. Further details can be found in the two annexes to this Report – the 2015 APFF Progress Report to the APEC Finance Ministers and the 2015 Report on Capacity Building Measures to Strengthen and Develop Financial Systems. These key issues are: (a) financing for micro-, small and medium enterprises (MSMEs); (b) disaster risk financing; (c) infrastructure investment; (d) insurance and pension industries' development (e) deep and liquid capital markets; (f) financial regulations; (g) improving the investment environment; and (h) valuation practices.

EXPANDING MSMEs' ACCESS TO FINANCE

Lack of access to finance is a key issue preventing MSMEs from effectively participating in economic activities and global value chains. At the center of this problem are a number of factors. One is inadequate legal and institutional infrastructure to support risk-based lending using transactions data and lending against a broader range of collateral. Another is the impact of certain regulations on lending to MSMEs. Others include the lack of enabling environments for equity-based financing and MSMEs' lack of access to risk management tools such as insurance. While innovations can facilitate MSMEs' access to funding, inadequate understanding of their broader implications on financial systems

constrain many policy makers from harnessing them. APEC can address these issues through public-private collaboration to promote legal, policy and regulatory reforms, capacity building and awareness-raising.

In particular, we endorse the establishment of a public-private Financial Infrastructure Development Network (FIDN) to help build credit information systems and improve policy frameworks for secured transactions and the use of movable assets as collateral. We also recommend initiatives to promote an enabling environment for trade and supply chain finance and alternative financing mechanisms, and to identify best practices for strengthening MSMEs' resilience against unexpected events, disasters and financial crises.

Recommendations

- *Undertake a pathfinder initiative through FIDN to develop credit information systems.* This should involve the development of online resources aimed at policy makers as well as a series of workshops focused on building capacity for developing regulatory frameworks, establishing and operating private credit bureaus and enhancing lenders' ability to use credit information. It will also involve building support for identified reforms in collaboration with policy makers.
- *Undertake a pathfinder initiative through FIDN to improve policy frameworks for secured transactions and the use of movable assets as collateral.* This should involve holding workshops and promoting reforms to develop robust legal and institutional architecture for asset-based lending and factoring, collateral registries, rules related to the use of movable assets and accounts receivables as collateral, and legal and institutional frameworks to facilitate cross-border supply chain finance.
- *Collaborate with APFF in holding public-private dialogues on regulatory issues in trade and supply chain finance.* These should aim to promote effective and regionally consistent implementation of capital and liquidity standards, Know-Your-Customer, Counterparty Due Diligence and Anti-Money Laundering rules.
- *Collaborate with APFF in holding workshops on emerging facilitators of trade and supply chain finance.* These should focus on three key aspects: expanded use of electronic supply chain management platforms; wider use of Bank Payment Obligations (BPOs) and related working capital management techniques; and facilitating market education and information exchanges on the use of regional currencies such as the RMB and related working capital management techniques.
- *Support the development of alternative funding mechanisms for MSMEs.* This should involve the holding of regular public-private workshops on ways to develop alternative funding mechanisms for MSMEs and start-ups, including development of new financial instruments, addressing regulatory barriers to innovative financing, identifying policy frameworks for alternative finance, policy initiatives to spur equity based financing to invest in small businesses, enabling regulations for crowd funding, Islamic finance and public-private innovative funding vehicles. These workshops will be designed to progressively go into greater detail into key specific issues to help policy makers and regulators adopt and implement policies and design initiatives including funding mechanisms.
- *Collaborate with APFF in developing best practices for strengthening MSMEs' resilience.* This

should involve workshops for relevant policy makers and regulators in the region and will cover measures to mitigate the impact of financial crises, natural disasters and other unexpected events, based on lessons from responses to previous financial crises and successful experiences in the use of microinsurance and disaster risk financing, with special focus on vulnerable micro- and small businesses, including farmers in remote areas.

DEVELOPING DISASTER RISK FINANCING

The Asia-Pacific is the world's most natural disaster-prone region, recording the biggest number of natural disaster events, with enormous economic consequences. To complement ongoing efforts to improve disaster response and disaster risk management strategies, the region needs to develop financial instruments to help mitigate the impact of disasters *ex ante*. Key requirements for creating such instruments are: (a) development of sound financial and insurance markets to secure public trust in DRF products; (b) improving disaster risk evaluation and facilitating the use of capital markets in sourcing disaster risk financing from pension funds; (c) raising public awareness on disaster risk; and (d) promoting investment in disaster resilient infrastructure.

Recommendations

- *Establish an APEC-wide DRF expert group within the APFF to develop a gap analysis report in 2016, a disaster risk database starting in 2017 and a baseline DRF framework for APEC economies in 2018.* The work of this expert group should be focused on knowledge sharing to help member economies design effective DRF schemes. This work includes conducting a gap analysis of existing disaster insurance and relief mechanisms in disaster prone economies and identification of priority areas; creation of an expert group from finance and relevant ministries with clear objectives; participation of experts, originators and risk modelers from industry and academia; learning from experiences outside the region; identification of areas where disaster insurance needs to be made more available and affordable; periodical follow-up of progress; and consideration of a baseline framework to facilitate DRF implementation.
- *Interested economies to convene domestic experts groups in 2017 to design their own DRF blueprints and finalize these blueprints in 2018.* Practical steps include involvement of private sector experts where needed, particularly in developing peril-specific risk models as a core component of DRF schemes.

EXPANDING UNBANKED HOUSEHOLDS' ACCESS TO FINANCE

The region is home to more than a billion people who do not have access to a bank account or formal financial services. Much has been achieved in expanding financial inclusion, but significant work remains. To more effectively promote financial inclusion, a clear understanding of the perspectives across disadvantaged communities is required, and efforts should be focused on developing innovative products and services that appropriately address the needs of customers, considering elements such as product range, cost, accessibility, financial capability and regulation to ensure customer protection.

Digital technology can be harnessed to promote financial inclusion. Digital-based services providers that have deeper penetration than financial services providers in many economies are offering financial access and services at lower cost. The business models of digital

finance are changing the environment for lending, savings, insurance and payments in a way that warrants more attention by policymakers. Specific issues include: resetting oversight of customer data, privacy and protection practices for the digital economy; setting regulatory practice and oversight for digital financial service providers including non-bank providers and therefore subject to the financial regulatory framework; and increasing financial literacy training in the areas of e-money, digital wallets, mobile payments, digital data gathering and sharing, and cyber security.

Recommendations

- *Explore a formal definition of financial inclusion*, such as the definition developed by the Global Partnership for Financial Inclusion (GPII), that can help measure and compare financial inclusion across economies and serve as a useful guide for policymakers.
- *Develop an APEC model framework for financial inclusion strategies* as a reference to help economies in designing domestic strategies suited to local needs and conditions. This could include establishing or designating an agency or organization to take overall responsibility for the development of the financial infrastructure to promote greater financial inclusion.
- *Establish a new working group to discuss digital finance issues and align with other existing working groups within APEC* as well as other knowledge sharing organizations such as the Alliance for Financial Inclusion (AFI), the Consultative Group to Assist the Poor (CGAP) and the Global Partnership for Financial Inclusion (GPII), which have been working on these issues.

PROMOTING INFRASTRUCTURE INVESTMENT

The development of infrastructure has not kept pace with the region's economic growth, resulting in congestion of roads, power shortages and inadequate public services, as well as uneven growth, contributing to regional and social inequalities. With increasing need for funding and greater efficiency in delivering infrastructure projects, economies are turning to expanded private sector investment in infrastructure. A major obstacle is the lack of a pipeline of bankable infrastructure projects in developing economies that can attract private sector capital, due in large part to insufficient capacity for project preparation.

Recommendations

- *Collaborate with the G20 Global Infrastructure Hub in developing initiatives to enhance public sector project preparation capacity*, such as the development of a PPP Knowledge Portal, in collaboration with public sector agencies, international organizations and the private sector through APIP. Member economies should coordinate these efforts with related initiatives being undertaken or supported by the Asian Development Bank (ADB), International Monetary Fund (IMF), the Organization for Economic Co-operation and Development (OECD) and the World Bank, including the use of such tools to improve project preparation as the International Infrastructure Support System (IISS).
- *Continue holding APIP dialogues among interested governments, the private sector and relevant international organizations in 2016*. Future dialogues should build on and advance the conclusions of previous dialogues that have been held with Indonesia, Malaysia, Mexico, Peru, the Philippines, Thailand and Vietnam. APIP welcomes invitations from

other economies to initiate dialogues focused on their respective needs and priorities.

- *Develop a holistic policy framework on sustainable urban infrastructure development, including action plans that can be adopted, through the Asia-Pacific Urban Infrastructure Network (UIN).* The UIN, which was initiated by ABAC and comprises specialists drawn from business, think tanks and official agencies from across the region grouped into three work streams on urban planning and policy, project preparation and development, and infrastructure financing, completed its first report in 2015 and will develop action plans in 2016.

ENABLING INSURANCE AND PENSION INDUSTRIES' FULL CONTRIBUTION TO REGIONAL DEVELOPMENT

Insurers and pension funds play important roles in financing the needs of individuals and households in the event of unexpected adverse events and after retirement. At the same time, they are important sources of long-term investment in capital markets and infrastructure. However, they face challenges in playing these roles, particularly the lack of appropriate financial instruments and enabling policy frameworks for pension funds and insurance firms to accumulate capital and expand their investment in the region, in addition to the need to further develop capital markets. Policies to widen access to retirement income are a challenge for economies in the region and for industry.

The insurance industry also contributes to inclusive growth through microinsurance, which is an important tool that can help vulnerable low-income households and microenterprises become more resilient. Although it has been able to reach a large number of people in the region (170 million low-income people in Asia and Oceania by the end of 2012), the percentage of people covered by microinsurance is only 4.3 percent in Asia and 7.6 percent in Latin America.¹ Much improvement is therefore still needed to provide insurance coverage to the region's population.

Recommendations

- *Promote the accumulation of long-term capital in pension funds through retirement income market reforms.* This involves promoting demand for retirement savings as well as wider access to and supply of retirement income products. To promote demand for retirement savings, governments should identify and adopt policies related to consumer education, tax measures, mandatory provisions, distribution channels and product design. To promote retirement income product supply, policy makers and the private sector should collaborate to ensure that this is supported by policy, regulatory and accounting frameworks related to capital markets, long-term investments and risk management.
- *Identify and address regulatory and accounting issues that affect insurers' incentives to undertake long-term investment in infrastructure and capital markets.* Regulatory issues include bank-centric regulations, short-term oriented economic regimes and one-size-fits-all models that do not fit different business models across the region. Accounting issues include those affecting asset-liability interactions that produce volatility in balance sheets and profit and loss statements, as well as issues related to complexity,

¹¹ *The Landscape of Microinsurance in Asia and Oceania 2013* [Jointly published by Munich Re Foundation and GIZ Regulatory Framework Promotion of Pro-Poor Insurance Markets (RFPI) in partnership with the Microinsurance Network].

consistency, transition and presentation of traditional long-duration contracts.

- *Identify best practices in promoting private funds for equity investment in infrastructure, including those involving public-private collaboration.* This involves exploring effective use of non-traditional financing vehicles²² and collaboration among institutional investors, financial institutions and multilateral development agencies and private equity funds. One example of a partnership among parties including a multilateral agency, a foreign and local pension fund and an infrastructure asset management firm is the Philippine Investment Alliance for Infrastructure (PINAI), which is now investing in energy projects.
- *Establish a public-private sector network of microinsurance experts to hold a series of workshops to support interested APEC economies in developing their own roadmaps for expanding the coverage of microinsurance.* Topics to be covered in these workshops should include (a) the integration of microinsurance in their financial inclusion strategies, development plans and/or inclusive finance roadmaps; (b) formulation of microinsurance policy and regulatory frameworks and overall strategies, implementing guidelines and directives and business models; (c) promoting a culture of genuine dialogue among stakeholders, including regulators and the industry in the development of regulations and sustainable business models; (d) policies and mechanisms to encourage PPPs in the provision of insurance solutions for catastrophic events, perils in the agriculture value chain, health and MSMEs; (e) mechanisms to encourage innovations and institutional arrangements in creating data/information centers, developing product prototypes, designing technology-based enrolment and claims administration, among others; (f) capacity development for stakeholders; (g) cross-border peer-to-peer knowledge exchange; and (h) development of good microinsurance practices, creation and updating of information and communications technology applications and harmonization of cross-border microinsurance regulations.

CAPITAL MARKET DEVELOPMENT

The importance of capital markets, particularly local currency bond markets, for financial stability, economic growth, and the efficient channeling of long-term savings to investment in long-term assets like infrastructure is well-recognized in the region. A number of regional and domestic initiatives have already resulted in the rapid growth of Asian government bond markets, a key stage in the process of capital market development. The next stage, which is increasing market depth and liquidity, will be critical to the evolution of the region's capital markets. The APFF provides an effective collaborative platform in promoting key objectives toward this end.

Recommendations

- *Undertake public-private sector workshops regionally and in individual economies to facilitate policy reforms and measures to promote the effective use of hedging instruments and risk management tools and fostering a more diverse investor and issuer base, through the APFF.* These should focus on promoting legal and regulatory reforms and capacity building to accelerate the development of repo and derivatives markets; improving the availability of relevant

²² These could include infrastructure funds, business trusts, guarantees linked to government actions that impact commercial viability of projects, build-operate-transfer, securitization and co-financing with multilateral development banks.

information needed by capital market investors on issuer disclosure, bond market data and investor rights in insolvency to more confidently expand their activities across the region; and promoting the development of financial market infrastructure and practices to facilitate greater cross-border portfolio investments.

- *Ensure the successful launch of the Asia Region Funds Passport (ARFP) through the facilitation of its early enlargement* to include a critical mass of participating jurisdictions, as well as its interoperability with other regional mutual recognition frameworks, using the APFF as a platform for undertaking discussions among finance and financial regulators, the private sector and international organizations on these issues.

IMPROVING THE FINANCIAL REGULATORY ENVIRONMENT

At the APFF Roundtable on Financial Regulations held on 27 January 2015 in Hong Kong, China, regulators from Asian economies agreed that, while recent regulatory reforms have been driven mostly by the need to respond to the Global Financial Crisis, it is becoming increasingly important for financial regulations to be considered in the context of requirements for the region's development. There was agreement that important regulatory objectives (e.g., financial stability, consumer protection, enhanced bank risk management, integrity of financial systems) should be balanced with the need for development (e.g., expanding access to finance, promoting investment in infrastructure, developing deep and liquid capital markets).

As the banking sector remains a key source of financing in many APEC emerging markets for priority areas such as infrastructure, it is important to look at regulatory issues in the context of ongoing changes in the banking landscape, especially with respect to their impact on cross-border financing in these priority areas. Major challenges that banks face in undertaking cross-border financing include the need for greater consistency of regulations and greater cooperation among regulators across the region; market access restrictions and business regulations. Addressing these issues will enable commercial banks to increase their contributions to cross-border financing, especially of infrastructure.

Recommendations

- *Convene regular APFF Roundtables* to promote more active involvement of APEC financial market regulators in discussions on global rules that affect financial markets and services and their implementation across the region in support of APEC's economic objectives and regional integration, as well as effective mechanisms for industry to contribute to the development of sound and effective financial regulatory frameworks, robust risk management in financial institutions and expanded access to finance.
- *Improve transparency of financial regulations and establish a fair regulatory environment* that will help expand private investment and banks' participation in financing priority areas such as infrastructure, in addition to fiscal policies that incentivize banks to lend to projects in priority areas, raise the ratio of proprietary funding for these projects to mitigate the repayment pressure and reduce risks associated with bank loans.

IMPROVING THE INVESTMENT ENVIRONMENT

The region's sustained economic growth requires policies that can attract different types of

investment, cooperation among domestic and international investors and investment in services. The formulation of effective policies can benefit from the development of robust quantitative indicators, including sectoral indicators, which will help economies better understand the types of policies that could help attract more foreign long-term investment into sectors of particular relevance to them.

Since its establishment in 2014, the Regional Investment Analytical Group (RIAG) has been undertaking work within APEC related to the development of these indicators. Complementing this is an ongoing effort promoted by ABAC, supported by the Australian government and undertaken by the Australian APEC Study Centre to strengthen the capacity of investment officials across the region to monitor, review and implement best practice investment policies and improve stability and transparency in domestic investment decision making.

Recommendations

- *Support efforts of the Regional Investment Analytical Group (RIAG) in developing indicators to enhance investment flows in the region, including the strengthening of resources of statistical agencies in the region to promote collection of data on investment flows by sector.*
- *Continue supporting capacity building training programs for officials to enhance investment policy making and promote sustainable investment flows in the region, with emphasis on policies to attract different types of investment ranging from resource seeking to market or efficiency seeking investment and promoting cooperation between domestic and international investors on financing instruments and structures.*

IMPROVING VALUATION PRACTICES IN APEC

Valuations are central to decision-making and the economic growth and development of financial systems are impacted in a multitude of ways by valuation. ABAC supports ongoing work in collaboration with the International Valuation Standards Council (IVSC) to strengthen the valuation profession and practices in the region, in the form of an audit of the current valuation landscape of member economies and preparation of a template of best practice in key areas (regulation and compliance, organizational infrastructure, access to information and disclosure, education and training, and standards), which will describe options for establishing best practice landscapes for the valuation practices in various types of economies.

- *Support ongoing efforts to develop a roadmap to assist economies in strengthening valuation practices and the valuation profession, including the holding of roundtables to share experiences of how valuation practices can contribute to economic growth and to share and discuss the results of the audit of current valuation landscapes and the template of best practice in key areas.*

CONCLUSION

These are the recommendations we respectfully invite Finance Ministers to consider. We are also looking at emerging issues that will be included in ABAC's work in 2016. Among these are digital finance and addressing the impact of chronic diseases on pensions and other government liabilities, which we hope will be the subjects of policy dialogues among relevant officials with a view to providing recommendations to their respective ministries.

We thank the Finance Ministers for giving ABAC the opportunity to contribute our views to the development of the CAP, in collaboration with our partners in the APFF, APIP and the Asia-Pacific Forum on Financial Inclusion, through the various discussions hosted by the Philippines this year. We look forward to discussing these matters with the Finance Ministers during our upcoming meeting with them in Cebu and to the successful conclusion of this year's APEC Finance Ministers' Meeting.



APEC Business Advisory Council
**Report to APEC Finance Ministers
2015**

ANNEX A

**Asia-Pacific Financial Forum
2015 Progress Report to the APEC Finance Ministers**

Asia-Pacific Financial Forum

2015 Progress Report to the APEC Finance Ministers

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Asia-Pacific Financial Forum

2015 Progress Report to the APEC Finance Ministers

EXECUTIVE SUMMARY

The Asia-Pacific Financial Forum (APFF), a platform for public-private collaboration to develop robust and integrated financial markets in the region, was proposed by the APEC Business Advisory Council (ABAC) and adopted by the APEC Finance Ministers at their 2013 annual meeting in Bali. In its 2014 Interim Report to the APEC Finance Ministers, the APFF identified undertakings to advance development in key areas of financial markets that are critical to the region's economic aspirations. These areas are: (a) lending infrastructure; (b) trade and supply chain finance; (c) insurance and retirement income; (d) financial market infrastructure and cross-border practices; (e) capital markets; and (f) linkages and cross-border issues.

The Interim Report contained a description of a number of action plans to advance these objectives. This Progress Report provides information on how these action plans are being developed and their future directions. Its highlights are as follows:

- The Report discusses a proposal to establish a Financial Infrastructure Development Network (FIDN) comprising private and public sector entities, multilateral institutions and industry associations as a specialized subgroup under the APFF. Its aim is to undertake activities to help member economies develop legal frameworks for credit information systems and secured transactions and movable asset finance systems, and identification of key issues for its work program.
- The Report identifies key issues to be addressed in a series of dialogues and workshops on trade and supply chain finance for relevant public and private sector stakeholders in the region. These will include capital and Know Your Customer (KYC), Anti Money Laundering (AML) and Customer Due Diligence (CDD) rules affecting trade finance. These also include digital and innovative working capital management products and techniques, reducing barriers to digitalization of supply chain finance, and interrelationships among finance, trade, customs and technology to support the internationalization of MSMEs.
- There is ongoing work to complete a guide for legal and regulatory frameworks, settlement systems and market conventions supporting sound and efficient repo markets. The Report further develops the action plan to engage domestic regulators and governments through workshops, encourage and assist economies in establishing classic repo markets, disseminate industry best practices, encourage adoption of international standards for efficient clearing and settlement of repo transactions, and monitor the impact of financial reforms on repo market development in the region.
- The APFF has completed the self-assessment templates to help relevant authorities facilitate availability of information for investors in the region's debt markets, especially those for non-bank corporate debt. These templates cover three key categories (disclosure, bond market data and information on investor rights in insolvency). The APFF also launched a pilot program with the Philippines to use these templates in identifying gaps and undertaking measures to fill them.

- The APFF served as a platform for engagement of industry to assist the six regulatory authorities progressing the ARFP in identifying critical elements in designing rules and operational arrangements for a successful regional funds passport. These critical elements were identified as enlargement of membership, reciprocity, interoperability with other similar regional frameworks, inclusiveness, taxation, dispute resolution, standardization of fees and performance figures and international recognition of passport funds.
- The APFF undertook further development of the action plan to assist economies in ensuring an enabling legal infrastructure for derivatives, including activities geared toward identifying legal structural weaknesses in jurisdictions, educational seminars targeting regulatory and legislative bodies as well as key members of the judiciary, and preparation of a pilot program.
- Further work was done to identify key issues for workshops and dialogues to help economies develop a regional securities investment ecosystem. The APFF will be working on a regional roadmap of upcoming regulatory and market changes, the feasibility of a regional private-public-market infrastructure forum for exchange of views on these changes, regionally and globally aligned standards for KYC/AML documentation collection and reporting, the use of third party industry utilities for a centralized KYC/AML electronic depository, and standards for data privacy, protection and security.
- This Report describes recent work initiated by APFF on retirement income and longevity solutions, microinsurance and disaster risk financing and financing vehicles that can be developed and supporting measures to facilitate expanded investment by pension funds and insurers in infrastructure and capital markets. The APFF also continued its efforts to promote regulatory and accounting frameworks that support long-term investment in infrastructure.
- The Report also describes ongoing research and discussion on the regulation and supervision of the region's banking systems and capital markets, market integration and access and regional financial architecture

This Progress Report recommends the following steps as the way forward for advancing the work of the APFF:

- *Undertake a pathfinder initiative to develop credit information systems.* This should involve the development of online resources aimed at policy makers as well as a series of workshops focused on building capacity for developing regulatory frameworks, establishing and operating private credit bureaus and enhancing lenders' ability to use credit information. It will also involve building support for identified reforms in collaboration with policy makers.
- *Undertake a pathfinder initiative to improve policy frameworks for secured transactions and the use of movable assets as collateral.* This should involve holding workshops and promoting reforms to develop robust legal and institutional architecture for asset-based lending and factoring, collateral registries, rules related to the use of movable assets and accounts receivables as collateral, and legal and institutional frameworks to facilitate cross-border supply chain finance.
- *Convene public-private dialogues on regulatory issues in trade and supply chain finance.* These should aim to promote effective and regionally consistent implementation of capital and liquidity standards and KYC/AML/CDD rules, and will

also include regulatory considerations related to electronic trade finance documents.

- *Hold workshops on emerging facilitators of trade and supply chain finance.* These should focus on these key aspects: expanded use of electronic supply chain management platforms; wider use of digital and innovative working capital management techniques such as Bank Payment Obligations (BPOs); facilitating market education and information exchanges on the use of regional currencies such as the RMB in trade and supply chain finance; and facilitating inter-relationships among finance, trade, customs procedures and technology that can support the internationalization of MSMEs and businesses.
- *Support the development of alternative funding mechanisms for MSMEs.* This should involve the holding of regular public-private workshops on ways to develop alternative funding mechanisms for MSMEs and start-ups, including development of new financial instruments, addressing regulatory barriers to innovative financing, identifying policy frameworks for alternative finance, policy initiatives to spur equity based financing to invest in small businesses, enabling regulations for crowd funding, Islamic finance and public-private innovative funding vehicles. These workshops will be designed to progressively go into greater detail into key specific issues to help policy makers and regulators adopt and implement policies and design initiatives including funding mechanisms.
- *Develop best practices for strengthening MSMEs' resilience.* This should involve workshops for relevant policy makers and regulators in the region and will cover measures to mitigate the impact of financial crises, natural disasters and other unexpected events, based on lessons from responses to previous financial crises and successful experiences in the use of microinsurance and disaster risk financing, with special focus on vulnerable micro- and small businesses, including farmers in remote areas.
- *Establish an APEC-wide DRF expert group within the APFF to develop a gap analysis report in 2016, a disaster risk database starting in 2017 and a baseline DRF framework for APEC economies in 2018.* The work of this expert group should be focused on knowledge sharing to help member economies design effective DRF schemes. This work includes conducting a gap analysis of existing disaster insurance and relief mechanisms in disaster prone economies and identification of priority areas; creation of an expert group from finance and relevant ministries with clear objectives; participation of experts, originators and risk modelers from industry and academia; learning from experiences outside the region; identification of areas where disaster insurance needs to be made more available and affordable; periodical follow-up of progress; and consideration of a baseline framework to facilitate DRF implementation.
- *Promote the accumulation of long-term capital in pension funds through retirement income market reforms.* This involves promoting demand for retirement savings as well as wider access to and supply of retirement income products. To promote demand for retirement savings, governments should identify and adopt policies related to consumer education, tax measures, mandatory provisions, distribution channels and product design. To promote retirement income product supply, policy makers and the private sector should collaborate to ensure that this is supported by policy, regulatory and accounting frameworks related to capital markets, long-term investments and risk management..

- *Identify and address regulatory and accounting issues that affect insurers' incentives to undertake long-term investment in infrastructure and capital markets.* Regulatory issues include bank-centric regulations, short-term oriented economic regimes and one-size-fits-all models that do not fit different business models across the region. Accounting issues include those affecting asset-liability interactions that produce volatility in balance sheets and profit and loss statements, as well as issues related to complexity, consistency, transition and presentation of traditional long-duration contracts.
- *Identify best practices in promoting private funds for equity investment in infrastructure involving public-private collaboration.* This involves exploring collaboration among institutional investors, financial institutions and multilateral development agencies and private equity funds. One example of a partnership among parties including a multilateral agency, a foreign and local pension fund and an infrastructure asset management firm is the Philippine Investment Alliance for Infrastructure (PINAI), which is now investing in energy projects.
- *Undertake various activities to support the development of microinsurance.* These include partnering with multilateral institutions, including the Asian Development Bank; collaborating with the Access to Insurance Initiative (A2ii) in Latin America; creating a list of contact persons in member entities through various outreach activities; collaborating with the Microinsurance Network on international activities such as the Global Financial Inclusion Initiative (GFII) and its development in APEC member economies; exploring partnerships with relevant institutions in holding regional or domestic workshops; participating in APEC/APFF forums and seminars that include microinsurance; and providing inputs to the Cebu Action Plan and APEC, ABAC and APFF events.
- *Undertake public-private sector workshops regionally and in individual economies to facilitate policy reforms and measures to promote the effective use of hedging instruments and risk management tools and fostering a more diverse investor and issuer base, through the APFF.* These should focus on promoting legal and regulatory reforms and capacity building to accelerate the development of repo and derivatives markets; improving the availability of relevant information needed by capital market investors on issuer disclosure, bond market data and investor rights in insolvency to more confidently expand their activities across the region; and promoting the development of financial market infrastructure and practices to facilitate greater cross-border portfolio investments.
- *Ensure the successful launch of the Asia Region Funds Passport (ARFP) through the facilitation of its early enlargement* to include a critical mass of participating jurisdictions, as well as its interoperability with other regional mutual recognition frameworks, using the APFF as a platform for undertaking discussions among finance and financial regulators, the private sector and international organizations on these issues.
- *Convene regular APFF Roundtables* to promote more active involvement of APEC financial market regulators in discussions on global rules that affect financial markets and services and their implementation across the region in support of APEC's economic objectives and regional integration, as well as effective mechanisms for industry to contribute to the development of sound and effective financial regulatory frameworks, robust risk management in financial institutions and expanded access to finance.

This year, the APEC Finance Ministers will launch the Cebu Action Plan (CAP) to guide the work of the Finance Ministers' Process over the next several years in promoting stronger, more sustainable and more balanced growth in the region. Institutions collaborating in the APFF have actively contributed to discussions that have informed many aspects of the CAP, which also reflect many of the aspirations of the initiatives that are being proposed in this 2015 APFF Progress Report.

With these proposals, the APFF hopes to provide a platform for collaboration to achieve tangible outcomes over the next few years that would have significant impact on the development of financial markets and services in our region, ultimately contributing to advancing the Finance Ministers' vision for the region. Greater access to finance for a wider cross-section of society and MSMEs, including those engaged in global supply chains, more diverse and stable financial systems, deeper and more liquid capital markets, greater regional financial integration and more effective and efficient intermediation of capital, particularly long-term investments into long-term assets such as infrastructure, can result from these efforts.

The success of these undertakings will depend on active participation and engagement from the public sector. APFF intends to provide a forum and informal network for dialogue and capacity building where they can interact on a regular and sustained basis with experts in relevant specialized and technical fields from the private sector and international and academic organizations. The APFF looks forward to close collaboration with the APEC Finance Ministers in advancing the initiatives of the Cebu Action Plan.

Asia-Pacific Financial Forum

2015 Progress Report to the APEC Finance Ministers

I. INTRODUCTION

The Asia-Pacific Financial Forum (APFF), a platform for public-private collaboration to develop robust and integrated financial markets in the region, was proposed by the APEC Business Advisory Council (ABAC) and adopted by the APEC Finance Ministers at their 2013 annual meeting in Bali. In its 2014 Interim Report to the APEC Finance Ministers, the APFF identified undertakings to advance development in key areas of financial markets that are critical to the region's economic aspirations. These areas are: (a) lending infrastructure; (b) trade and supply chain finance; (c) insurance and retirement income; (d) financial market infrastructure and cross-border practices; (e) capital markets; and (f) linkages and cross-border issues.

The APFF work program is structured around two major clusters. The first deals with issues related to the access to financial services of Micro-, Small and Medium Enterprises (MSMEs), which is a priority issue in many APEC member economies. The second deals with the development of deep, liquid and integrated financial markets, which is important for a variety of reasons. These include the need for more diverse and stable financial systems, improved availability and lower costs of financing for public and private borrowers, more efficient intermediation of the region's savings into investments, greater capacity to finance infrastructure development, growth of the region's financial services sector and better investment opportunities to finance future needs.

The Asia-Pacific region needs inclusive financial systems to enable more households and enterprises to participate in economic activities and create broad-based economies that can ensure sustained growth. Action plans contained in the APFF Interim Report to help address this challenge are designed to pursue the following objectives:

- Enabling enterprises and individuals to use reputational collateral through the development of credit information sharing systems, which require capacity of regulators and lenders to effectively use them, development of private credit bureaus and reforms of domestic and cross-border data regulation, consumer rights, and bureau licensing, ownership, oversight and regulation.
- Facilitating the use by SMEs of movable assets as collateral through the development of robust and regionally consistent legal and institutional architecture for asset-based lending and factoring in the areas of security interest creation, perfection and enforcement, strengthening of collateral registries, and clear and predictable rules around priority, enforceability and assignability of claims.
- Expanding availability and efficiency of financing for SMEs in supply chains through improved and regionally consistent regulatory capacity to implement relevant banking standards and regulations based on deep understanding of their impact on trade and supply chain finance, as well as through the promotion of proper and wider use of working capital management tools, emerging market currencies, collateral management services and innovative electronic platforms that facilitate financing of supply chains. The region also needs well-developed financial markets

to more efficiently channel savings to where they can contribute more to and gain the most from economic development, especially in the region's emerging markets. Action plans in the APFF Interim Report that address this goal are geared toward achieving the following objectives:

- Contributing significantly to the improvement of emerging capital markets' depth and liquidity through measures (e.g., legal, market infrastructure, conventions, industry best practices, currency convertibility and repatriation, tax and market access, regional harmonization) to enable the development of classic repo markets and steps to enable the effective use of OTC derivatives, particularly the development of robust legal infrastructure for providing netting certainty, protection of collateral interests and margining of non-cleared OTC derivatives.
- Promoting expanded investor activity in the region's capital markets through the identification and provision of information that investors need to understand the bond issuer, how particular investments perform over time and the nature and extent of their rights in the event of insolvency. APFF has developed self-assessment templates covering disclosure, bond market data and investor rights in insolvency that can be used for this purpose.
- Deepening regional financial market integration through expanded cross-border portfolio investment by holding regional-level discussions on market practices, standards and platforms that can selectively harmonize market access and repatriation practices, improve their inter-operability, liquidity and connectivity of domestic and cross-border financial markets and reduce systemic risks, as well as the successful launch of an Asia Region Funds Passport (ARFP), with participation by a critical mass of jurisdictions the region.
- Enabling insurers and pension funds to more effectively play their critical roles in channeling long-term savings to long-term investments across the region, through deeper understanding of the impact of relevant regulatory and accounting issues on incentives for engagement in long-term business and measures to address these issues, market and operational issues that constrain the flow of investment to long-term assets, and retirement income and longevity solutions to facilitate the growth of long-term capital.
- Broader discussions at the strategic level on issues such as future directions for financial regulation in the context of regional financial cooperation and integration, the interplay between cross-border investment in a rapidly evolving financial services industry and connectivity of financial markets, and understanding macroeconomic imbalances and systemic risk are critical for policy makers and regulators as they continue to shape policy and regulatory frameworks in response to a changing financial landscape and the needs of the region.

The previous year's APFF Interim Report contained a description of a number of action plans to advance these objectives. This Progress Report provides information on how these action plans are being developed and their future directions. Several initiatives have since attracted much attention and are being considered for inclusion in the Cebu Action Plan (CAP), which will guide the work of APEC Finance Ministers for the next several years.

Credit information systems, secured transactions and movable asset finance systems, and trade and supply chain finance have been given much attention due to APEC's focus this year on the role of MSMEs in promoting inclusive growth. Much progress can

be achieved in this space through the establishment of a platform – the Financial Infrastructure Development Network (FIDN) – that can weave closely together a broad collaborative network of public and private sector institutions, including multilateral agencies, with many years of research and advisory work in the region behind them.

Initiatives that are critical to capital market development, such as development of classic repo and derivatives markets and information for capital market investors, have attracted similar attention, due to the importance of capital markets for promoting both investment in infrastructure and greater financial stability. APFF's initiative to support the successful launch of the ARFP has also gathered pace in conjunction with the progress of discussions among jurisdictions in the region to finalize the funds passport rules and operational arrangements.

This year's Progress Report adds a new element to the APFF's work on capital markets through the completion of the self-assessment templates for providing critical information to capital market investors. These templates, which are appended to this Report, are now available for use by relevant authorities within the region, and the first dialogue using the APFF platform to harness these tools has been undertaken with Philippine officials involved in capital market development.

Several new elements have emerged from APFF's work on insurance and retirement income, and these are given ample treatment in this Progress Report. One of these is the work on retirement income and longevity solutions, which identifies the critical issues to address in order to expand both retirement savings demand and retirement income product supply. This is expected to help build up long-term capital for investment in key assets such as infrastructure and address the needs of our aging societies. To achieve these objectives, this Report discusses strategic options in the context of three major types of retirement income systems within the region.

Another new element is the work on microinsurance and disaster risk financing, which has been undertaken in response to both recent developments and this year's APEC theme of inclusive and resilient growth. The increasing frequency of natural disasters in the region and experiences of economies and communities in using these tools during the past few years have stimulated much thinking on how the public and private sectors can collaborate and use financial (including insurance) markets and instruments to increase the resilience of vulnerable communities, enterprises and supply chains, while reducing the costs to individuals, businesses and governments of preparing for and responding to unexpected events.

The APFF also continues to serve as a platform for broader and deeper discussions on the impact of regulatory initiatives undertaken in global fora and key financial markets on financial services in the region, and how Asia-Pacific policy makers and regulators can best respond to them to ensure strong, stable and inclusive economic growth. This Report describes the direction of ongoing discussions on these issues, particularly with respect to regulation and supervision of banking systems and capital markets, integration of financial markets and services and regional financial architecture.

This main part of this Progress Report is structured around five major themes: (a) lending infrastructure, which is divided into credit information and secured transactions and movable asset finance systems; (b) trade and supply chain finance; (c) capital markets, which includes sections on classic repo markets, information for capital market investors, support for the ARFP, legal infrastructure for derivatives, and financial market infrastructure and cross-border practices; (d) insurance and retirement income, which is

divided into sections on retirement income and longevity solutions, long-term investment in capital markets and infrastructure, impact of regulation and accounting issues, microinsurance and disaster risk financing; and (e) linkages and structural issues.

II. PROGRESS OF INITIATIVES

A. Lending Infrastructure

For most micro-, small and medium enterprises (MSMEs), lack of efficient and sustainable access to finance is most often ranked as the key issue preventing them from effectively participating in economic activities and global value chains and benefiting from the growth of trade and investment. In many developing economies, MSMEs typically do not have real estate that is commonly accepted by lenders as collateral against loans. Movable assets are not widely used in many emerging markets, and many existing and potential business owners at the micro- and small end of the spectrum do not even have such assets, including large numbers of individuals who have no accounts with formal financial institutions.

One of the key factors behind this problem is the inadequate legal and institutional infrastructure in many developing economies to support risk-based lending using transactions and payments data and lending against a broader range of collateral. APEC can help address these issues through practical steps involving close collaboration between the public and private sectors that can yield tangible results, in terms of concrete legal, policy and regulatory reforms, capacity building and awareness raising. The APFF has identified a number of such steps that can be undertaken as part of the APEC Finance Ministers' Cebu Action Plan (CAP), and it is hoped that various interested economies will participate in these initiatives.

This year, ABAC, the International Finance Corporation and the SME Finance Forum collaborated with various institutions to undertake discussions on the shape of initiatives related to credit information systems and secured transactions and movable asset finance systems. These discussions have helped identify initiatives that APFF is proposing to Finance Ministers under the CAP. These included the following events:

- 2015 Asia-Pacific Forum on Financial Inclusion: Developing the Lending Infrastructure for Financial Inclusion (3-4 March 2015, Tagaytay City, Philippines; hosted by the Philippine Government and jointly organized by ABAC, the Foundation for Development Cooperation and the Asian Development Bank, in partnership with Citi Foundation and supported by GE Capital, International Finance Corporation, CGAP, Japan International Cooperation Agency, and the Policy and Economic Research Council)
- APFF Roundtable on Financing Micro-, Small and Medium Enterprises in the Asia-Pacific Region (20 April 2015, Mexico City, Mexico, co-organized by ABAC, the International Finance Corporation and the SME Finance Forum)

These discussions provided the basis for the APFF's proposals on the way forward for public-private collaboration in promoting credit information systems and secured transactions and movable asset finance systems under the CAP.

Credit Information Systems

Credit information systems enable lenders to make lending decisions based on information about the borrower. Without such systems, lenders normally require physical collateral or charge higher interest rates when extending loans. Where this is the case, micro-, small and medium enterprises (MSMEs) that do not have physical

collateral are typically unable to access loans. Where credit information systems exist but only provide negative credit reports, information available to lenders is inadequate and credit is not allocated to the most reliable borrowers. Where such systems only provide credit information from financial institutions, individuals who wish to start businesses but have no previous credit history tend to be excluded.

To achieve greater financial inclusion, economies should develop credit information systems that are full-file (collecting both negative and positive data) and comprehensive (collecting information from many sectors, including for example, utilities payments). Wherever possible, private credit bureaus, which are typically focused on providing information specifically tailored to lenders' needs, should be encouraged to operate alongside public credit registries that support the information needs of regulators. Effective credit information systems are based on robust legal and policy frameworks that balance the objective of consumer and privacy protection with that of access to data, and supported by financial education to promote capacity of lenders and borrowers to effectively use them.

The absence or inadequacy of credit information systems is one of the most important factors behind the inability of many MSMEs in the region to access finance from lenders. Credit information systems form an important part of the lending infrastructure that will enable more credit to flow to MSMEs, support the growth of supply chains, advance financial inclusion and help APEC economies achieve inclusive and stable growth. In line with these considerations, APFF proposes to undertake activities that will help economies facilitate expanded lending to MSMEs and greater financial inclusion using full-file and comprehensive credit information systems across the region.

To advance this initiative, APFF proposes to establish under its auspices a Financial Infrastructure Development Network (FIDN) comprising private and public sector entities, multilateral institutions and industry associations as a specialized subgroup to undertake workshops, dialogues and studies on the following topics:

- legal frameworks for credit information systems based on the World Bank's General Principles of Credit Reporting;
- model language for regulations governing the sharing of public data with credit information systems among participating economies;
- benefits of and pathways to a common data format/dictionary for APEC based on the data collected by credit information systems; and
- benefits and challenges of linking the credit information databases of APEC members, forming a regional credit information network, use of credit information to support cross-border trade and services, and "opt-in" voluntary arrangements between credit information databases of APEC members to support cross-border trade and services

Secured Transactions and Movable Asset Finance Systems

Most micro-, small and medium enterprises (MSMEs) do not own real estate that is typically accepted by lenders in many developing economies as collateral for loans, thus giving rise to the most commonly known cause of MSMEs' lack of access to finance. In more advanced markets, MSMEs can obtain loans by using movable assets (such as accounts receivable, inventory, equipment, intellectual property, among others) as collateral. This, however, requires functioning laws and collateral registries governing secured transactions, which are very inadequate and not trusted by lenders in many developing economies to protect their rights to collateral.

Even in developed economies where such legal frameworks and institutions are in place, there are still flaws; for example, where there is no exclusive security interest registry, thus allowing different parties to acquire rights to the same collateral (hidden lien problem), resulting in uncertainties that cause lenders to charge a risk premium or to refrain from lending. MSMEs can effectively make use of movable assets to access finance, including trade and supply chain finance, if economies undertake reforms to develop the legal and institutional infrastructure as well as practices governing the use of these assets. Undertaking these reforms in a coordinated manner across the region will promote consistency and facilitate the growth of supply chains.

In conjunction with the development of credit information systems, this undertaking will address the most important factors behind the inability of many MSMEs in the region to access finance from lenders. Secured transactions and movable asset finance systems form an important part of the lending infrastructure that will enable more credit to flow to MSMEs, support the growth of supply chains and help APEC economies achieve inclusive and stable growth. APFF proposes to undertake activities that will help economies increase bank lending to MSMEs by developing the legal and institutional infrastructure and practices to enhance lenders' acceptance of movable assets as collateral.

APFF will seek to advance this initiative through the aforementioned FIDN that will undertake workshops, dialogues and studies on the following topics:

- reform and development of secured transactions systems and insolvency frameworks among APEC economies;
- good practices and internationally accepted principles on secured transactions legislation;
- establishment and development of effective modern collateral registries and promoting pathways to single, central and online security interests notice filing systems and comprehensive coverage of security interests on movable assets within the economy;
- improvement of the capacity of lenders in structuring, delivering and managing credits based on movable assets and development of the necessary operational infrastructure such as third-party collateral management industry, electronic finance platforms and credit enhancement services to support the expansion of such credits for MSMEs, agri-business operators, domestic and cross-border traders and infrastructure companies, among others; and
- development of regionally consistent legal, institutional and operational structures to facilitate the financing and expansion of cross-border trade and supply chain finance.

B. Trade and Supply Chain Finance

Participants in supply and global value chains will need to address major aspects of the trade ecosystem that include finance, lending infrastructure, trade and customs and information technology.

In today's environment of heightened resilience and compliance requirements, participants require a deeper understanding of the important but often low-visibility enablers of trade and supply chain financing, such as lending infrastructure and secondary markets, banking capital standards, and Know-Your-Customer (KYC) and Anti-Money Laundering (AML) rules. Such awareness can lead to clearer legal certainty, consistent standards, and availability of timely, complete and high-quality information to facilitate trade and financing.

Access to finance can involve different financing methods, including factoring, forfaiting, supplier financing and cooperatives financing, among others, that MSMEs and businesses can access to match their needs. In cross-border supply chains, management of different currency, legal, market and other risks will also be important to mitigate their impact on profitability margins, and to ensure sustainable participation in competitive supply chains.

Electronic commerce (e-commerce), which started as electronic market places that matched buyers and sellers with visibility and ease, has since made advances to incorporate digital business and mobile payment models. This has made e-commerce into an effective tool for strategic and operational leverage. Its wider adoption in business-to-business (B2B) or business-to-consumer (B2C) interactions are already driving new financing methods and ways of managing business. The next stage is its application in electronic trade documents, finance and customs as participants seek to increase time and costs efficiencies in these important activities of the trade cycle.

Further developments will require deeper understanding, especially on the part of policy makers and regulators with participation by the private sector, to develop effective legal, policy and regulatory frameworks in tandem with these advances.

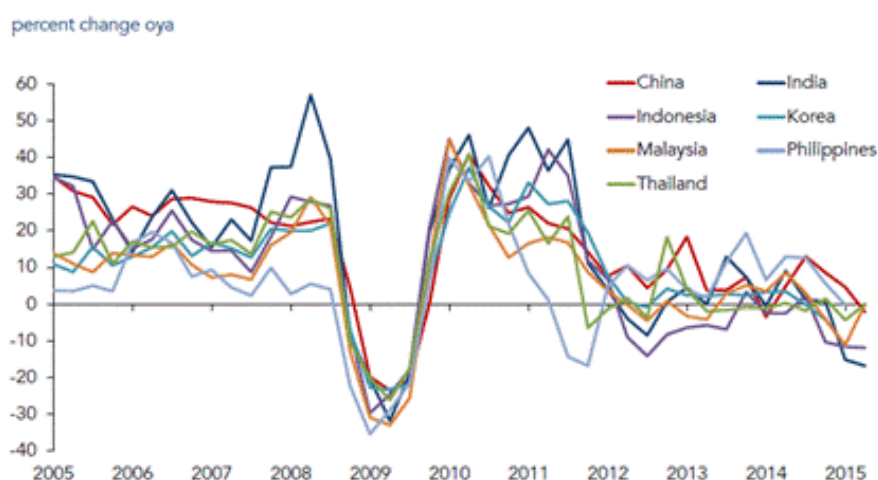
Two major events were convened this year to discuss key issues in trade and supply chain finance:

- The International Symposium on Warehousing and Collateral Management (19-20 May 2015, Beijing, People's Republic of China, Sponsored by ABAC, IFC, China Banking Association, China Association of Warehouses and Storage, and China Financing Guarantee Association)
- APFF Workshop on the Real Economy, Supply Chain and Finance - The Challenges in Working Together and The Way Forward (28 July 2015, Singapore, organized by ABAC in partnership with the APEC Policy Support Unit, hosted by the Singapore Business Federation and supported by the Association of Banks in Singapore)

Following are key points emerging from these discussions:

- Trade growth is slowing, driven by a mix of factors including a combination of rising labor costs and falling costs of capital and energy, structural changes reflecting the shift in emphasis from exports to consumption, the growth of the region's middle-income class, and the re-emergence of protectionism (Figure 1).

FIGURE 1: Asian Export Trend (selected)



Source: Various economies, IIF

- Overall, exports have declined but the decline is not due to a loss of competitiveness. In China's trade corridors with other economies, China's imports are getting more integrated onshore. Together with the decline in trade elasticity, contemporary supply chains have become more vulnerable to disruption, of which SMEs and businesses seeking to sell goods and services to overseas markets need to be aware.
- While trade in services can open up new opportunities for SMEs and businesses exporting their services, certain policies and regulations such as value-added taxes imposed on services and competition issues will need to be clearly identified and addressed.
- Basel III and other regulations related to trade and supply chain finance and KYC/AML rules continue to evolve, affecting the potential costs of trade finance products. Harmonized implementation of such rules as the Basel III Net Stable Funding Ratio and Liquidity Coverage Ratio, coupled with revisions to the Standardized Approach for Credit Risks, remain important to mitigate such costs.¹
- The World Bank, the Financial Stability Board, G20 and the Financial Action Task Force are currently undertaking a review of de-risking trends and their impact. Constant dialogues between the private and public sectors on these issues will continue to be critical to better coordinate actions on KYC/AML/Client Due Diligence (CDD) compliance standards as well as to identify tools that can enhance

¹ A survey by ADB in 2014 revealed the following findings:

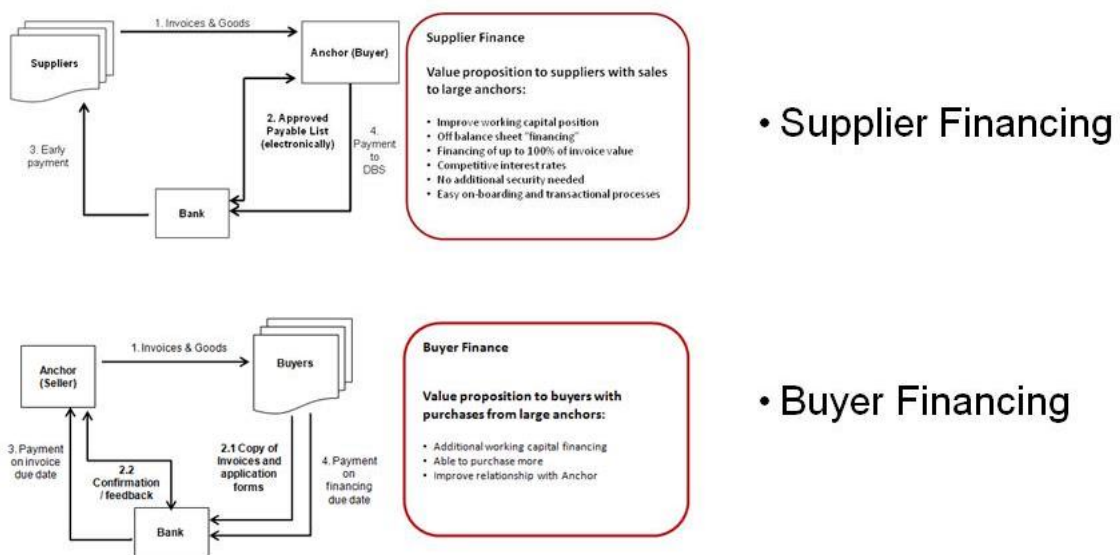
- A majority of SMEs globally do not engage in direct exports.
- Companies lack awareness of trade finance options and innovations.
- A 15% increase in access to trade finance would increase production by 22%.
- A 15% increase in trade finance support would enable firms to hire 17% more staff.
- AML/KYC reporting requirements led to declined transactions by 68% of responding banks. Compliance with these rules is costly and laborious, which appeared to be the drivers rather than findings of non-compliance.

Source: ADB Trade Finance Gap, Growth and Jobs Survey. ADB Briefs No. 25, December 2014. Asian Development Bank.

CDD capabilities and promote efficient and effective compliance processes.

- Supply chain financing is also influenced by physical supply chains' delivery models, currencies used, regulatory reporting, language and technology. Bank-agnostic financing, digitalization, financial technology and electronic financing solutions can enable wider business participation in e-commerce. Depending on the supply chain and their needs, firms can avail of different financing solutions including factoring and forfaiting. Economies of scale in financing large numbers of SMEs can be attained by harnessing SME cooperatives or community financing.
- Enabling greater access to finance will require greater awareness by borrowers of (a) balance sheet-based financing, i.e. financing based on the strength of the borrower's balance sheet (b) asset-based lending, which is based on the conversion of receivables and inventory collaterals into cash (this requires good capacity of lenders, appropriate operating infrastructure and a good legal and institutional framework to enable lenders to effectively enforce their security interests; and (c) the availability of third party credit enhancement, such as through insurance, where balance sheets are not sufficiently strong enough to secure borrowing. Dialogues among credit institutions/lenders, SMEs/borrowers and credit enhancers like insurers could facilitate better understanding of each other's requirements. (Figure 2)

FIGURE 2: Trade and Supply Chain Finance



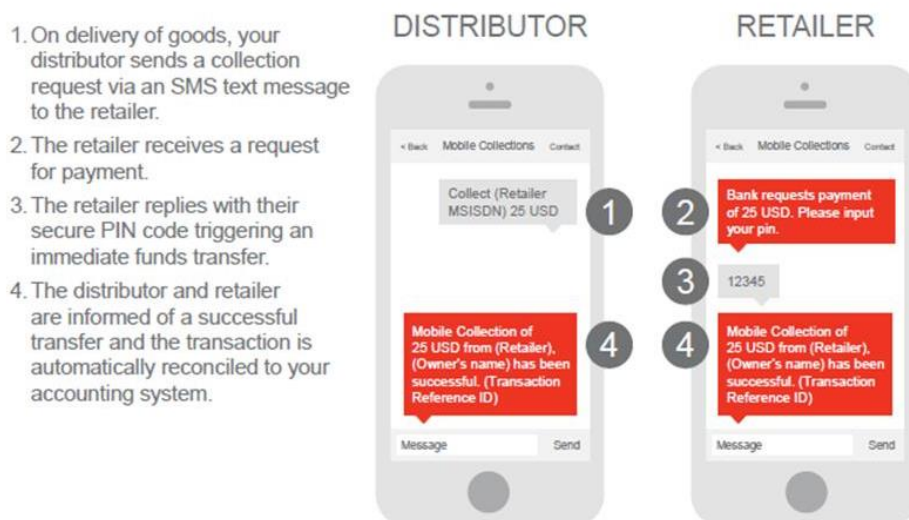
Source: DBS Bank Singapore

- Ways for governments and industry bodies to facilitate supply chain financing include:
 - promoting standardized documents;
 - wider adoption of electronic documents;
 - enabling regional platforms to act as a clearinghouse for cross-border trade documents;
 - reviewing regulations and laws to facilitate the use of electronic trade documents including e-bill of lading; and
 - planning for the dematerialization of trade documents to support increased

digitalization.

- Benefits include higher productivity gains, better risks control, overall savings as well as skills improvement that can lead to broader regional employment opportunities.
- In relation to the evolution of digital trade finance, the Bank Payment Obligation (BPO) solution is an example of an electronic version of letters of credit that can significantly shorten the payment cycle to improve suppliers' cash flows, while providing risk mitigation and increased payment assurance. An electronic Bill of Lading (eB/L) amplifies the benefits for the buyer, who can benefit from faster delivery of goods.
- Mobile solutions contribute to a more efficient economy by leveraging on ubiquitous mobile phones as payment instruction gateways. Such solutions expand the reach of financial inclusion and trading activities, while making transactions safer from robbery, theft, fraud and counterfeiting. When combined with information supply chains, mobile payments have great potential to help manufacturers improve demand forecasting and reduce unsold inventories. Facilitating these developments will require technology and telecommunications interoperability, considered regulatory approaches, consumer protection and level playing fields. (Figure 3)

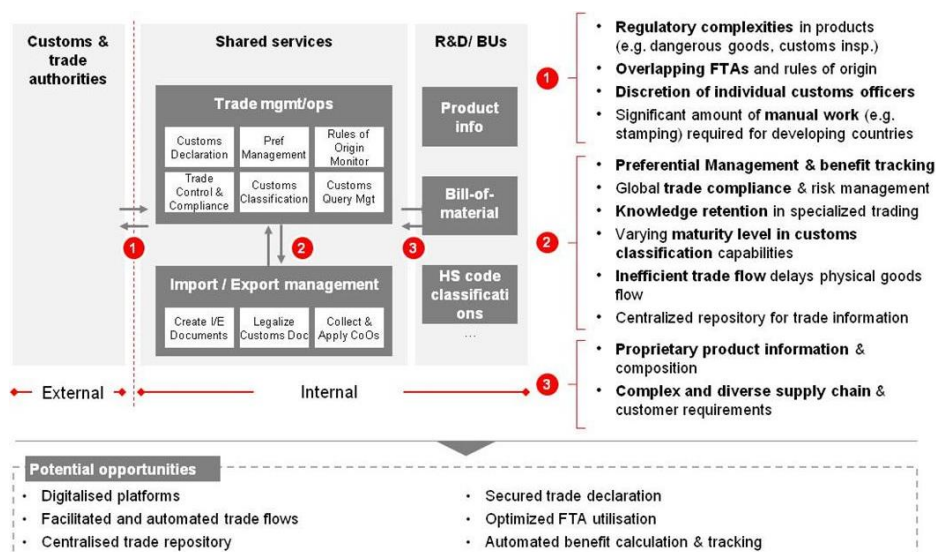
FIGURE 3: Mobile “digital cash” payments that extend financial inclusiveness



Source: HSBC

- Technology can enable SMEs and businesses to redesign their operational and competitive thrusts from economy-centric to regional supply chains and better manage the information supply chain, i.e., the complex exchange of trade-related information including commercial, transport, and regulatory information flows in competitive cross-border supply and global value chains. Access to technology enhances competitiveness of SMEs in the international arena. (Figure 4)

FIGURE 4: Overview of trade information management – challenges and potential



Source: Accenture Strategy

- Participants in the trade cycle can benefit from simple and clear customs and logistics rules, which can increase cash availability for better cash management. Simplified and clearer customs rules are also important to enable resource-tight SMEs and businesses to take advantage of global value chains. Low-hanging fruits in this area include a lower threshold for import licensing requirements and the implementation of a *de minimis* baseline across the APEC region. Other important aspects of nurturing e-commerce and SME internationalization include efficient and modern customs procedures, simplification of procedures for low-value shipments, automated customs clearance procedures including linked electronic payments, and harmonized rules on cross-border VAT. These can occur within pilot programs between two or more participating economies.
- Trade and supply chain finance are based on the conversion of movable assets (i.e., accounts receivable and inventory) into cash. Such transactions are typically secured by the underlying assets (receivables and/or inventory) directly or indirectly. Lenders sometimes need the services of third-party collateral management companies, particularly for those deals with higher risk clients. The development of efficient and reliable collateral management services increases the availability of trade and supply chain finance. Recognizing this, some economies have started to promote the development of collateral management industry with good initial results.²

To help economies address these issues, the APFF will seek to provide a platform for stakeholders to collaborate with international organizations and interested economies to hold a series of dialogues and workshops on trade and supply chain finance for policy makers, relevant industry associations, financial institutions and supply chain participants. Topics include the following:

- Basel III rules related to trade finance and KYC/AML/CDD requirements for

²² For example, in China, the authorities have recently issued two national standards to formalize the operations of collateral management companies (CMCs) and to avoid the repeat of major fraud cases.

- consistent implementation and facilitating wider access to finance.
- digital and innovative working capital management products and techniques such as mobile cash, BPO and supplier financing;
- efficient cross-border trade ecosystem to reduce the barriers to participation and increase participants' abilities to generate organic finance, identify the challenges related to the legality of electronic trade documents including e-bill of lading, and plan for the dematerialization of trade documents to support increased digitalization; and
- inter-relationships among finance, trade, customs procedures and technology that can support the internationalization of SMEs and businesses.

C. Capital Markets

The importance of capital markets, particularly local currency bond markets, for financial stability, economic growth, and the efficient channeling of long-term savings to investment in long-term assets like infrastructure is well recognized in the region. A number of regional and domestic initiatives have already resulted in the rapid growth of Asian government bond markets, a key stage in the process of capital market development. The next stage, which is increasing market depth and liquidity, will be critical to the evolution of the region's capital markets.

To contribute to the development of capital markets, APFF is focusing on the following:

- promoting legal and regulatory reforms and capacity building to accelerate the development of repo and derivatives markets;
- improving the availability of relevant information needed by capital market investors on issuer disclosure, bond market data and investor rights in insolvency to more confidently expand their activities across the region;
- promoting the development of financial market infrastructure and practices to facilitate greater cross-border portfolio investments; and
- supporting the successful launch of the Asia Region Funds Passport (ARFP) through the facilitation of its early enlargement to include a critical mass of participating jurisdictions.

In 2015, APFF undertook activities that can help identify concrete initiatives to advance work in these areas. These included the following:

- APFF Roundtable on Financial Regulations: The Changing Global Regulatory Landscape - Implications for Asia-Pacific Financial Markets and the APFF Agenda (27 January 2015, Hong Kong, People's Republic of China, organized by the APEC Business Advisory Council with the support of Nomura Holdings, Inc.)
- APFF supported as one of the collaborators the APEC Workshop on Infrastructure Financing and Capital Market Development: Fostering APEC's Infrastructure through Long-Term Investment and Capital Market Development (23-24 July 2015, Iloilo City, Philippines, organized and hosted by the Government of the Republic of the Philippines)

Discussions in these events provided important ideas for the further development of APFF's initiatives in capital market development.

Development of Classic Repo Markets

The development of liquid, deep, "classic" bond repurchase (repo) markets is critical to the deepening of the region's capital markets and the real economy. The APFF seeks to

drive public-private sector collaboration in the development of classic repo markets in Asia. This public-private collaboration through APFF is beneficial as it allows public and private sector stakeholders to share international best practices and opens a line of communication between the private and public sector that may not otherwise exist. As a result, this allows participants to identify and address impediments in legal architectures, improve market infrastructure, and standardize market conventions and provide industry best practices.

Deep and liquid repo markets help deepen capital markets and support the real economy. Specifically, repo markets support the real economy by:

- increasing liquidity in local currency bond markets;
- expanding the pool of available finance and improving financial institutions' ability to meet their financing needs;
- mitigating the reduction in market liquidity due to regulatory change;
- allowing the movement of securities across the region;
- improving investor confidence and participation in local bond markets;
- reducing funding costs for governments, pension funds, asset managers and other long-term investors;
- developing market infrastructures that are necessary to serve the real economy; and
- offering hedging tools which contribute to risk management.

Thus, integrating bond and repo markets in Asia would improve access to finance and address many economies' over-reliance on bank lending; support the development of local currency bond markets, bond futures markets, and OTC derivatives markets; encourage retention of regional savings for regional investment; and improve securities mobility to counter the adverse effects of increased asset encumbrance driven by regulatory change (including Basel III, new asset segregation rules and central clearing mandates, among others).

However, the development of repo markets in Asia has been impeded by a number of factors, principally: (i) the divergent legal constructions of repos across economies; (ii) insufficient protection of creditors' rights in bankruptcy and insolvency regimes; (iii) the lack of liquidity in regional bond markets; (iv) barriers to investor participation; (v) inefficient regional financial market infrastructures for clearing and settling repos and (vi) tax treatment that fails to recognize the temporary exchange of collateral.

There are several policy issues to address in fostering an enabling environment for repo markets. In particular, the necessary conditions to develop cross-border repo markets are: (i) deep bond market liquidity; (ii) sound legal framework that protects creditors' rights in bankruptcy and insolvency proceedings; (iii) robust investor participation; (iv) neutrality in tax treatment; and (v) efficient and interoperable market infrastructures to support cross-border repo markets.

Deep and liquid bond markets: The relationship between efficient repo markets and local currency bond markets is mutually reinforcing. In particular, efficient repo markets depend on the liquidity provided by a robust government bond market, whilst the development of repo markets will also assist the further development of local currency government bond markets by deepening secondary market liquidity, improving price discovery mechanisms, and inducing broader investor participation in local currency bond markets.

Sound legal framework: Sound legal architecture of repo transactions is the foundation

upon which repo markets may develop and grow. Yet legal regimes governing repo markets vary considerably across the Asian region, and many lack the necessary protections to instill investor confidence in repo contracts. Such legal ambiguity hampers the ability of market participants to operate across borders and undermines investor participation in repo markets. Although reforming legal and regulatory frameworks in certain jurisdictions may be challenging, such protections in the legal framework are a necessary component of building investor confidence in repo markets. For example, according to analysis by the Bank for International Settlements:

*When financial institutions engage in repos with each other [in certain Asian jurisdictions], lenders often impose rather strict credit limits on their counterparties, thus behaving as if the transactions were not truly secured. This phenomenon seems to arise from master agreements and legal frameworks that fail to ensure that the lender will in fact be able to take possession of the collateral in the event of default.*³

To address legal uncertainties, the unique characteristics of repo contracts (i.e. that they are legally structured as a sell and repurchase of securities) must be explicitly reflected in legal frameworks including bankruptcy and insolvency regimes in each Asian jurisdiction. Further, policymakers must clarify in domestic law the property rights afforded to creditors regarding securities purchased in repo transactions (i.e. explicit transfer of title of underlying collateral assets) and their subsequent rights to set-off in the event of counterparty default.⁴ The explicit transfer of title in repo markets in legal regimes is paramount to protecting creditors' rights in the event of default.

Neutrality in tax treatment: In many Asian jurisdictions, tax policy distorts pricing and hinders the development of a repo market. The main distortionary taxes are stamp duties and transaction taxes which adversely impact market development by raising the cost of repo transactions and reducing demand for government securities.⁵ Further, withholding taxes "reduce investment yield and the attractiveness of the investment in local currency securities for non-resident [investors]".⁶ Levying withholding taxes on nonresident investors can severely reduce foreign participation in the secondary market, which raises the cost of trading and reduces aggregate market liquidity.⁷

Market infrastructure connectivity: Cross-border investment is aided by the efficient financial market infrastructures which facilitate the deployment and transmission of capital across borders. Strengthening connectivity between (or interoperability of) financial market infrastructures in Asian markets would improve efficiency and reduce

³ Eli Remolona, Frank Packer, *inter alia*, "Local currency bond markets and the Asian Bond Fund 2 Initiative" January 2012, <https://www.bis.org/publ/bppdf/bispap63f.pdf>, page 46.

⁴ ICMA, "Frequently Asked Questions on Repo," May 2015, <http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/short-term-markets/Repo-Markets/frequently-asked-questions-on-repo/>, pages 12-13.

⁵ IMF, "A Framework for Developing Secondary Markets for Government Securities," July 2008, <https://www.imf.org/external/pubs/ft/wp/2008/wp08174.pdf>, page 10.

⁶ Eli Remolona, Frank Packer, *inter alia*, "Local currency bond markets and the Asian Bond Fund 2 Initiative" January 2012, <https://www.bis.org/publ/bppdf/bispap63f.pdf>.

⁷ IMF, "A Framework for Developing Secondary Markets for Government Securities," July 2008, <https://www.imf.org/external/pubs/ft/wp/2008/wp08174.pdf>, page 19.

the cost of trading, improve price discovery and enhance risk management.

To encourage the development of liquid and deep repo markets in Asia, the Asia Securities Industry and Financial Markets Association (ASIFMA) and the International Capital Market Association (ICMA) drafted the *ASIFMA-ICMA Guide on International Repo in Asia*, which was published in August 2015. This Guide lays out structural features (such as legal frameworks, settlement systems, and market conventions) that support sound and efficient repo markets, disseminates industry best practices to encourage market practitioners to adopt international standard for efficient clearing and settling of repo transactions, and encourages reforms to legal and regulatory frameworks that are essential to create an enabling environment for repo markets.

As part of this initiative, APFF will also continue to engage with domestic regulators and governments to encourage an increase in the development of classic repo markets and increasing secondary market liquidity in the region. In particular, APFF will provide a platform for holding repo market workshops in interested economies to share the findings of the *Repo Best Practices Guide*, as well as exchange ideas for local adoption of the best practices and recommendations. APFF will also continue to monitor international financial reforms that may adversely impact repo market development in Asia and work with regulators to ensure the continued development of repo markets.

Promoting the Availability of Information for Capital Market Investors

APFF⁸ has created a series of self-assessment templates that can serve as tools to facilitate and shape public-private sector dialogue on information for investors in the region's debt markets, especially those for non-bank corporate debt. These templates are not intended to be lists of prescriptive measures, but are rather designed to provide foundations for meaningful conversations contrasting what an international investor might expect and what is available in any given market. Importantly, they give public policy officials a mechanism through which to explain why certain information may or may not be available, or where investors can find it.

APFF's work on this issue is organized around three categories – disclosure, bond market data and information on investor rights in insolvency. These three categories deal with information relating to successive phases of the investment process: issuance, secondary market trading, and rights in the event of default.

Rather than list out a set of principles or recommendations for enhancing information in each of these areas, the APFF has adopted a more interactive approach involving the development of self-assessment templates for use by the public sector. [Please see Appendix B.] The concept is to provide the official sector with a tool that it can use to assess the breadth and quality of information in its economy against the needs and expectations of investors in capital markets, to: (a) analyze gaps in information disclosures; (b) develop action plans to address identified gaps; and (c) foster

⁸ Moody's (represented by Dr. Michael Taylor and Ms. Eleni Himaras) is the chair of the APFF work stream that deals with this issue, which has, for more than a year, engaged more than a dozen market participants to design the self-assessment templates. The work stream's steering committee comprises representatives from HSBC, Nomura, Standard Chartered, Clifford Chance, Deloitte Touche Tohmatsu Ltd (chair of the disclosure sub-stream, represented by Hong Kong partners Mr. Stephen Taylor and Ms. Candy Fong), Nishimura & Asahi, PwC, Ernst & Young, Asian Development Bank (chair of the bond market data sub-stream, represented by senior economist Mr. Thiam Hee Ng), CFA Institute, the University of Hawaii (chair of the investor rights insolvency sub-stream, represented by Professor Charles Booth) and CLP Holdings.

private-public dialogue.

The development of these templates, which were finalized in January 2015 and incorporated the views of work stream members and investors who participated in a roundtable held on 8 October 2014, has been based on the following principles:

- Rules made by public policy makers are integral to well-functioning capital markets.
- Dialogue with the private sector can offer insight to the most effective policies.
- An incremental method is more manageable and effective than a big bang approach.
- Given the varying levels of development across Asia Pacific markets, the approach must be applicable to capital markets in any stage of maturity.

By focusing solely on access to information, our efforts complement work being done in other forums to support bond market development in the region, including the ASEAN+3 Asia Bond Market Initiative.

Key features of the self-assessment templates are as follows:

Disclosure. The template, which looks at disclosure requirements for corporates and issuers, breaks the information into:

- Investors' risk
- Credit rating information of bond issuers
- Bond issuer's ability to pay principal and interest
- Business model of issuer
- History of bond issuers' breach of loan covenants
- Non-GAAP measures (e.g. requirement to disclose gross profit, EBITDA etc.)
- Related/connected party transactions/balances
- Corporate structure of bond issuers
- Use of bond issue proceeds
- Terms and conditions of the debt securities
- Location and format of above information
- Others

Importantly, it requests information on both the stated rules and the common practice in the jurisdiction, as often in developing markets, the two interpretations may differ significantly. Common across all of the templates is the opportunity for investors to provide further details.

Bond Market Data. This work builds on the Asian Bonds Online initiative within the Asian Development Bank. Their online database provides a platform in which existing bond market data is aggregated and made freely available to market participants. This final template looks at whether economies provide the following information:

- Total Bonds Outstanding
- Issuance Data
- Yield Curves
- Foreign Fund Flow Data
- Liquidity

Each of these is further broken down into whether the information is available on an aggregate basis, differentiating between government and corporate and differentiating between the different types of government and private debt. Within each of these fields there is a subjective rating mechanism and the opportunity to explain. Scores between five and zero represent:

- 5 – Data is freely available to the public and is reported on a timely basis

- 4 – Data is available to the public subject to fees/subscription; and is reported on a timely basis
- 3 – Data is available to the public but is not available on a timely basis
- 2 – Data is being collected; but not available to the public.
- 1 – Data is not available and is not being collected.
- 0 – N/A

Investor Rights in Insolvency. This template identifies the following as key information for capital market investors:

- Contract enforcement and dispute resolution
- Rights of creditors
- Coverage of the established insolvency law
- Timing of cases
- Additional Information in relation to collective insolvency proceedings
- Supporting regulations and procedures
- Local participants

Each of these topics is broken down into multiple parts, focusing both on how and where an investor may access information, and the efficacy of the regime. Questions include how long it takes cases to come to court and the language and format in which legislation and regulation are stored and available.

Pilot Program. In March 2015, the templates were presented to several officials from the Philippines' Securities and Exchange Commission. The APFF is now currently working on the templates, which are expected to be completed in the second half of 2015. The templates and potential future how-to guides will take into account feedback from the Philippines SEC, and APFF intends to continue its outreach in setting up similar workshops with other regulators around the region.

Supporting the Successful Launch of the Asia Region Funds Passport

In 2015, APFF convened several discussions with representatives from the international asset management and financial industry, as well as experts from the legal and consulting professions and public international organizations, to provide industry feedback to regulators and officials as they worked to advance the ARFP. Responding to the draft ARFP rules and operational arrangements circulated by APEC in the early part of the year, APFF submitted its comments reflecting the views of the industry. Key ideas of this submission are as follows:

Enlargement of the ARFP. The flexibility of the ARFP to enlarge is critical to its impact and success. ARFP should work towards the inclusion of other economies, such as Hong Kong, Japan and Chinese Taipei. The participation of as many economies as possible in the ARFP, particularly at the outset, and the opportunity for future enlargement would incentivize active participation by financial service providers in the ARFP, increasing the ARFP's coverage and thereby increasing intra-regional capital market integration, and allowing its benefits to be more widely enjoyed. ARFP's enlargement will increase investors' investment options and reduce cross-border investment costs through economies of scale.

Reciprocity. The spirit of reciprocity should be expressed as part of the purpose of the ARFP in order that member economies will accord "equivalent priority" to promoting Passport Funds as they do to domestic funds. The memorandum of understanding should set out that member economies demonstrate commitment towards promoting ARFP and Passport Funds in their jurisdiction (in equal measure with domestic

funds).

Inter-operability with other regional frameworks. It is important that the ARFP is flexible enough to interoperate with other regional investment schemes, such as the Hong Kong-China mutual recognition regime and the ASEAN Collective Investment Scheme (CIS) Framework to facilitate the future convergence of the various initiatives and structures. It is suggested that the investment restrictions of the ARFP be closely aligned with other regional fund management schemes, including for example the ASEAN CIS Framework, thus paving the way for funds that previously qualified for either one of the schemes to qualify for the other, thereby achieving greater efficiency and helping to reduce costs. Interoperability with other regional schemes would, as with the introduction of more economies into the ARFP, create greater economies of scale, reduce market fragmentation and improve financial market integration, while ensuring that alternatives continue to be available to retail investors.

It was noted that the draft Passport Rules impose restrictions on the portfolio allocation of Passport Funds in other collective investment schemes, unlike the ASEAN CIS Framework, which allows funds to invest in units of other collective investment schemes without restrictions. It is therefore suggested that the Working Group consider removing the restrictions on a Passport Fund's investment in units of other collective investment schemes; otherwise, the investment restrictions would be more restrictive than those applicable to authorized funds in Singapore and funds approved under other frameworks.

Inclusiveness. It was noted that the ARFP Working Group has retained the requirement for independent oversight but has provided flexibility in the mechanism for independent oversight, with a different independent oversight entity for each Home Economy, and that the Working Group has indicated that the table will be updated to include additional mechanisms when other economies join the ARFP. It is suggested that the Working Group consider waiving the independent oversight and compliance review requirements for jurisdictions where management companies are periodically and robustly inspected by a Home Regulator or other self-regulatory organization. An example is Japan, where there is no requirement for an external compliance committee or independent custodian (since affiliated trustees are permitted), but where the fund management industry is subject to a stringent regulatory regime, which has assisted the industry to ensure sound management and operation of trust vehicles. It is to be noted that the Undertakings for Collective Investment in Transferable Securities (UCITS) regime, which has served as a model for ARFP, does not have equivalent restrictions so as to avoid excluding jurisdictions with civil law traditions such as Germany that rely on similar systems used in Northeast Asia to ensure investor protection.

It has also been noted that some of the requirements under the Passport Rules are linked to International Organization of Securities Commissions (IOSCO) standards. While this can be helpful for facilitating consistency across participating jurisdictions, it is suggested that care must be taken such that this sort of link does not create barriers to entry where economies are not yet party to the IOSCO MoU, or have been signed up for less than five years. Similar references to IOSCO standards in the Standards of Qualifying CIS under the ASEAN CIS Framework could make it more difficult for economies such as the Philippines to participate in the scheme.

Taxation. There are still no Passport Rules in relation to taxation at a fund level and the taxation of distributions, despite an acknowledgement of the seriousness of the

implications that domestic tax issues may have on the ARFP scheme. Different tax regimes in participating jurisdictions can significantly impact a fund's performance and returns earned by retail investors, creating incentives or disincentives for participation. Of particular relevance are taxes related to the fund's structure, for example, unit trust and open-ended investment company and their distribution mechanisms. There are also further considerations on applicable double taxation treaties in cross-border flows.

To that end, it is suggested to clarify the ARFP arrangements in relation to taxation, including taxation at the fund level, taxation of distributions in each participating economy and the use of different structures to invest into an ARFP fund (which could pose transparency issues for the ultimate beneficiaries if taxation necessitated their identification and reporting). The ARFP could benefit from a streamlining of tax treatment of eligible funds in participating jurisdictions that would promote a level playing field. The Passport Rules should also address issues related to transparency and how differences in capital gains and withholding taxes will be dealt with.

Certainty in the tax treatment of Passport Funds will facilitate the efficient expansion of the ARFP, since member and non-member economies (those contemplating joining the ARFP) may then adjust their tax laws to conform to the ARFP tax regime (if necessary). In this regard, it is suggested that the negative tax treatment of non-domestic funds, where present, should be eliminated.

Dispute resolution. In the UCITS regime, the European Securities and Markets Authority (ESMA) resolves disputes over, inter alia, the interpretation of UCITS directives and any disputes arising between home and host regulators or regulators and investors. There is a strong case for the creation of a resolution mechanism to help address uncertainties, disputes or issues of misinterpretation that may arise in the course of the operation of the ARFP. For instance, it is mentioned that additional requirements may be imposed by each Participant on a Passport Fund or its Operator in its capacity as Host Economy, so long as the additional requirements are not "unduly burdensome". There is currently no guidance on what type of requirements would be "unduly burdensome" and there may be differences in the interpretation of "unduly burdensome" between the member economies. As such, it would be beneficial to have an arbiter on the interpretation of Passport Rules and a dispute resolution mechanism which will, inter alia, adjudicate on repercussions for any breach of the Passport Rules.

Standardization of fees and performance figures. It is suggested that the Working Group establish Passport Rules on the method of calculation of and disclosure of performance figures and fees in the prospectus of Passport Funds in order to ensure investors are able to conduct a fair comparison of the available Passport Funds.

Launch of the ARFP. According to the scheduled timetable, willing and ready economies will become party to the MOU in September 2015. Securing a critical mass of participants representing a high proportion of interested economies is very important to maximize the scheme's appeal. It is therefore suggested to increase the number of prospective participants prior to the launch of the ARFP; and other economies should commit to continuing discussions with a view to joining the ARFP the following year.

International recognition of passport funds. It is suggested that the Working Group begin engaging with non-member regulators with a view to facilitating the

cross-border distribution of Passport Funds beyond the member economies. Passport Funds should eventually be permitted to be offered into non-member economies the same way UCITS funds may be distributed in non-EU jurisdictions such as Singapore and Hong Kong. The successful launch of the ARFP will significantly depend on investors and other market participants having clarity and certainty of the tax treatment of Passport Funds. Further information on these issues will greatly assist regulators in delivering on the Government-level commitments to making the ARFP a success within and beyond the member economies. In this connection, it is suggested that the Working Group establish Passport Rules in relation to distribution restrictions, compliance and reporting or data privacy and protection, and that Passport Rules be clarified on whether Home Economy Laws and Regulations relating to distribution, compliance and reporting, marketing restrictions and data privacy or protection apply.

The APFF notes the significant progress that the ARFP Working Group has achieved over the course of its work, particularly in refining the draft rules and operational arrangements to make them more flexible and attuned to the region's fund management ecosystem bringing the ARFP closer to the goal of a successful launch. The APFF will thus continue to make itself available as a platform for public-private sector collaboration to support the further development of the ARFP.

Enabling Legal Infrastructure for Derivatives

Over the counter (OTC) derivatives are critical for the development of capital markets, as they are needed by firms to manage balance sheet liabilities and cash flows, as well as hedge interest, foreign exchange and various economic risks. The APFF focuses its work on three issues that are important for enabling the effective use of OTC derivatives.

- *Legal netting infrastructure for closeout netting.* The most important risk reduction tool in modern financial markets, this underpins the risk management of OTC derivatives, which includes such end user hedging products as FX options, cross currency swaps and inflation swaps that cannot currently be centrally cleared. It is also important for repo markets, and by extension the development of corporate bond markets.
- *Protection of collateral interests.* Collateral is widely used as a credit risk mitigation tool, and plays an important role in working capital funding for SMEs, letters of credit for trade finance and the trading of financial hedging instruments. Margin likewise plays a critical role in the safe functioning of clearinghouses for OTC derivatives. Collateral is commonly exchanged between counterparties either through title transfer or security interest pledge arrangement. In a title transfer arrangement, where there is no legal certainty, under bankruptcy, collateral could be re-characterized as an asset of the estate of the defaulting party and claimed by other creditors. In some jurisdictions where pledge arrangement is used, local security laws do not support marking-to-market of collateral, the secured party's ability to re-use the collateral is limited, and enforcement of collateral interest is often difficult.
- *Margining of non-cleared derivatives.* The Basel Committee on Banking Supervision (BCBS)-IOSCO margin requirements for non-centrally cleared derivatives poses certain requirements for jurisdictions, the most important of which are that implementing rules and regulations should support BCBS' guidelines, standardization of initial margin calculation model and credit support documentation

and robust protection of collateral rights.

To assist economies in ensuring an enabling legal infrastructure for derivatives, the APFF plans to undertake activities geared toward identifying legal structural weaknesses in jurisdictions and organize educational seminars targeting regulatory and legislative bodies as well as key members of the judiciary. APFF resources will be leveraged to coordinate outreach, provide expert speakers and follow up on outstanding issues.

Financial Market Infrastructure and Cross-Border Practices

Facilitating flows of capital across the region's markets is a key factor for economic growth in the region. The APFF's work on financial market infrastructure and cross-border practices seeks to address the most significant obstacles to cross-border investment flows related to the connectivity platform and standards used in financial market infrastructure (FMI). The central objective is to promote cross-border portfolio investment flows with market practice, standards and platforms that can selectively harmonize market access and repatriation practices, improve the inter-operability, liquidity and connectivity of domestic and cross-border financial markets, and reduce systemic risks.

The work of APFF is based on an analysis of the sequence of cross-border portfolio investment, and the stages where the process is affected by tax, foreign exchange and account structure issues. These stages and the scope of issues involved are as follows:

- *New account opening*: Omnibus/segregated/ultimate beneficial owner, KYC/AML, market documents, tax documents and investor IDs;
- *Market entry/capital injection*: Investment limit/quota, funding requirements (offshore into onshore);
- *FX execution*: FX restrictions, cut-off times, FX location, reporting and hedging;
- *Clearing and settlement*: Clearing, settlement cycle, cut-off times, pre-matching, settlement failure, penalties, settlement and cash leg;
- *Corporate action*: Announcement, entitlement, vetting, tax and double taxation relief;
- *Repatriation*: Sales/corporate action, proceeds repatriation; restrictions, documentary requirements, local currency holding period, short-term money market/bond market investment.

In addressing various issues affecting cross-border portfolio flows as they occur in specific markets, attention will be focused on the following:

- *Standard messaging codes and identifiers*, which enhance settlement efficiency, reduces the risk of errors and enables straight-through processing (STP);
- *Straight-through processing (STP)*, which enhances settlement efficiency and reduces settlement risk;
- *Shorter settlement cycles (T+2)*, which mitigates counterparty and operational risks and optimizes collateral efficiency; and
- *Inter-operability*, which improves collateral efficiency, improves price discovery and enhances risk management.

As far as message flow standardization across the region is concerned, there is still much work to be done, particularly in the areas of pre-settlement matching, affirmation and notification and STP (See Figure 5.)

FIGURE 5: Message flow standardization: current status of harmonization

Country	CSD	Name of Bond Settlement System	Message Flow						
			RTGS	DVP	Central Bank Money	STP	Affirm & Notific.	PS-match	Overall
CN	CCDC	CBGS	Y	Y	Y	Y	Y	Y	Y
CN	CSDC	MNS	N	Y	N	Y	Y	Y	N
CN	SHCH	SHCH-SSS	Y	Y	Y	Y	Y	Y	Y
HK	HKMA	CMU	Y	Y	Y	Y	Y	Y	Y
ID	BI	BI-SSSS	Y	Y	Y	Y	Y	Y	Y
ID	KSEI	C-BEST	Y	Y	N	Y	Y	Y	N
JP	BOJ	BOJ-NET HCG Service	Y	Y	Y	Y (2017)	Y	Y (2017)	Y (2017)
JP	JASDEC	BETS	Y	Y	Y	Y	Y	Y	Y
KR	KSD	SSS/SAFE+	Y	Y	Y	Y/N	N	N	N
MY	BNM	RENTAS SSTS	Y	Y	Y	Y	N	Y	N
PH	BTr	BTr-ROSS	Y	Y	Y	Y	Y	Y	Y
PH	PDTC	PDYC Depository	Y	Y	Y	Y	Y	Y	Y
SG	MAS	MEPS Plus SGS	Y	Y	Y	N	Y	N	N
SG	CDP	DCSS	Y	Y	Y	Y	N	N	N
TH	TSD	PTI	Y	Y	Y	Y/N	Y	N	N
VN	VSD	VSD-BES	N (201X)	Y	N (201X)	N	N	N	N

Color	Explanation
Green	Cross-border STP ready
Blue	Cross-border STP ready with condition
Yellow	Not ready but scheduled
Orange	Not clear and need to be confirmed
Red	Not ready yet

Source: ADB

Three issues pose major challenges to cross-border portfolio flows in the region. The first is that there are many ongoing changes across markets and areas and these are happening at varying speeds. The second is that the current focus of attention is on later-stage areas such as shorter settlement cycles rather than key prerequisites and enablers such as standards and platforms. The third is that the growing focus on KYC rules is hampering overall efficiency and raising new issues of cross-border data privacy and security.

To address these issues, APFF will undertake workshops and dialogues that will focus on helping interested economies identify effective ways to develop a regional securities investment ecosystem. In particular, APFF will focus on the following:

- In view of aggregate planned changes over the coming 2-3 years in market access, clearing and settlement and repatriation across the region, APFF will undertake discussions on (a) the creation of a regional roadmap of upcoming regulatory and market changes; (b) the feasibility of a regional private-public-market infrastructure forum that will exchange views on these developments; and (c) the feasibility of longer consultation and notification periods of key regulatory and market changes.
- APFF will focus on a more streamlined regional KYC/AML documentation compliance and process, recognizing the layers of global intermediary chain and practices between securities issuers and the ultimate beneficial owners. APFF will undertake discussions on (a) regionally and globally aligned standards for KYC/AML documentation collection and reporting; (b) the use of third party industry utilities for a centralized KYC/AML electronic depository; and (c) minimum standards for data privacy, protection and security and cross-border flows.

D. Insurance and Retirement Income

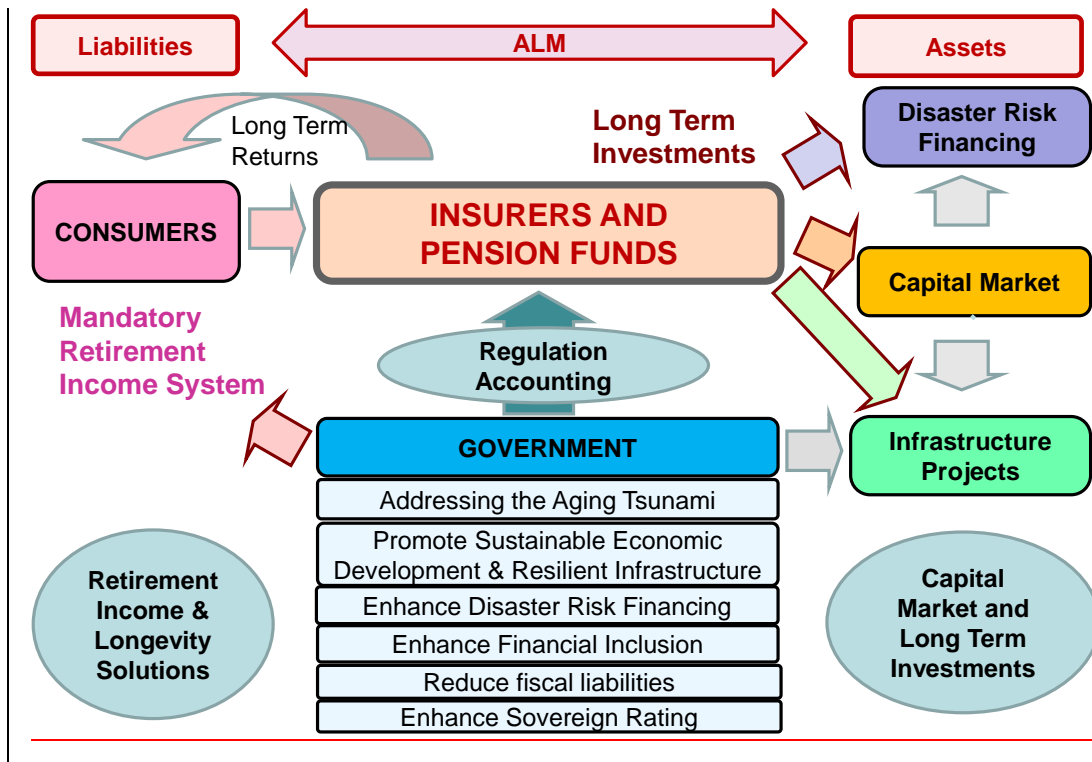
Insurance and retirement savings by the very nature of its liabilities is a long-term business. It requires matching long-term liabilities of policyholders and retirement savers to long-term assets, particularly long-duration bonds, real estate, and infrastructure finance.

Emerging APEC economies have underdeveloped capital markets due in large part to the bank-centric nature of their financial systems. Emerging Asia, in particular, has high savings rates, but these savings are mostly short-term in nature, in the form of bank deposits used to finance short-term loans to consumers and companies, rather than being invested in longer-term assets such as infrastructure spending that is critical to economic development, particularly for economies at or near the middle income trap.

Efforts to encourage or mandate retirement savings in emerging APEC economies offer the opportunity to break the vicious cycle of a lack of investable projects, underdevelopment of capital markets, and limited capacity to mobilize large pools of patient, long-term capital in the form of retirement savings that can also provide alternative means of disaster risk financing.

Mobilization of such large pools of long-term capital would represent a “triple win” for consumers, the financial sector, and APEC governments.

FIGURE 6: Roadmap for Sustainable Development in the Asia-Pacific Region



Governments in Asia are increasingly moving towards an enabling environment that balances financial inclusion with financial stability goals. Public policies are creating the pre-conditions for effective functioning of capital markets and the private insurance market, as well as promote the use of alternative products to hedge against natural catastrophe risk. These products may include traditional indemnity-based insurance,

where the market is supported by risk-based capital regulations, as well as insurance-linked securities, including natural catastrophe bonds and weather and other index-based risk transfer products. Some of these products have become increasingly attractive for long-term investors seeking portfolio diversification in the present low interest rate environment.

Across Asia, evolving legal and financial frameworks, as well as specific accounting regulations, can support the development of economies of scale in risk pooling, via functional risk insurance of public and private assets. Mobilizing savings into sustainable assets will require improved access to, and sharing of, exposure data. The scale of planned infrastructure development in Asia, needs to be supported by improved exposure data sharing; data platforms will inform the appropriate risk mitigation strategies and expand the scope of risk offset arrangements across the region, thereby supporting the ongoing development of sustainable project bond financing and investment.

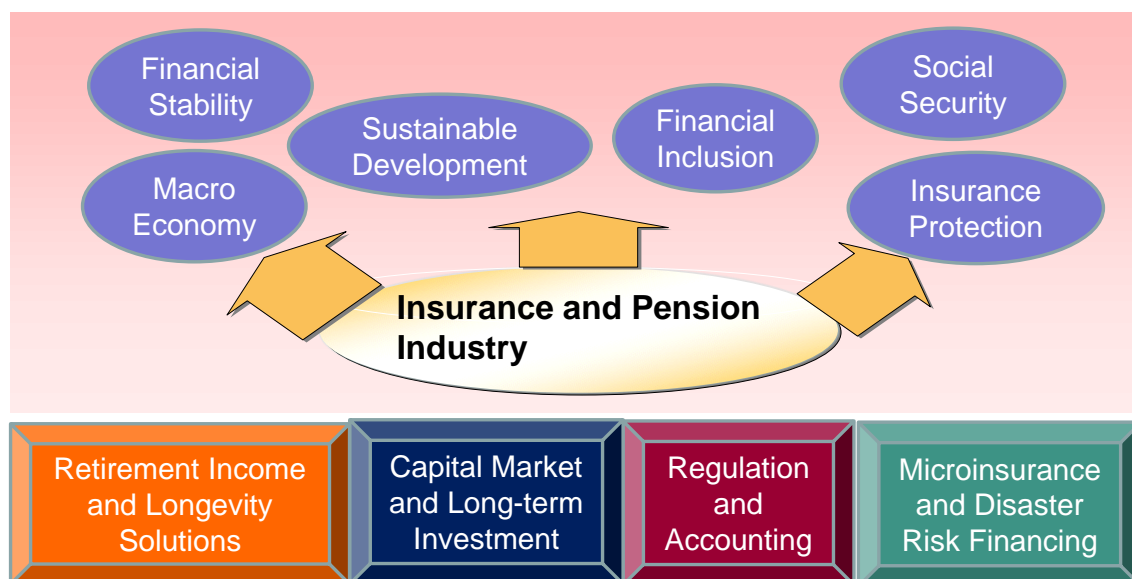
Improved risk compliance and expanded risk cover instruments benefit the banking sector mortgage and infrastructure portfolio, pension fund and insurance long-term investment portfolio, as well as government's fiscal resilience and sovereign rating.

Since insurance and retirement income was selected as one of the priorities for an initial APFF work program, the APFF, through its Insurance and Retirement Income Work Stream,⁹ has worked on the promotion of policies and regulations supporting insurers' and pension funds' long-term roles to effectively provide financial stability and economic and infrastructure development, and serve the needs of aging society.

For this purpose, the APFF worked around the following major areas: (a) regulation and accounting, (b) long-term investments and capital markets and (c) retirement income and longevity solutions, and (d) microinsurance and (e) disaster risk financing. The last two topics were added this year with a new mandate, as part of efforts to support resilient and inclusive growth and development in the region. Since a number of APEC economies are exposed to natural disasters, this component is an integral part of supporting long-term development in the region.

⁹ The Work Stream includes experts from the insurance, pensions and financial industries, academic specialists and policy makers and regulators. The membership reflects its objective of not exclusively representing the interests of the insurance industry, but to promote an enabling environment for the insurance and pension sectors to contribute to the community in the region from the macroeconomic, financial stability, sustainable development, financial inclusion, social security and insurance coverage perspectives. Further collaboration is currently being sought from other global and regional initiatives, including G20, OECD, World Bank, ASEAN, ADB, as well as consultants and rating agencies. The Work Stream is coordinated by Mr. Makoto Okubo of Nippon Life (Sherpa), with Mr. Anthony Nightingale of Jardine Matheson as Vice Sherpa. Participants (as of 30 June 2015), include representatives from the following organizations: ADB, AIA Group, ASEAN Insurance Council/WanaArtha Life, ASEAN Secretariat, Asociación de Aseguradores de Chile, Association of Insurance Supervisory Authorities of Developing Countries/Association of Insurers and Reinsurers of Developing Countries, Australian APEC Study Centre at RMIT University, Australian Super, Australian Treasury, Barnert Global (microinsurance), Canadian Pension Plan Investment Board Asia, Cathay Life, Citigroup (retirement income), Great Eastern Life, HK-APEC Trade Policy Study Group, Hong Kong University of Science and Technology, IAG, ING Bank Singapore, International Insurance Society (special advisor), Jardine Matheson (Vice Sherpa), J.P. Morgan Asset Management Global Real Assets, Life Insurance Association of Malaysia, Manulife, MetLife (long-term investment), Nippon Life (Sherpa), Nomura Securities (APFF coordinator), OECD, OJK Indonesia, Oliver Wyman, PIMCO, Prudential Financial (longevity solution), Prudential Corporation Asia, RGA, Samsung Life (liaison with AOSSG), Sun Life Financial, Tokio Marine (disaster risk financing) and ASIFMA (observer and liaison with other relevant work streams), () denoting sub-stream leaders.

FIGURE 7: A Holistic Framework to Support the Long-Term Roles of the Insurance and Pension Industries in the Asia-Pacific Region



The APFF Interim Report, which was submitted to the APEC Finance Ministers in 2014, contained the following two action plans (currently being progressed) among others, which are relevant to insurers and pension funds and the APFF has been working on:

- *Dialogue series on regulation and accounting issues impacting the long-term business of the insurance industry in Asia-Pacific economies and longevity solutions*

APFF is convening a series of dialogues and workshops across the region. These activities are aimed at: (a) fostering deeper understanding of the impact on the region's economies of regulatory and accounting issues on the incentives for and ability of the insurance industry to carry out its roles as providers of protection, stability, security and long-term investments and funding; and (b) addressing demand- and supply-side issues in the development of lifetime retirement income solutions.

- *Collaboration with the APEC Finance Ministers' Process in promoting long-term investment, including infrastructure*

APFF actively participated in APEC FMP activities on infrastructure (e.g., workshops, activities of the APEC PPP Experts Advisory Panel, Asia-Pacific Infrastructure Partnership dialogues) to promote deeper understanding of obstacles to expansion of investment in infrastructure and other long-term assets by pension funds and insurers and discuss approaches to address these issues. This active participation will be guided by the Work Stream's findings on constraints to promoting long-term investment in the Asia-Pacific region, particularly those related to market and operational issues.

In this regard, APFF contributed in 2015 to the following events by providing speakers and panelists and/or helping planning the agenda:

- APFF Roundtable on Financial Regulations, Hong Kong, China (27 January 2015, Hong Kong, People's Republic of China)

- OECD High-Level Panel on Institutional Investors and Long-Term Investment (13 March 2015, Tokyo, Japan)
- Association of Latin American Securities Supervisors (ASSAL) Annual Conference (13-16 April 2015, San José, Costa Rica)
- APEC Finance Ministers Process Seminar on Micro-insurance and Disaster Risk Financing (29-30 April 2015, Bacolod City, Philippines)
- APFF Roundtable on Expanding Opportunities for Long-Term Investment in Asian Infrastructure (15 May 2015, Toronto, Canada)
- Global Insurance Forum (17 June 2015, New York, United States)
- APEC Workshop on Infrastructure Financing and Capital Market Development (23-24 July 2015, Iloilo City, Philippines)
- APFF Special Sessions on Longevity and ARFP, and APFF Symposium - Advancing the Agenda for Asia Pacific Financial Development and Integration (10 August 2015, Melbourne, Australia)

APFF will continue to contribute to upcoming relevant conferences and seminars, which may include but will not be limited to:

- Financial Sector Roundtable and Dialogue with APEC Finance Ministers (10-11 September, Cebu, Philippines)
- OECD Global Seminar on Disaster Risk Financing (17-18 September, Kuala Lumpur, Malaysia)
- APEC SME Finance Forum (22 September, Iloilo, Philippines)
- National Association of Insurance Commissioners (NAIC) Asia Pacific Global Insurance Forum (7-9 October, Los Angeles, United States)
- Inter-American Federation of Insurance Companies (FIDES) Annual Conference (25-28 October 2015, Santiago, Chile)
- ASEAN Insurance Council Meeting (27-29 October, Phnom Penh, Cambodia)
- Pacific Insurance Conference (29 November 2015, Manila, Philippines)

The following sections describe progress made so far and work plans ahead on each area covered by the APFF on insurance and retirement income.

Retirement Income and Longevity Solutions

Aging and High-level Recommendations

As the world's fastest aging region, Asia is facing a set of unique challenges both at individual and governmental levels. While Asia has the world's highest savings rate (currently estimated at US\$6 trillion), and strongest growth rate of the middle class, Asian economies significantly lag behind in policy framework and regulatory incentives to facilitate retirement income and longevity solutions.

The aim of a retirement income system is to re-balance the socio-economic resources to meet the challenges of an aging society. It also seeks to promote the movement of capital from bank-centric short-term investments into capital market and long-term assets, such as infrastructure, real estate development, catastrophic bonds, disaster risk financing, private equity, and trade finance (particularly in support of SMEs' financing needs). It is also meant to fuel the sustained growth of the capital market through the growth of the institutional investor base and continued supply of long-term capital.

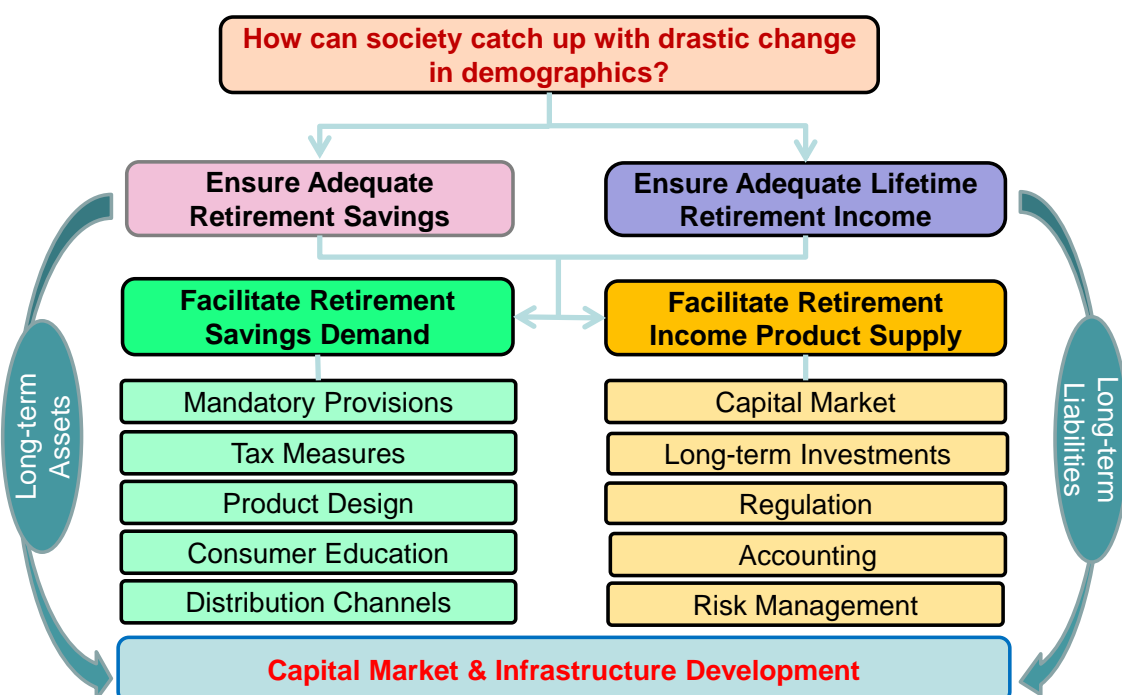
APFF recommends that APEC Finance Ministers, relevant policy makers and regulators consider the following measures to promote the development of retirement income systems, to ensure adequate retirement savings and to enable consumer-friendly retirement income and longevity solutions in their respective jurisdictions. The report at

hand is meant to form the basis of dialogues with relevant policymakers and government bodies to achieve the above objectives.

Channeling More Savings to the Retirement Income System

Given the expected drastic changes in demographics - the 'silver tsunami' - in the not-so-distant future, APFF urges policymakers take immediate measures to develop the region's retirement income systems. The diagram below illustrates the main concepts of retirement income and longevity solutions in this report.

FIGURE 8: Responding to the Needs of Aging and Promoting Capital Market and Infrastructure Development



A successful retirement income system produces an immediate and fast growing asset pool with long-term liability nature and limited liquidity requirements over the medium term. These assets represent stable, long-term patient capital that can be utilized to support productive long-term investments such as infrastructure, disaster risk financing, real estate and other economic development.

Analysis also shows that there is a strong correlation between strength of domestic capital market and the size of the retirement system as evidenced in the US, UK and Australia. This is due to shifting bank-centric short-term savings into institutionalized capital market investments. In turn, the retirement income system provides a growth engine for economies' financial sectors including insurance, securities, and asset management.

A successful retirement income system requires two sets of policy levers:

- Ensuring adequate retirement savings - a set of policy levers including mandatory provisions, tax measures, product design, consumer education, and channels for distribution that can work together to facilitate consumer demand for retirement

savings.

- Ensuring adequate lifetime retirement income – a set of policy levers including capital markets, long-term investment, regulatory, accounting and risk management frameworks that can function together to facilitate supply of retirement income products and longevity solutions.

Almost all APEC economies in the region have put in place some type of retirement income system to cover a portion of its citizens and civil workers, but none of these systems currently provide adequate retirement income¹⁰. There are many reasons for this. Analyses have shown that government-supported schemes alone are generally not able to provide adequate post retirement income, either due to lack of fiscal resources to expand coverage to most of the working population, or the lack of fiscal sustainability of providing adequate pensions. With low contribution rates to retirement savings mandated by legislation, some of these systems are simply inadequate. Others focus purely on retirement savings and do not have provisions for retirement income and longevity solutions, which are becoming increasingly important with increasing longevity across all APEC economies, declining fertility rates and decreasing dependency on children for financial support in retirement.

It is clear that the current market structure along the dimensions of consumer demand, capital markets, industry supply and regulations is not conducive to coping with imminent demographic changes and supporting long term investments and sustained growth of capital markets.

In order to promote the development of retirement income system, to ensure adequate retirement savings as well as adequate lifetime retirement income in the Asia Pacific, APFF recommends measures to facilitate the growth of retirement savings demand as well as retirement income product supply.

Facilitating the Growth of Retirement Savings Demand

Mandatory provisions

Consumers are naturally not inclined to pro-actively plan for post-retirement income. Behavioral finance models have been developed to better understand this behavior. One element is the status quo bias ('inertia') which is the cognitive bias to prefer the current situation and therefore delay decisions even when one knows it is in one's best interest. Another factor is the present bias ('hyperbolic discounting'), where consumers place disproportionately greater value on benefits received now compared to those to be received at some point in the future.¹¹.

These and other behavioral patterns make it evident that it is important to implement mandatory coverage for minimum-level policy-driven savings for long-term and future needs, such as setting aside a percentage of income for retirement protection either thru government or private pension schemes. This can be achieved either thru a "mandatory provision" or an "automatic enrollment process" for the voluntary retirement system.

¹⁰ In accordance with recommended levels of the World Bank.

¹¹ Studies have shown that when offered the choice between \$50 now and \$100 a year later, most people choose the immediate \$50, Shlomo Benartzi: Savings for Tomorrow, Tomorrow, Ted Talk 2011.

Mandatory provisions are not only effective in providing minimum retirement protection, they have also proven to be successful in creating a fast growing retirement savings pool to support domestic capital market development. Australia's superannuation system has grown to be the world's 4th largest fund industry within a short two decade time frame. It serves as an example of how a successful retirement policy creates a "triple-win" situation for individuals, financial sector and infrastructure development, and government.

Tax Measures

In order to overcome some of the inherent consumer bias against purchasing longevity risk solutions, short-term financial incentives will be of importance. Different incentives are likely to be required for different economies. For many economies, tax incentives are effective if clearly linked to genuine retirement income solutions, i.e. products that provide long-term retirement savings, or have a lifetime income feature. From a government budget perspective, one should weigh the possible short-term reduction in tax revenues against the long term societal costs of a growing portion of the population without sufficient financial means in retirement.

Tax incentives for specific product types will also encourage the insurance industry to develop these products, which will have a follow-through effect on the capital markets through increased demand for long-term funding vehicles. Tax incentives have been the most important policy lever in successful retirement markets in the US, UK and Australia. Various forms such as EET (exempt-exempt-taxed) and TEE (taxed-exempt-exempt) can be implemented,¹² based on each jurisdiction's particular tax environment.

For low income tax economies such as Hong Kong and Singapore, mandatory provisions have been introduced for retirement savings either thru a government-led or private sector led retirement income schemes. At the same time, it also shows that the additional top-ups by consumers have been relatively low (compared to the US and Australia) due to the lack of tax incentives for additional retirement savings.

Product Design

Another aspect of basic consumer psychology at play is that consumers consistently underestimate their life expectancy and desire to maximize control of and access to their own retirement savings, which manifests itself in the tendency to take out one's retirement savings in lump sums. Empirical research has shown that individuals are generally not able to stretch their retirement savings over their lifetime and use up their retirement savings too quickly. There is little to no drive to plan for post-retirement income from a consumer perspective.

To a certain degree, consumer inertia is caused by the lack of lifetime income solutions that effectively meet the needs of the consumer. Conventional immediate or deferred annuities can be simple and attractive solutions for those consumers who seek a stable annuity income at retirement or in old age as longevity protection. Other consumers may be concerned about the drawback of locking in one's assets, and want continued control over and access to one's assets as well as flexibility, as demonstrated by the tendency to choose lump sums over annuities.

¹² In an EET system, contributions and investment returns are tax-exempt while retirement income is taxed. In a TEE system, contributions are taxed, but returns and retirement income are tax-free.

It is recommended that policy makers support diversity of retirement products, expand the solutions universe and promote the design of alternative products that can meet consumers' various demands and different financial literacy levels. In recent years, new generations of retirement income and longevity products have been developed, both at the pre-retirement savings stage as well as post-retirement stage, to address a variety of consumer needs. These include life cycle and target date funds, variable annuities with more flexibilities and some guarantees, phased drawdown of fully invested funds, flexible annuities to address changing needs at different stages of retirement life, and consumer-driven retirement savings with focus on customized asset allocations at the savings phase to achieve retirement income goals.

A growing number of retirement systems are also carefully selecting a "default option" that offers simpler retirement savings alternatives, potentially linking retirement savings with consumer profiles and retirement income goals. These policy directions are crucial in simplifying consumer choices, and creating economies of scale for retirement products in smaller economies.

With retirees in Asian economies being typically "asset rich and income poor," relying on real estate as the main or only asset at retirement without much liquid assets, reverse mortgage and integrated retirement income and housing solutions are being considered. The next section will touch upon some measures that can stimulate the development of a new generation of lifetime income solutions.

The insurance and pension industry are instrumental in partnering with the public sector to provide insurance solutions that can alleviate these financial pressures arising from aging populations. These firms have the required expertise in issues related to mortality, investments and risk management, economies of scale and IT systems to manufacture and administer retirement solutions that provide lifetime income protection. A growing market of retirement income solutions will also fuel economic growth by matching providers of capital, i.e. insurance companies who have a need for long term investments, with projects in need of long-term funding, such as infrastructure.

Consumer Education

In addition to policy measures related to retirement, significant education and advocacy efforts are needed to motivate consumers to set aside additional resources in planning post-retirement income. While consumers are the primary audience, one should also consider education of financial advisors as well as government bodies, e.g. regulators, to facilitate deeper understanding of design and risk management of advanced retirement income planning solutions. This is often fairly new territory for the consumer, financial advisor and the regulator.

Education should be a joint and sustained effort involving both public and private sectors. Actions such as public awareness campaigns are needed to change the public mind-set, especially in the case of those approaching retirement, to one that looks at how best to convert retirement savings into an income stream that will last a lifetime and therefore avoid outliving one's retirement savings as traditional safety nets provided by the government, employer or children are rapidly diminishing.

Distribution Channels

Life insurance companies use a number of different channels to distribute their products, whether they are retirement savings products (in the accumulation phase) or longevity solutions (in the decumulation phase). Channels include exclusive agents, independent

agents, insurance brokers, and banks. In future, digital or on-line distribution may become more important. The APFF believes that a broad and robust distribution system is vital if economies are to bridge the protection and savings gaps.

According to the 2014 Insurance Barometer survey by the Life and Health Insurance Foundation for Education (LIFE) Foundation and the Life Insurance and Market Research Association (LIMRA), face-to-face contact with an agent is the most preferred method for buying life insurance. The public and private sectors both have a role to play in supporting the development and maintenance of well-trained agency forces that will drive increased penetration rates and retirement solutions coverage.

Facilitating the Growth of Retirement Product Supply

Capital Markets and Long Term Investment

Liabilities that arise from products providing long-term interest and income guarantees need to be backed by matching assets to ensure that these guarantees are met. Hence the ability to manufacture lifetime income solutions depends heavily on the availability of long-term investment opportunities and the regulatory and operational factors that affect institutions' ability to access them. The insurance and pension industries are becoming the most important investors providing long-term project financing, such as in infrastructure development, as regulatory changes in the wake of the Global Financial Crisis, such as those related to capital requirements, have affected banks' ability to provide long-term financing.

Insurance and pension funds can support capital market development in a variety of ways. As institutional investors, insurers and pension funds help professionalize investments, asset allocation and long-term capital support for securities markets, thus helping to stabilize domestic equity and fixed income markets and to balance out retail investors.

Given the long-term nature of retirement savings and their low liquidity requirements in the near term, insurers and pension funds can also direct capital to productive asset classes that require long-term financing, such as infrastructure, real estate, catastrophe bonds and disaster risk financing. Funds also stimulate demand for bonds, thus easing over-reliance on bank financing and providing new sources of finance to support SME growth and trade. A detailed overview of policy recommendations to stimulate this part of the supply chain is captured in the Capital Market and Long Term Investments section of this report.

It is worth noting in this context that long-term investment in economies needs to be matched by government policies that promote a stable and transparent investment regime. Restrictive or retroactive rules on company ownership, for example, are a major disincentive to long-term foreign direct investment.

Regulation and Accounting

While there may be adequate supply of and access to long-term investments, the impact of regulatory and accounting issues on institutions' ability to invest in these assets need to be considered. Key issues include incentives and disincentives that arise from regulatory and accounting regimes with respect to insurers' and pension funds' engagement in providing retirement and longevity solutions, the impact of economic accounting on the choice of measures on pension funds and products to serve the needs of aging societies, and how regulatory requirements may take into account the

diversity of social security systems, needs and consumer behavior and development levels across the Asia-Pacific region.

Policy recommendations on regulatory and accounting that promote long-term roles of insurers and pension funds are presented in the Regulation and Accounting section of this report.

Risk Management

Sound risk management is critical in providing retirement security and longevity solutions. Insurance companies need to be encouraged to deploy the necessary risk management structures to efficiently and effectively manage these risks. However they face hurdles to efficient risk management. The following measures may be considered to support the development of lifetime income solutions as well as product innovation

- Consumer value of retirement income solutions may be enhanced through the following:
 - Permitting intra-company financial reinsurance to allow for risk and capital transfer of retirement businesses to affiliated entities, thereby creating efficiencies and ultimately reducing costs for consumers.
 - Enabling the transfer of longevity risk, by allowing or encouraging pension funds to partially or fully transfer longevity risk to insurance companies. Using economies of scale, mortality and investment expertise, insurance companies are best placed to manage longevity risk in the most efficient manner.
 - Providing regulatory flexibility for adjusting product parameters in line with actual conditions in capital markets. The ability to provide guarantees on long-term benefits in a sustainable manner is directly tied to the ability to adjust product pricing to the prevailing term structure of interest rates. In order to ensure sustained offering of such products, providers should be able to reflect any changes in interest rates or any capital market data in a timely manner in the pricing. This continued alignment with the capital market requires a revised (shortened) regulatory review and approval process. A dialogue with regulators is needed to assess the extent to which existing review and approval processes meet the specific needs of this type of product.
 - Guarantees in pension plans: allowing or encouraging private pension providers to embed lifetime income guarantees in pension designs as well as the utilization of the required investments and derivatives to support the risk management of market and longevity risks combined.
- In order to further boost the development of longevity solutions, the regulatory environment should encourage insurance companies to develop products with a compelling value proposition to the end consumer. This would entail:
 - Appropriate setting of capital, mortality assumptions and reserve requirements in view of the long term nature of longevity risk. Certain jurisdictions have limited experience data with regard to lifetime income benefits. As a result certain levels of conservatism are usually applied. The insurance industry is looking forward to a dialogue with regulators to discuss updating prescribed pricing assumptions by leveraging experience and expertise of other jurisdictions.
 - Any regulations around product parameters such as commissions and cost

loading that are prohibiting the development of attractive longevity solutions. Certain jurisdictions prescribe pricing parameter limits that apply to an entire universe of products. Given the societal need of consumer-friendly lifetime income solutions, the level of such pricing limits should be assessed and adjusted, where required, for the subset of products that provide genuine lifetime income guarantees.

- The manufacture of advanced lifetime income solutions often requires a non-traditional approach to product design and risk management. The following measures may be considered to facilitate the development of these products:
 - Providing reserve and capital recognition for prudent and purposeful hedging of guarantees, such as lifetime income guarantees in variable annuities products
 - Flexibility in use of derivatives: use of derivatives facilitates the manufacture and risk management of long term (interest) guarantees, e.g. use of options or interest rate swaps to secure future levels of interest rates;
 - Currency flexibility: long-dated assets are often not available in local currency and certain consumers are willing to supplement retirement assets with a foreign currency longevity product as a risk diversification measure.

TABLE 1: Background of Different Designs of Retirement Systems in Asia

<p>Retirement System Design A: Collective Defined Contribution System managed by Government</p> <p>Overview of Retirement System:</p> <ul style="list-style-type: none"> ■ Mandatory provisions where workers and employers contribute to a centralized collective retirement savings fund that is administered and managed by government. ■ At retirement, majority of distributions are in lump sum with limited dollar amount or options for retirement income. ■ Investment management and minimum investment guarantees are provided by government. ■ Some systems allow “opt out” so that participants can choose to invest based on their own risk profile. ■ It may be difficult to cover the informative workforce under this design. ■ Economies for example: Malaysia and Singapore.
<p>Retirement System Design B: Private-sector Based Mandatory Provident Fund</p> <p>Overview of Retirement System:</p> <ul style="list-style-type: none"> ■ Mandatory provisions where worker and employers contribute to private sector mandatory provident funds with insurance companies, banks and asset managers as participants. ■ At retirement, majority of distributions are in lump sum with limited options for retirement income. ■ A variety of investment choices are available for members. ■ Economies for example: Australia and Hong Kong
<p>Retirement System Design C: Defined benefit system for public and/or private pensions, supplemented by voluntary defined contribution plans</p> <p>Overview of Retirement System:</p> <ul style="list-style-type: none"> ■ A large portion of retirements, either social security or work-based pensions, are provided thru a defined benefit system

- Most distributions are in pension/monthly annuities. Some are in lump sum.
- The private pension system is evolving toward defined contribution plans to transfer the investment and longevity risk from employer to employees.
- Economies for example: US and China.

TABLE 2: Key Issues and Challenges

Key issues to address	Challenges/constraints
1) Retirement income security (despite retirement savings towards mandatory scheme)	<ul style="list-style-type: none"> ● Lump sum distribution, lack of policy and incentives for retirement income security ● Capital market constraints for insurers to effectively manage annuity products ● Solvency of underfunded corporate pensions
2) Retirement income adequacy	<ul style="list-style-type: none"> ● Leakage of spending before retirement; ● Low investment returns resulting from over-conservatism on investment and limitations on asset allocation ● Lack of individual retirement product ● Low priority given by those below the age of 40 on retirement savings compared to other pressing needs, thus missing out on the ideal stage for accumulating long-term savings that can weather investment volatility.
3) Financial education and awareness of need for retirement savings	<ul style="list-style-type: none"> ● Low priority given by those below the age of 40 on retirement savings compared to other pressing needs, thus missing out on the ideal stage for accumulating long-term savings that can weather investment volatility.

Capital Market and Long Term Investments

Status Report

In its 2014 Interim Report, APFF identified underdeveloped capital markets, the scarcity of bankable projects, a lack of appropriate financing vehicles, and restrictions on the use of derivatives needed to hedge investments as some of the major impediments to investment in infrastructure projects by long-term institutional investors like insurers and pension funds. It was also noted that for insurers and pension funds, local currency bonds and equities forms an important and substantial core asset class. The size and liquidity of those traditional asset classes have increased significantly over the last few years, but it is important to continue efforts to provide low-cost and efficient market access vehicles for domestic bond and equity markets.

APFF's work over the past years has focused on two areas: 1) non-traditional financing vehicles to facilitate financing by institutional investors in infrastructure projects and 2) a study of how regulations regarding derivatives act as an impediment to infrastructure financing by institutional investors.

Non-traditional financing vehicles

While participants called on governments to continue to develop deeper and more liquid capital markets through improvements in transparency of issuers, more long-term government bonds to create a benchmark, and a clear legal regime for handling defaults to demonstrate that secured lenders are protected, it was recognized that this process would take time. In the meantime, non-traditional financing vehicles could

jump-start insurance and pension fund investment into infrastructure. Such vehicles needed to address some of the impediments identified by APFF to institutional investor financing, including regulatory, political and construction risk, poor or no credit rating, and lack of scale.

Much attention was focused on how such vehicles could allocate risk (and return) to those best placed to take it. For example, banks were well placed to take construction risk but not well positioned to take maturity and liquidity risk, since they are funded on deposits and the money market. Insurers are poorly placed to take short-term construction risk, but well-positioned to take liquidity and foreign exchange risk since they are funded by long-term insurance policies with local currency liabilities.

Financing vehicles that were identified included:

- **Infrastructure Funds:** While neither new nor “non-traditional,” an infrastructure fund addresses the challenge of scale since institutional investors can delegate to the fund the work of identifying suitable investments covering a large number of opportunities. India has experimented with infrastructure debt funds, though many were not successful due to regulatory risks and lack of staff to adequately review projects. Prospects for an infrastructure private equity fund in the Philippines, the Philippine Investment Alliance for Infrastructure Fund (PINAI), appear more promising. It is managed by a highly experienced and reputable global firm, which provides credibility needed to attract foreign investors, and enjoys participation by a multilateral institution, which helps mitigate political and regulatory risk.¹³
- **Business Trusts:** These vehicles, which are used in Singapore, are similar in structure to REITs that can be listed and traded on the local exchange to facilitate offloading of operational infrastructure projects to free up development capital for greenfield projects.
- **Guarantees:** PPPs with some sort of guarantee or off-take agreement to separately price development, construction and operational risks for infrastructure projects arising from regulatory or policy interventions. Governments no longer (and probably should not) offer blanket guarantees for pricing in offtake agreements, so a vehicle is needed that provides the appropriate guarantee linked to government actions can take that could impact the commercial viability of the investment.
- **BOT:** Build, operate, and transfer agreements for governments could also separate development and operational risks for infrastructure projects. BOT was used in China before 2009, but fell out of favor as funding turned to local government SPVs and banks. However, China and other economies may revert back to using BOT, as bank financing faces limits.
- **Securitization:** The APFF explored two forms of securitization to better allocate risk and return to short and long term investors.
 - One form could involve a financing structure for an infrastructure project in which banks would fund the first 5-7 years, covering construction and development risk, while receiving a relatively higher return. Assuming the

¹³ PINAI is a 10 year, closed-end fund, dedicated to investment in Philippine infrastructure, that is a partnership among the Asian Development Bank, Dutch pension fund APG, the Philippines' Government Service Insurance System and Macquarie Infrastructure and Real Assets (MIRA).

project was successfully launched, insurers and pension funds would then provide funding for the next 20-30 years, with relatively lower, but safer returns. Another way of stating this model would be to separate the greenfield and brownfield elements of the project into tranches that could be separately sold. Treating this as an integrated financing structure (rather than simply having the banks fund the entire project for five years and then refinance if the project takes off) avoids refinancing risk and create greater certainty for the project developers.

- Another form of securitization that could help develop the infrastructure financing market for long-term investors would be to package existing infrastructure loans on banks' books and sell them as asset backed securities. Most Asian economies have relied heavily on bank financing and banks have many infrastructure assets sitting on their balance sheets. Banks by their nature should not be holding such an extensive amount of long-term assets, which tie up capital that could be more useful, both economically and socially, as credit to small business. An example of such a vehicle would be packaging of transport infrastructure on a Chinese bank's balance sheet;
- Co-financing with Multilateral Development Banks: Co-financing with the International Finance Corporation or Asian Development Bank is another innovative approach to facilitating the flow of institutional investors into infrastructure. To the best of our knowledge neither entity has co-financed with an insurer, though ADB has recently stepped up to sell some of its risks to global reinsurers. Currently most attention is focused on private sector lending at ADB and IFC where the pricing is already market-based and therefore more interesting to private investors. However, it is not inconceivable that MDBs and their borrowers explore blending of sovereign lending with private sector financing – the blended rate would be higher than straight ADB or World Bank lending, but the lending envelope (the amount that each institution could allocate) would be far larger if they leveraged their sovereign lending by mixing it with investment by private investors.

Derivatives

APFF is continuing its study of current restrictions on the use of derivatives around the region. Initial findings indicate several kinds of restrictions. In some cases in developing economies, there simply are no policy frameworks governing the use of derivatives and so they have not developed. In others, they are permitted but with severe restrictions. And in several developed economies in the region, reserving requirements for derivatives make them prohibitively expensive. Finally in some economies there are no restrictions on derivatives, but the availability of derivatives is small and the cost prohibitive to make it commercially interest. The lack of derivatives, for whatever reason, appears to be an important, if not binding, constraint to long-term investment in infrastructure. APFF will continue its study in the coming year.

Education

APFF continued to discuss impediments to institutional investor financing of infrastructure due to underdeveloped capital markets and lack of bankable projects with regional regulators at a number of international fora, including meetings sponsored by ABAC, G-20 and the OECD.

Regulation and Accounting

Status Report

For the purpose of deepening the understanding of the impact of regulatory and accounting issues on the role of insurers and pension funds in effectively providing long-term investments and funding, supporting financial stability and economic and infrastructure development and serving the needs of aging societies, the members of the APFF Insurance and Retirement Income Work Stream participated in a number of dialogues, seminars and conferences across the region.

The objective is to help regulators and industry participants in the Asia-Pacific region, based on discussions of key issues and high-level recommendations, identified by the work stream (see Annex H¹⁴ of the APFF Interim Report 2014) to implement approaches to enhance the insurance and pension industries' contributions to the economy and society, taking into account the long-term nature of their business.

Active outreach and communication have been continuously undertaken to exchange views on regulatory and accounting matters and gather information on specific challenges faced by economies with international and regional institutions, such as the International Association of Insurance Supervisors (IAIS), International Accounting Standards Board (IASB), Organisation for Economic Co-operation and Development (OECD), ADB, ASEAN, and various insurance regulatory authorities, including those in Indonesia, Japan, China, Singapore, Malaysia, Brunei, Mexico, Chile, Peru, USA, Chinese Taipei and Thailand. In this regard, it should be noted that remarkable coordination has been achieved with the ASEAN insurance industry.¹⁵

IAIS Consultation on the global risk-based International Capital Standards

As part of this initiative, the APFF collaborated with ABAC, which submitted a comment letter on the global risk-based International Capital Standards (ICS) to the International Association of Insurance Supervisors (IAIS) on 30 January 2015, based on conclusions reached by the work stream in its discussions. ABAC comments did not intend to respond to all technical questions but identified and addressed high-level issues relevant to the objective of the APFF to promote long-term roles of the insurance industry. Key comments included:

- **Bank-centric regulations:** The ICS should capture all material risks across the sectors, however should take into account the specific nature of the insurance business. It should avoid bank-centric capital weighted rules, and consider the characteristics of long-term assets supporting long-term liabilities as well as the effect of asset diversification. High-risk charges for long-term investments, including infrastructure projects and equities, may discourage insurers to provide such investments. Regulations should be designed in a way to promote and incentivize the insurers' role to stabilize the financial system and market and its ability to

¹⁴ As a part of the APFF project, ABAC developed a list of high level accounting, regulatory, market and operational issues and recommendations on promoting long-term investments in the Asia-Pacific, as a basis for discussions with policymakers and regulators. Annex H "Constraints on Promoting Long-Term Investment in the Asia-Pacific can be downloaded at <https://www.abaconline.org/v4/download.php?ContentID=22611898>.

¹⁵ For example, the ASEAN Insurance Council (AIC) presented its recommendations, which were largely in line with those identified by APFF, during ASEAN Insurance Regulators Meeting (AIRM) in Brunei Darussalam 26 Nov 2014, and submitted them to the ASEAN Regulators on the 9 January 2015, along with the APFF Interim Report to the APEC Finance Ministers.

manage risk efficiently.

- Short-term oriented economic regime: An economic based regime should have a long-term vision. Short-term oriented economic valuation may produce significant volatility for long-term business, which may not be relevant to the insurers' capacity to meet long-term obligations. While economic information may be a useful indicator in determining a future long-term direction, the long-term nature of the business model and illiquid nature of liabilities should be properly taken into account. The ICS should avoid the introduction of a regulatory regime that would require immediate regulatory actions in response to short-term market fluctuations. Measures should be taken to mitigate impact on long-term protection business and the assets supporting such contracts.
- "One-size-fits-all" models: International standards should be principle-based and aim to achieve the comparable outcome by taking into account the diversity in the region. Due to the difference in business models and existing regulatory framework, the application of prescriptive international standards would not ensure the overall comparability or level playing field in the region.
- Timeframe: The IAIS should take the necessary time to develop high quality standards rather than compromise on quality to meet an ambitious deadline. The next few years will see numerous regulatory changes implemented or developed in EU, US, and many other economies in the Asia Pacific. The IAIS may benefit from experience of those anticipated changes.

IASB Consultation on the Conceptual Framework for Financial Reporting

In addition, a number of accounting issues have also been identified. Following up on ABAC's comment letter dated 10 October 2013 to the IASB and the Financial Accounting Standards Board (FASB) on insurance contracts proposals, ABAC submitted a comment letter to the IASB on 12 August 2015 on the Conceptual Framework for Financial Reporting. Again, ABAC comments did not intend to respond to all the questions, but rather highlighted specific questions that may affect the ability of insurers and pension funds to play their proper long-term roles in the economy. Key comments included:

- Reporting items of income or expenses in other comprehensive income (OCI): The letter supported a wider use of OCI both in assets and liabilities to better reflect the long-term nature of the business. Short-term fluctuations in the statement of profit or loss may distort the relevance of the information on performance for the period, where such fluctuations are irrelevant for predicting the cash flows of the entity. Nevertheless, the use of OCI should be optional in order to avoid accounting mismatch between assets and liabilities. The treatment of changes in estimated cash flows and that of discount rates should be consistent to reflect economic reality and to provide relevant and useful information to users.
- Recycling: 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.

- **Business activities:** The letter supported the view that financial statements could be more relevant if standards reflect how an entity conducts its business. Furthermore, consideration of the business model may provide a faithful representation of the economic reality and result in more relevant information. It is also important to take into account the different development stage. For example, in many economies, including those in emerging markets, there is an observable but no deep and liquid market. The application of prescriptive international standards may not ensure overall comparability or a level playing field, due to the existing diversity in the region and around the globe.
- **Long-term investment:** Short-term oriented economic valuation tends to capture the assessment with a snapshot, which may be relevant for short-term investors, do not necessarily provide useful information for long-term investors, who wish to determine such investments that were good in the long run, rather than appear good at a given moment. Short-term fluctuations tend to be significant for long-term business, and may not be relevant to the entity's capacity to meet long-term obligations. The interaction between assets and liabilities should be properly reflected. Accounting standards which do not reflect the long-term nature of business activities would not provide transparency for long-term investors. As a result, it would dis-incentivize long-term investments.

Microinsurance

This year, APFF started to undertake work on microinsurance and laid the foundations of a multi-year effort to address key issues as well as built its network of collaborators in this space. A key event facilitating this development is the APEC Conference on Disaster Risk Financing hosted by the Philippine Government on 29-30 April 2015 in Bacolod City, Philippines, which included extensive discussions on microinsurance. This conference was jointly organized by the Philippine Department of Finance, ABAC and ADB, in collaboration with APFF, the GIZ Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia, Microinsurance Network, Barnert Global, Ltd., and the Tokio Marine Group.

This event facilitated the formation of a collaborative network of institutions involved in microinsurance that have been offered to partner with APFF. It was agreed that the work on microinsurance be further progressed to support the Finance Ministers' Cebu Action Plan and also cover the needs of MSMEs which are being discussed in other APEC fora. Going forward in the next several months, those involved in this work will undertake the following activities in the field of microinsurance:

- partnering with multilateral institutions, including the Asian Development Bank;
- collaborating with the Access to Insurance Initiative (A2ii) in Latin America;
- creating a list of contact persons in member entities through various outreach activities;
- collaborating with the Microinsurance Network on international activities such as the Global Financial Inclusion Initiative (GFII) and its development in APEC member economies;
- exploring partnerships with relevant institutions in holding regional or domestic workshops;
- participating in APEC/APFF forums and seminars that include microinsurance; and
- providing inputs to the Cebu Action Plan and APEC, ABAC and APFF events.

Disaster Risk Financing

Natural Disasters and High-Level Recommendations

The Asia-Pacific is the world's most natural disaster-prone region on the globe. For decades, the region has recorded the biggest number of natural disaster events, and the economic consequence has been enormous, which is attributable to growing concentration of population and economic activities in hazard-prone areas, and significant enough to harm economies' sovereign risk rating. APEC Finance Ministers are aware of the situation and recognize the need to develop coordinated disaster risk management strategies and to improve their approach to Disaster Risk Financing (DRF)¹⁶ as a means to build resilience in the region.

The OECD report on "Disaster Risk Financing in APEC Economies" gave a thorough overview of the current status of DRF in the region. As it is highlighted in the G20/OECD methodological framework on disaster risk financing, financial impacts of disasters can be mitigated *ex ante* through financial instruments. With *ex ante* measures in place, government budgets become less vulnerable to impact of disasters, especially in light of the limited advantage in savings from disaster relief if done after the fact. Overreliance on post-disaster financial relief tends to cost more to community actors, including residents and business owners.

APFF recommends that APEC Finance Ministers, relevant policymakers and regulators consider taking the following actions to help promote effective DRF in the region. Once this proposal has been approved by the Finance Ministers, the workflow could potentially benefit from communicating with international/intergovernmental organizations and regional frameworks (e.g. ASEAN and ASEAN+3), thus maximizing the effectiveness of the output.

Developing sound financial and insurance markets

Depending on the local circumstance, DRF has a variety of forms which includes disaster funds, contingent credit lines, insurance-linked securities, catastrophe risk pools, index-based risk transfer products and traditional indemnity-based insurance. Private sector insurance companies and capital markets play a crucial role in absorbing disaster risks. Since private sector players are governed by domestic legislation and regulation, it is important that domestic financial and insurance markets ensure the following fundamentals to secure public trust in DRF products:

- The market should be orderly and supervised according to sound prudential standards and consumer protection guidelines.
- The domestic legislative and regulatory framework should encourage private sector players to offer innovative and inclusive financial instruments such as micro-finance/insurance and index-based insurance products, securitization transactions incorporating the use of special purpose vehicles (SPVs) and facilitation of sovereign and sub-sovereign risk transfer to render financial protection to both public and private sectors.

¹⁶ Disaster Risk Financing: In this proposal, the term "Disaster Risk Financing" follows the terminology in "Disaster Risk Assessment and Risk Financing –A G20/OECD Methodological Framework" (4 November, 2012), which reads "The strategies and instruments used to manage the financial impact of disasters, ensuring adequate capacity to manage and mitigate the costs of disaster risk, thereby reducing the financial burden and economic costs of disasters and enabling rapid recovery in economic activity."

- A sound supervisory and monitoring system should be established to enable appropriate and smooth financial transactions or insurance payment even in case of a catastrophic emergency.

Enhancing disaster risk evaluation through the use of data

Many recognize the lack of available data as an impediment to evaluate disaster risks which is fundamentally important in designing DRF. It is especially true when engaging with capital markets, where pension funds and other investors are emerging as significant source of disaster risk financing. It is therefore recommended that more attention be given to:

- facilitating technological advancement of disaster risk evaluation by assisting economies in improving their capacity to collect, harmonize and disclose relevant regional, domestic and local data including hazard, exposure and vulnerability, for the purpose of increasing the credibility of evaluation on disaster impact;
- building capacities of economies in the establishment, adjustment and disclosure of municipal level hazard maps;
- upgrading the granularity of quantitative risk evaluation by utilizing disaster risk models, including climate and probabilistic evaluation models, with particular emphasis on flood risk; and
- making the most of the risk information obtained through the aforementioned disaster risk data by linking this to economies' building codes or land use permits, and by incorporating the information in designing business continuity plans (BCPs).

Raising public awareness on disaster risk

Disaster risk management effectively functions where the general public is reasonably aware of the level and nature of risks they face. In order for a DRF mechanism to function properly, it is critical to raise public awareness of the need to seek financial protection against disaster risks. The following actions are useful in upgrading public risk awareness and set a stage for a functioning DRF:

- engaging in disaster risk education and awareness raising in the civil society including its incorporation in school education program;
- assisting SMEs to establish BCPs; and
- recommending risk-informed decision making to businesses in undertaking capital investments.

Steering investment to upgrade disaster resilient infrastructure

Upgrading the infrastructure relevant to disaster risk reduction is another area that calls for closer attention. Disaster resilient infrastructure is more likely to generate social and financial benefits from a long-term perspective. Adding to that, investment in disaster mitigation can be critical for the insurability of some disaster risks. Quoting from a study report of the Multihazard Mitigation Council, a dollar spent on hazard mitigation provides about \$4 in future benefits. In this context, it is recommended that the following actions be put in practice:

- transferring technical expertise and knowledge on disaster risk reduction to the community in need;

- setting up infrastructure on disaster risk reduction in terms of both hardware and software.(e.g. building code, remote sensing and digital signage); and
- shedding light on natural capital, such as the conservation and restoration of coastal wetlands, which effectively reduce the impact of high tides and tsunamis, while protecting the ecosystem, as a cost-efficient alternative to man-made disaster risk reduction infrastructure.

Knowledge sharing to prompt actions among APEC economies

In whatever form it takes, for a DRF mechanism to function properly in a society, it needs to resonate well with other social instruments which respond to large-scale disasters. It becomes critically important to design a program coherently with or complimentary to the existing or planned domestic or local disaster relief and prevention system. As situations may differ, primary focus should be given to individual economies. It is thus beneficial to pool the accumulated knowledge to be shared with interested member economies, and facilitate any member to design a DRF scheme that best responds to domestic needs. It is critical that the group thus formed consists of representatives of member economies with a strong will to develop either domestic or cross-border DRF mechanisms. Based on the needs of each participating economy, the following actions are suggested to be taken over the course of the next two to three years:

- conducting a gap analysis of existing disaster insurance and relief mechanisms which are in place in disaster prone member economies, and identify priority areas;
- establishing an expert group among the member economies' finance and relevant ministries, with each participant having a clear objective;
- inviting experts from financial institutions, insurance industry, risk modelers, and academia, as needed (in case catastrophe bonds or other types of securitization are seen as a viable DRF option, the involvement of originators should be considered);
- importing knowledge and experience from non-APEC economies or public sector entities;
- identifying areas where availability and affordability of disaster insurance need to be promoted;
- following up on the progress of the project periodically; and
- considering setting a baseline framework among the APEC economies to facilitate the implementation of DRF;

Public-private collaboration

As demonstrated by events immediately following the Great East Japan Earthquake of 11 March 2011, earthquake insurance for households proved effective in delivering swift financial relief to the disaster affected region. As a reinsurer, the Japanese Government played a critical role in ensuring financial liquidity of the program. Drawing from this experience, in case an economy chooses to implement a domestic disaster risk pooling system, defining the government's role in the program is critical. Public-private collaboration can be effective wherever the government exercises transparent distribution of risk of the DRF program.

There is a wealth of practical knowledge in designing risk transfer programs accumulated in financial institutions and the insurance industry. Depending on the domestic budget, financial or insurance market characteristics and soundness, a government-led DRF can be designed by importing knowledge and experience from the private sector, including utilization of its efficient distribution and disaster response

network. As a practical first step, the following action is recommended:

- An economy-level expert committee is to be formulated, with possible participation of other APEC member economies, to proceed with designing a DRF program.
- Where public-private collaboration is deemed beneficial and sustainable, private sector experts are invited to the process.
- Private sector knowledge can be useful in developing peril-specific risk models as a core component of the DRF scheme, which may also assist public sector in assessing and quantifying the financial impact of the peril in question.

Work Plan

Setting up a DRF program requires the involvement of multiple actors. In order to design an effective program, and to be prepared for the next catastrophe that could affect an APEC economy, strong leadership of the ministers in charge is indispensable. APFF looks forward to having a constructive dialogue with interested finance ministries to promote a meaningful step forward in building a resilient community.

In order to put the aforementioned items into practice, the following timeline is suggested as a basis of an action plan over the next three years.

TABLE 3: Timeline to Promote Disaster Risk Financing in the APEC Economies

Initiatives	Deliverables	Timeline		
		by 2016 (Peru)	by 2017 (Vietnam)	by 2018 (PNG)
<APEC-wide>				
<ul style="list-style-type: none"> ➤ Establishing an APEC-wide expert group 	<ul style="list-style-type: none"> ✓ A gap analysis report (by 2016) ✓ A disaster risk database (2017 and onwards) 	<ul style="list-style-type: none"> • Formalise an expert group • Publish a gap analysis report 	<ul style="list-style-type: none"> • Periodical expert group meetings • Upgrade the gap analysis to set up a disaster risk data base 	<ul style="list-style-type: none"> • Periodical expert group meetings • Updating the disaster risk data base • Reviewing the development over the past 3 years • Study on risk pooling among APEC Economies
<ul style="list-style-type: none"> ➤ Setting a baseline DRF framework for the APEC Economies 	<ul style="list-style-type: none"> ✓ A baseline framework (2018) 		<ul style="list-style-type: none"> • Preliminary draft circulation 	<ul style="list-style-type: none"> • Publish a baseline framework
<Economy level>				
<ul style="list-style-type: none"> ➤ Establishing an economy-level DRF scheme (where appropriate) 	<ul style="list-style-type: none"> ✓ An economy-level DRF blueprint (2018) ✓ A status report (2018 and onwards) 	<ul style="list-style-type: none"> • Liaise with the above development • Identify economies and risks of priority 	<ul style="list-style-type: none"> • Launch of economy-level expert meetings (where appropriate) 	<ul style="list-style-type: none"> • Design a blueprint of an economy-level DRF scheme (private or public-private collaboration) • Issue a status report

E. Linkages and Structural Issues

The increasing sophistication of Asian financial markets has the potential to create many of the problems experienced in the West in Asia. Further, recent years have seen rapid and sweeping reforms to financial regulation in Europe and the United States. These developments mean there is now an opportunity to pro-actively identify lessons learned from the West's development and regulatory integration experience, as well as the unique circumstances and risks present in the Asian context, to evaluate the suitability of global regulatory frameworks in Asia and the value that regional cooperation could play in the development of Asian financial regulations.

As part of efforts within the APFF, the Financial Regulation in Asia Research Team of the Melbourne School of Government, University of Melbourne¹⁷ is hosting a research project that explores whether greater regional cooperation in financial regulation and integration is needed in Asia, in light of the strong emphasis on European and North American financial systems in the development of international regulatory standards and rules, and the appropriateness of possible forms of regional architectures to achieve greater regional cooperation. The project is novel due to its inter-disciplinary approach and its examination of the relevant issues from a variety of perspectives such as finance, law, politics and international relations.¹⁸

Project Update:

The project is examining the issues in the areas set out below. All of the specific issues are under active examination with various papers being prepared by the research team:

Areas	Specific Issues
Banking regulation	<ul style="list-style-type: none"> ■ Asia and Basel III ■ Bank resolution regimes ■ Shadow banking
Capital markets regulation	<ul style="list-style-type: none"> ■ Asia Regions Funds Passport ■ OTC derivatives market reforms ■ Benchmarking reforms
Market integration and access	<ul style="list-style-type: none"> ■ Market access ■ Proposed trade in services agreement and financial services
Regional architecture	<ul style="list-style-type: none"> ■ Regional financial infrastructure ■ Financial supervisory structures in Asia

One of the areas where research and thinking are relatively advanced is cross-border cooperation in the context of bank resolution. Increasing financial interconnectedness in Asia combined with the international reforms recommended by bodies such as the

¹⁷ The members of the research team are Professor Andrew Mitchell, Law, UoM, Dr Jikon Lai, Arts, UoM, Mr Andrew Godwin, Law, UoM, Professor Andrew Walter, Arts, UoM, Professor Ian Ramsay, Law, UoM, Professor Kevin Davis, Business & Economics, UoM, Professor Douglas Arner, University of Hong Kong, Datuk Seri Panglima Andrew Sheng, Fung Global Institute, Professor Wataru Takahashi, Osaka University and Mr. Kenneth Waller, Australian APEC Study Centre, RMIT University. External partners include ANZ Bank, APEC Business Advisory Council, Fung Global Institute, University of Hong Kong, King & Wood Mallesons, Osaka University and Moody's.

¹⁸ For papers, conferences, workshops and other events, see <https://government.unimelb.edu.au/financial-regulation-in-asia>.

Basel Committee on Banking Supervision and the FSB¹⁹ have drawn attention to the need in Asia for cross-border cooperation in bank resolution.

There are several factors that make it difficult to achieve cross-border cooperation in this area. These factors include the following: philosophical differences concerning the techniques for resolving distressed financial institutions (e.g. whether bail-in is appropriate); the preference of many regulators in Asia for crisis prevention over crisis management; the lack of a regional voice in international bodies and frameworks; different regulatory systems; and sensitivities triggered by politics and international relations.

These factors all point away from the wholesale adoption of international models in favour of a resolution framework that is consistent with established modes of cooperation within the region. The established modes of cooperation are based on a number of elements, including a non-binding, consensus-based approach (much of which is bilateral in nature or connected to sub-regional groupings such as ASEAN) and an emphasis on national sovereignty. Inevitably, this means that not all of the tools for achieving effective cross-border cooperation as utilized in other regions will be appropriate to the Asian region (e.g. multi-lateral information-sharing mechanisms). Our preliminary findings suggest that the focus needs to be placed instead on encouraging regulatory harmonization and promoting convergence.

Potential steps towards the development of a regional resolution framework include formulating guidelines for domestic regulatory frameworks, the establishment of a body to promote convergence and strengthen supervisory capacity and the use of resolution colleges to build on existing supervisory colleges and facilitate cooperation across various stages of resolution.

Similar to the research on other issues, the research in cross-border bank resolution reveals the extent to which each issue presents its own challenges and needs to be examined on a case-by-case basis.

The Research Team is planning a conference in Hong Kong on Friday 6 November 2015 at the University of Hong Kong to examine various themes and discuss the findings of the research project. The themes will include the following:

- Regional coordination and challenges in areas under examination;
- Existing architecture and possible reforms;
- Standard-setting bodies and challenges for regional coordination;
- Asia Infrastructure Investment Bank and challenges for regional coordination; and
- Asian financial integration.

¹⁹ Basel Committee on Banking Supervision, *Report and Recommendations of the Cross-Border Bank Resolution Group* (March 2010); Financial Stability Board, *Key Attributes of Effective Resolution Regimes for Financial Institutions* (October 2014).

III. CONCLUSION

The Asia-Pacific region needs inclusive financial systems to enable more households and enterprises to participate in economic activities and create broad-based economies that can ensure sustained growth. It also needs well-developed financial markets to more efficiently channel savings to where they can contribute more to and gain the most from economic development, especially in the region's emerging markets. Having been established to serve as a regional platform for public-private collaboration to help APEC member economies develop robust, stable, dynamic and inclusive financial systems to meet these needs, the APFF has engaged a wide range of leading private sector institutions to partner with key international and government agencies to undertake initiatives in pursuit of this goal.

Building on its 2014 Interim Report to APEC Finance Ministers, which identified 12 concrete action plans to address critical issues related to MSME finance and the development of the region's capital markets and long-term institutional investor base, the APFF this year advanced its work on these initiatives, through a number of roundtables, workshops and conferences across the region, work stream discussions, and collaboration with APEC finance officials in designing the future work of the APEC Finance Ministers. Highlights of this Progress Report are as follows:

- The Report discusses a proposal to establish a Financial Infrastructure Development Network (FIDN) comprising private and public sector entities, multilateral institutions and industry associations as a specialized subgroup under the APFF. Its aim is to undertake activities to help member economies develop legal frameworks for credit information systems and secured transactions and movable asset finance systems, and identification of key issues for its work program.
- The Report identifies key issues to be addressed in a series of dialogues and workshops on trade and supply chain finance for relevant public and private sector stakeholders in the region. These will include capital and Know Your Customer (KYC), Anti Money Laundering (AML) and Customer Due Diligence (CDD) rules affecting trade finance. These also include digital and innovative working capital management products and techniques, reducing barriers to digitalization of supply chain finance, and interrelationships among finance, trade, customs and technology to support the internationalization of MSMEs.
- There is ongoing work to complete a guide for legal and regulatory frameworks, settlement systems and market conventions supporting sound and efficient repo markets. The Report further develops the action plan to engage domestic regulators and governments through workshops, encourage and assist economies in establishing classic repo markets, disseminate industry best practices, encourage adoption of international standards for efficient clearing and settlement of repo transactions, and monitor the impact of financial reforms on repo market development in the region.
- The APFF has completed the self-assessment templates to help relevant authorities facilitate availability of information for investors in the region's debt markets, especially those for non-bank corporate debt. These templates cover three key categories (disclosure, bond market data and information on investor rights in insolvency). The APFF also launched a pilot program with the Philippines to use these templates in identifying gaps and undertaking measures to fill them.

- The APFF served as a platform for engagement of industry to assist the six regulatory authorities progressing the ARFP in identifying critical elements in designing rules and operational arrangements for a successful regional funds passport. These critical elements were identified as enlargement of membership, reciprocity, interoperability with other similar regional frameworks, inclusiveness, taxation, dispute resolution, standardization of fees and performance figures and international recognition of passport funds.
- The APFF undertook further development of the action plan to assist economies in ensuring an enabling legal infrastructure for derivatives, including activities geared toward identifying legal structural weaknesses in jurisdictions, educational seminars targeting regulatory and legislative bodies as well as key members of the judiciary, and preparation of a pilot program.
- Further work was done to identify key issues for workshops and dialogues to help economies develop a regional securities investment ecosystem. The APFF will be working on a regional roadmap of upcoming regulatory and market changes, the feasibility of a regional private-public-market infrastructure forum for exchange of views on these changes, regionally and globally aligned standards for KYC/AML documentation collection and reporting, the use of third party industry utilities for a centralized KYC/AML electronic depository, and standards for data privacy, protection and security.
- This Report describes recent work initiated by APFF on retirement income and longevity solutions, microinsurance and disaster risk financing and financing vehicles that can be developed and supporting measures to facilitate expanded investment by pension funds and insurers in infrastructure and capital markets. The APFF also continued its efforts to promote regulatory and accounting frameworks that support long-term investment in infrastructure.
- The Report also describes ongoing research and discussion on the regulation and supervision of the region's banking systems and capital markets, market integration and access and regional financial architecture

This Progress Report recommends the following steps as the way forward for advancing the work of the APFF:

- *Undertake a pathfinder initiative to develop credit information systems.* This should involve the development of online resources aimed at policy makers as well as a series of workshops focused on building capacity for developing regulatory frameworks, establishing and operating private credit bureaus and enhancing lenders' ability to use credit information. It will also involve building support for identified reforms in collaboration with policy makers.
- *Undertake a pathfinder initiative to improve policy frameworks for secured transactions and the use of movable assets as collateral.* This should involve holding workshops and promoting reforms to develop robust legal and institutional architecture for asset-based lending and factoring, collateral registries, rules related to the use of movable assets and accounts receivables as collateral, and legal and institutional frameworks to facilitate cross-border supply chain finance.
- *Convene public-private dialogues on regulatory issues in trade and supply chain finance.* These should aim to promote effective and regionally consistent implementation of capital and liquidity standards and KYC/AML/CDD rules, and will

also include regulatory considerations related to electronic trade finance documents.

- *Hold workshops on emerging facilitators of trade and supply chain finance.* These should focus on these key aspects: expanded use of electronic supply chain management platforms; wider use of digital and innovative working capital management techniques such as Bank Payment Obligations (BPOs); facilitating market education and information exchanges on the use of regional currencies such as the RMB in trade and supply chain finance; and facilitating inter-relationships among finance, trade, customs procedures and technology that can support the internationalization of MSMEs and businesses.
- *Support the development of alternative funding mechanisms for MSMEs.* This should involve the holding of regular public-private workshops on ways to develop alternative funding mechanisms for MSMEs and start-ups, including development of new financial instruments, addressing regulatory barriers to innovative financing, identifying policy frameworks for alternative finance, policy initiatives to spur equity based financing to invest in small businesses, enabling regulations for crowd funding, Islamic finance and public-private innovative funding vehicles. These workshops will be designed to progressively go into greater detail into key specific issues to help policy makers and regulators adopt and implement policies and design initiatives including funding mechanisms.
- *Develop best practices for strengthening MSMEs' resilience.* This should involve workshops for relevant policy makers and regulators in the region and will cover measures to mitigate the impact of financial crises, natural disasters and other unexpected events, based on lessons from responses to previous financial crises and successful experiences in the use of microinsurance and disaster risk financing, with special focus on vulnerable micro- and small businesses, including farmers in remote areas.
- *Establish an APEC-wide DRF expert group within the APFF to develop a gap analysis report in 2016, a disaster risk database starting in 2017 and a baseline DRF framework for APEC economies in 2018.* The work of this expert group should be focused on knowledge sharing to help member economies design effective DRF schemes. This work includes conducting a gap analysis of existing disaster insurance and relief mechanisms in disaster prone economies and identification of priority areas; creation of an expert group from finance and relevant ministries with clear objectives; participation of experts, originators and risk modelers from industry and academia; learning from experiences outside the region; identification of areas where disaster insurance needs to be made more available and affordable; periodical follow-up of progress; and consideration of a baseline framework to facilitate DRF implementation.
- *Promote the accumulation of long-term capital in pension funds through retirement income market reforms.* This involves promoting demand for retirement savings as well as wider access to and supply of retirement income products. To promote demand for retirement savings, governments should identify and adopt policies related to consumer education, tax measures, mandatory provisions, distribution channels and product design. To promote retirement income product supply, policy makers and the private sector should collaborate to ensure that this is supported by policy, regulatory and accounting frameworks related to capital markets, long-term investments and risk management..

- *Identify and address regulatory and accounting issues that affect insurers' incentives to undertake long-term investment in infrastructure and capital markets.* Regulatory issues include bank-centric regulations, short-term oriented economic regimes and one-size-fits-all models that do not fit different business models across the region. Accounting issues include those affecting asset-liability interactions that produce volatility in balance sheets and profit and loss statements, as well as issues related to complexity, consistency, transition and presentation of traditional long-duration contracts.
- *Identify best practices in promoting private funds for equity investment in infrastructure involving public-private collaboration.* This involves exploring collaboration among institutional investors, financial institutions and multilateral development agencies and private equity funds. One example of a partnership among parties including a multilateral agency, a foreign and local pension fund and an infrastructure asset management firm is the Philippine Investment Alliance for Infrastructure (PINAI), which is now investing in energy projects.
- *Undertake various activities to support the development of microinsurance.* These include partnering with multilateral institutions, including the Asian Development Bank; collaborating with the Access to Insurance Initiative (A2ii) in Latin America; creating a list of contact persons in member entities through various outreach activities; collaborating with the Microinsurance Network on international activities such as the Global Financial Inclusion Initiative (GFII) and its development in APEC member economies; exploring partnerships with relevant institutions in holding regional or domestic workshops; participating in APEC/APFF forums and seminars that include microinsurance; and providing inputs to the Cebu Action Plan and APEC, ABAC and APFF events.
- *Undertake public-private sector workshops regionally and in individual economies to facilitate policy reforms and measures to promote the effective use of hedging instruments and risk management tools and fostering a more diverse investor and issuer base, through the APFF.* These should focus on promoting legal and regulatory reforms and capacity building to accelerate the development of repo and derivatives markets; improving the availability of relevant information needed by capital market investors on issuer disclosure, bond market data and investor rights in insolvency to more confidently expand their activities across the region; and promoting the development of financial market infrastructure and practices to facilitate greater cross-border portfolio investments.
- *Ensure the successful launch of the Asia Region Funds Passport (ARFP) through the facilitation of its early enlargement* to include a critical mass of participating jurisdictions, as well as its interoperability with other regional mutual recognition frameworks, using the APFF as a platform for undertaking discussions among finance and financial regulators, the private sector and international organizations on these issues.
- *Convene regular APFF Roundtables* to promote more active involvement of APEC financial market regulators in discussions on global rules that affect financial markets and services and their implementation across the region in support of APEC's economic objectives and regional integration, as well as effective mechanisms for industry to contribute to the development of sound and effective financial regulatory frameworks, robust risk management in financial institutions and expanded access to finance.

This year, the APEC Finance Ministers will launch the Cebu Action Plan (CAP) to guide the work of the Finance Ministers' Process over the next several years in promoting stronger, more sustainable and more balanced growth in the region. Institutions collaborating in the APFF have actively contributed to discussions that have informed many aspects of the CAP, which also reflect many of the aspirations of the initiatives that are being proposed in this 2015 APFF Progress Report.

With these proposals, the APFF hopes to provide a platform for collaboration to achieve tangible outcomes over the next few years that would have significant impact on the development of financial markets and services in our region, ultimately contributing to advancing the Finance Ministers' vision for the region. Greater access to finance for a wider cross-section of society and MSMEs, including those engaged in global supply chains, more diverse and stable financial systems, deeper and more liquid capital markets, greater regional financial integration and more effective and efficient intermediation of capital, particularly long-term investments into long-term assets such as infrastructure, can result from these efforts.

The success of these undertakings will depend on active participation and engagement from the public sector. APFF intends to provide a forum and informal network for dialogue and capacity building where they can interact on a regular and sustained basis with experts in relevant specialized and technical fields from the private sector and international and academic organizations. The APFF looks forward to close collaboration with the APEC Finance Ministers in advancing the initiatives of the Cebu Action Plan.

For further information, please contact the APFF Coordinator, Dr. Julius Caesar Parreñas, Senior Advisor, Nomura Securities Co Ltd and Nomura Institute of Capital Markets Research (Tel +81-3-5255-9611; Email parrenas-2p7d@jp.nomura.com).

APPENDIX A
List of Abbreviations

LIST OF ABBREVIATIONS

ABAC	APEC Business Advisory Council
ADB	Asian Development Bank
AIC	ASEAN Insurance Council
AML	Anti-Money Laundering
APEC	Asia-Pacific Economic Cooperation
APFF	Asia-Pacific Financial Forum
ARFP	Asia Region Funds Passport
ASEAN	Association of South East Asian Nations
ASIFMA	Asia Securities Industry and Financial Markets Association
ASSAL	Asociación de Supervisores de Seguros de América Latina
B2B	Business-to-business
B2C	Business-to-consumer
BCBS	Basel Committee on Banking Supervision
BCP	Business Continuity Plan
BPO	Bank Payment Obligation
CAP	Cebu Action Plan
CDD	Customer Due Diligence
CGAP	Consultative Group to Assist the Poor
CIS	Collective Investment Scheme
DRF	Disaster Risk Financing
eB/L	Electronic Bill of Lading
ESMA	European Securities and Markets Authority
FASB	Financial Accounting Standards Board
FATF	Financial Action Task Force
FIDES	Federación Interamericana de Seguros
FIDN	Financial Infrastructure Development Network
FMI	Financial Market Infrastructure
FMP	Finance Ministers' Process
FSB	Financial Stability Board
G20	Group of 20
GAAP	Generally Accepted Accounting Principles
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
ICMA	International Capital Market Association
IFC	International Finance Corporation
IIF	Institute of International Finance
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
JICA	Japan International Cooperation Agency
KYC	Know Your Customer
LIFE	Life and Health Insurance Foundation for Education
LIMRA	Life Insurance and Market Research Association
MSME	Micro-, Small and Medium Enterprises
NAIC	National Association of Insurance Commissioners
OCI	Other Comprehensive Income
OECD	Organisation for Economic Co-operation and Development
OTC	Over the Counter
PERC	Policy and Economic Research Council
PINAI	Philippine Investment Alliance for Infrastructure

PPP	Public-Private Partnership
SME	Small and Medium Enterprises
SPV	Special Purpose Vehicle
STP	Straight-Through Processing
UCITS	Undertakings for Collective Investment in Transferable Securities

APPENDIX B

SELF-ASSESSMENT TEMPLATES

To Promote the Availability of Information for Capital Market Investors

Disclosure

Bond Market Data

Investor Rights in Insolvency

Disclosure

Disclosures – Two-phase approach

- » Phase 1 – Compare the disclosure requirements required by various regulators in Asia Pacific
- » Phase 2 – Develop a questionnaire to seek comments from investors as to what disclosures should be made from investors' perspective

Disclosure Self-Assessment Template

The disclosures focus on the following 11 areas:

1. Investors' risk
2. Credit rating information of bond issuers
3. Bond issuer's ability to pay principal and interest
4. Business model of issuer
5. History of bond issuers' breach of loan covenants
6. Non-GAAP measures (e.g. requirement to disclose gross profit, EBITDA etc.)
7. Related/connected party transactions/balances
8. Corporate structure of bond issuers
9. Use of bond issue proceeds
10. Terms and conditions of the debt securities
11. Location and format of above information
12. Others

1. Investors' risk

<p>Does the economy require any disclosures regarding the nature and extent of investors' exposure?</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	
<p>If yes, what are they?</p> <p>Please specify. Please also include the source of requirements (e.g. references to the applicable listing rules).</p>		<p>Opportunity to provide further detail.</p>
<p>What is the common practice in the jurisdiction?</p> <p>In particular, what additional disclosures do bond issuers make in the jurisdiction (in addition to those required by regulators)?</p>		<p>Opportunity to provide further detail.</p>

2. Credit rating information of bond issuers

<p>Does the economy require any disclosures regarding credit rating information of bond issuers?</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	
<p>If yes, what are they?</p> <p>Please specify. Please also include the source of requirements (e.g. references to the applicable listing rules).</p>		<p>Opportunity to provide further detail.</p>
<p>What is the common practice in the jurisdiction?</p> <p>In particular, what additional disclosures do bond issuers make in the jurisdiction (in addition to those required by regulators)?</p>		<p>Opportunity to provide further detail.</p>

3. Bond issuer's ability to pay principal and interest

<p>Does the economy require any disclosures regarding the bond issuers' ability to pay principal and interest?</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	
<p>If yes, what are they?</p> <p>Please specify. Please also include the source of requirements (e.g. references to the applicable listing rules).</p>		<p>Opportunity to provide further detail.</p>
<p>What is the common practice in the jurisdiction?</p> <p>In particular, what additional disclosures do bond issuers make in the jurisdiction (in addition to those required by regulators)?</p>		<p>Opportunity to provide further detail.</p>

4. Business Model of Issuer

<p>Does the economy require any disclosures regarding the business model and nature of business of the issuer?</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	
<p>If yes, what are they?</p> <p>Please specify. Please also include the source of requirements (e.g. references to the applicable listing rules).</p>		<p>Opportunity to provide further detail.</p>
<p>What is the common practice in the jurisdiction?</p> <p>In particular, what additional disclosures do bond issuers make in the jurisdiction (in addition to those required by regulators)?</p>		<p>Opportunity to provide further detail.</p>

5. History of bond issuers' breach of loan covenants

<p>Does the economy require any disclosures regarding history of bond issuers' breach of loan covenants?</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	
<p>If yes, what are they?</p> <p>Please specify. Please also include the source of requirements (e.g. references to the applicable listing rules).</p>		<p>Opportunity to provide further detail.</p>
<p>What is the common practice in the jurisdiction?</p> <p>In particular, what additional disclosures do bond issuers make in the jurisdiction (in addition to those required by regulators)?</p>		<p>Opportunity to provide further detail.</p>

6. Non-GAAP measures (e.g. requirement to disclose gross profit, EBITDA etc.)

<p>Does the economy require any line items to be disclosed (e.g. EBITA etc.)?</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	
<p>If yes, what are they?</p> <p>Please specify. Please also include the source of requirements (e.g. references to the applicable listing rules).</p>		<p>Opportunity to provide further detail.</p>
<p>What is the common practice in the jurisdiction?</p> <p>In particular, what additional disclosures do bond issuers make in the jurisdiction (in addition to those required by regulators)?</p>		<p>Opportunity to provide further detail.</p>

7. Related/connected party transactions/balances

<p>Does the economy require any disclosures regarding related/connected party transactions/balances?</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No	
<p>If yes, what are they?</p> <p>Please specify. These could, for example, include the amount involved, relationships with the issuer and nature of the transactions. Please also include the source of requirements (e.g. references to the applicable listing rules).</p>		<p>Opportunity to provide further detail.</p>
<p>What is the common practice in the jurisdiction?</p> <p>In particular, what additional disclosures do bond issuers make in the jurisdiction (in addition to those required by regulators)?</p>		<p>Opportunity to provide further detail.</p>

8. Corporate structure of bond issuers

<p>Does the economy require any disclosures regarding the corporate structure of the bond issuer (e.g. any special purpose vehicles established)?</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No	
<p>If yes, what are they?</p> <p>Please specify. Please also include the source of requirements (e.g. references to the applicable listing rules).</p>		<p>Opportunity to provide further detail.</p>
<p>What is the common practice in the jurisdiction?</p> <p>In particular, what additional disclosures do bond issuers make in the jurisdiction (in addition to those required by regulators)?</p>		<p>Opportunity to provide further detail.</p>

9. Use of bond issue proceeds

<p>Does the economy require any disclosures regarding the use of bond issue proceeds?</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	
<p>If yes, what are they?</p> <p>Please specify. Please also include the source of requirements (e.g. references to the applicable listing rules).</p>		<p>Opportunity to provide further detail.</p>
<p>What is the common practice in the jurisdiction?</p> <p>In particular, what additional disclosures do bond issuers make in the jurisdiction (in addition to those required by regulators)?</p>		<p>Opportunity to provide further detail.</p>

10. Terms and conditions of debt securities

<p>Does the economy require any disclosures regarding terms and conditions of the debt securities?</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	
<p>If yes, what are they?</p> <p>Please specify. Please also include the source of requirements (e.g. references to the applicable listing rules).</p>		<p>Opportunity to provide further detail.</p>
<p>What is the common practice in the jurisdiction?</p> <p>In particular, what additional disclosures do bond issuers make in the jurisdiction (in addition to those required by regulators)?</p>		<p>Opportunity to provide further detail.</p>

11. Location and format of above information

<p>In what format is the above information kept?</p> <p>Check all that apply.</p>	<input type="checkbox"/> Electronic <input type="checkbox"/> Hard Copy	<p>Opportunity to provide further detail.</p>
<p>Where is the information stored?</p> <p>Please clarify in third column website, location or other details.</p>	<input type="checkbox"/> Web site <input type="checkbox"/> Government offices <input type="checkbox"/> Other	<p>Opportunity to provide further detail.</p>
<p>Who may access the information?</p> <p>Check all that apply.</p>	<input type="checkbox"/> Government officials <input type="checkbox"/> Company officials <input type="checkbox"/> General public <input type="checkbox"/> Legal professionals <input type="checkbox"/> Financial professionals	<p>Opportunity to provide further detail.</p>

12. Other information

<p>Does the economy require any other disclosures regarding bond issue?</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No	
<p>If yes, what are they?</p> <p>Please specify. Please also include the source of requirements (e.g. references to the applicable listing rules).</p>		<p>Opportunity to provide further detail.</p>
<p>What is the common practice in the jurisdiction?</p> <p>In particular, what additional disclosures do bond issuers make in the jurisdiction (in addition to those required by regulators)?</p>		<p>Opportunity to provide further detail.</p>

This template was made with contributions from:

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- » PricewaterhouseCoopers
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- » Standard Chartered Bank
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Bond Market Data Self-Assessment Template

Below is a list of types of bond information that may be useful for market participants when making investment decisions. While the list is broad, it should be recognized that governments may not always be in a position to provide certain types of information, such as information on corporate bond yield curves. In some cases, private enterprises including EPFR and Bloomberg have undertaken to provide investors with information that is not necessarily available from public sources. However, it is also important to note that often these are subject to fees.

Ratings Guide (See annexes for further detail and definitions)

5 – Data is freely available to the public and is reported on a timely basis

4 – Data is available to the public subject to fees/subscription; and is reported on a timely basis

3 – Data is available to the public but is not available on a timely basis

2 – Data is being collected; but not available to the public.

1 – Data is not available and is not being collected.

0 – N/A

	5	4	3	2	1	0	OPPORTUNITY TO PROVIDE FURTHER DETAIL
I. Total Bonds Outstanding Information on the total bonds outstanding is helpful for investors for two reasons. From a credit risk standpoint, knowing total bonds outstanding also helps assess the overall indebtedness of the country. Also, the size of the market is also helpful in terms of liquidity. The bigger the bond market, the easier it is to accommodate large fund managers.							
a. <u>Aggregate Government</u> Is information on the total bonds outstanding available by the following categories?							
1. Treasury Bonds							
2. Central Bank Bonds							
3. Local Government Bonds							
4. Government Agencies							
5. Government-owned or controlled Corporations							

	5	4	3	2	1	0	OPPORTUNITY TO PROVIDE FURTHER DETAIL
b. <u>Aggregate Corporate</u> Is information on the total bonds outstanding available by the following categories?							
1. Commercial Papers							
2. Senior Corporate Bonds							
3. Subordinated Bonds							
4. Callable/Puttable Bonds							
5. Asset-backed							
6. Combination							
c. <u>By Rating (Corporate Bonds)</u> Rating distribution of corporate bond market is helpful also as it helps gauge the credit risk of the corporate bond market. Please identify whether information on total bonds outstanding is available sorted by this metric.							
d. <u>By Tenor</u> Tenor is important as different investors have different duration requirements. Please specify whether the information on total bonds outstanding categorized by the following types of tenor.							
i. <u>Aggregate Government</u>							
1. Original Maturity							
2. Original Maturity to Put/Call Date							
3. Remaining Maturity							
4. Remaining Maturity to Put/Call Date							
ii. <u>Aggregate Corporate</u>							
1. Original Maturity							
2. Original Maturity to Put/Call Date							
3. Remaining Maturity							
4. Remaining Maturity to Put/Call Date							

	5	4	3	2	1	0	OPPORTUNITY TO PROVIDE FURTHER DETAIL
<p>e. <u>By Sector (Corporate Bonds)</u> A breakdown is useful as corporate bonds are not homogenous. For example, an industry breakdown is useful as some investors seek exposure to certain industries or seek to limit them. Please identify whether information on total bonds outstanding is available sorted by the following sectors.</p>							
1. Exchange-listed Bonds							
2. Government-owned							
3. Industry							
4. Issuer Listing on Stock Exchange							
<p>f. <u>Investor Profile</u> Diversity of the investor base is also important as it helps in funding diversity. The percentage of "real" versus "fast" money is helpful as investments by "real" money tends to be less volatile. Also, knowing if there are foreign investors helps gauge risk of capital flight. Investor profiles can also be broken down by bond types, similar to the discussion above. Please identify whether information on total bonds outstanding is available sorted by this metric.</p>							
i. Aggregate Government							
1. Treasury Bonds							
2. Central Bank Bonds							
3. Local Government Bonds							
4. Government Agencies							
5. Government-owned or controlled Corporations							
ii. Aggregate Corporate							
1. Commercial Papers							
2. Senior Corporate Bonds							

	5	4	3	2	1	0	OPPORTUNITY TO PROVIDE FURTHER DETAIL
3. Subordinated Bonds							
4. Callable/Puttable Bonds							
5. Industry							
6. Asset-backed							
7. Combination							
II. Issuance Data Issuance data is important as it helps gauge the existing liquidity of the market. Large issuances in the best may suggest that either liquidity is ample or may indicate that future liquidity may be constrained due to the "crowding out" effect.							
a. <u>Aggregate Government</u> Is issuance data available by the following categories?							
1. Treasury Bonds							
2. Central Bank Bonds							
3. Local Government Bonds							
4. Government Agencies							
5. Government-owned or controlled Corporations							
b. <u>Aggregate Corporate</u> Is issuance data available by the following categories?							
1. Commercial Papers							
2. Senior Corporate Bonds							
3. Subordinated Bonds							
4. Callable/Puttable Bonds							
5. Asset-backed							
6. Industry							

	5	4	3	2	1	0	OPPORTUNITY TO PROVIDE FURTHER DETAIL
7. Exchange-listed							
8. Government-owned							
9. Exchange-listed Bonds							
10. Government-owned							
11. Industry							
12. Issuer Listing on Stock Exchange							
c. <u>By Rating (Corporate Bonds)</u> Ratings distribution is helpful as it helps identify if there is a good mix of different credit types or the risk of credit bubbles For example, if issuances of lower-rated issuers have been increasing. Is issuance data available sorted by rating?							
d. <u>By Tenor</u> This is helpful as it determines if issuers have been lengthening or shortening their maturity profiles which helps in the assessment of funding risk in the future. Please specify whether the information on issuance data is categorized by the following types of tenor.							
i. Aggregate Government							
1. Treasury Bonds							
2. Central Bank Bonds							
3. Local Government Bonds							
4. Government Agencies							
5. Government-owned or controlled Corporations							
ii. Aggregate Corporate							
1. Commercial Papers							
2. Senior Corporate Bonds							
3. Subordinated Bonds							

	5	4	3	2	1	0	OPPORTUNITY TO PROVIDE FURTHER DETAIL
4. Callable/Puttable Bonds							
5. Industry							
6. Exchange-listed							
7. Government-owned							
8. Asset-backed							
9. Combination							
III. Yield Curve Having an available yield curve is useful for investors as it helps them assess the relative attractiveness of different bond markets. Yield curves are also important as it is used for valuation of not only bonds but also for derivative instruments such as swaps.							
a. <u>Government Yield Curves</u> Government yield curves are important as they are not only used for evaluating investments in government bonds but as the benchmark risk-free rate yield curves, used for pricing of corporate bonds, equity investments and derivative instruments. Is the following yield curve information available?							
1. Historical Data							
2. Treasury Bonds							
3. Central Bank Bonds							
4. Local Government Bonds							
5. Government Agencies							
6. Government-owned or controlled Corporations							

	5	4	3	2	1	0	OPPORTUNITY TO PROVIDE FURTHER DETAIL
b. <u>Corporate Yield Curves</u> Corporate yield curves are helpful to assess credit spreads. It can be used for pricing/evaluating corporate bond investments for a given rating such as for issuance or if a certain corporate bond is overpriced or underpriced. Is the following yield curve information available?							
1. Historical Data							
2. Commercial Papers							
3. Senior Corporate Bonds							
4. Subordinated Bonds							
5. Callable/Puttable Bonds							
6. Industry							
7. Asset-backed							
8. By Rating							
c. <u>Individual Bond Prices</u> Individual bond prices will be helpful for investors as they seek evaluate individual bonds or companies. They also help monitor investment performance or value existing investments. Is the following yield curve information available?							
1. Government							
2. Corporate							

	5	4	3	2	1	0	OPPORTUNITY TO PROVIDE FURTHER DETAIL
IV. Foreign Fund Flow Data Foreign Fund Flow Data refers to investment flows by foreign investors. This indicator will help assess the degree of vulnerability of a particular market with respect to "flight to quality". This again can be broken down into bond types. Portfolio flows can also be identified by country. This will identify which countries have excess liquidity and have been investing outside and help highlight if there are risks should certain countries decide to tighten monetary policy and will determine if fund outflows will be likely. Please note whether fund flow data is available in the following categories.							
i. Aggregate Government							
1. Treasury Bonds							
2. Central Bank Bonds							
3. Local Government Bonds							
4. Government Agencies							
5. Government-owned or controlled Corporations							
6. Country							
7. Maturity Profile							
ii. Aggregate Corporate							
1. Commercial Papers							
2. Corporate Bonds							
3. Subordinated Bonds							
4. Callable/Puttable Bonds							
5. Combination							
6. Industry							
7. Country							
8. Maturity Profile							

	5	4	3	2	1	0	OPPORTUNITY TO PROVIDE FURTHER DETAIL
V. Liquidity Liquidity is an important metric as it determines the ability of a market to absorb fund movements. If liquidity is too low, investors will have difficulty in exiting their investments in a timely manner. Also, ample liquidity helps attract large funds. Similar to the other discussion, liquidity factors can be broken out into the different bond types.							
a. <u>Trading Volume</u> This is the absolute size of trade volumes is helpful to determine the size of the secondary market and if it is able to accommodate large placements. Is trading volume data available by the following categories?							
i. Aggregate Government							
1. Treasury Bonds							
2. Central Bank Bonds							
3. Local Government Bonds							
4. Government Agencies							
5. Government-owned or controlled Corporations							
ii. Aggregate Corporate							
1. Commercial Papers							
2. Corporate Bonds							
3. Subordinated Bonds							
4. Callable/Puttable Bonds							
5. Industry							
b. <u>Bid-ask Spreads</u> This metric helps investors assess the costs of trading and lower costs while indicating a more or less liquid market. Are bid-ask spreads available for the following categories?							

	5	4	3	2	1	0	OPPORTUNITY TO PROVIDE FURTHER DETAIL
i. Aggregate Government							
1. Treasury Bonds							
2. Central Bank Bonds							
3. Local Government Bonds							
4. Government Agencies							
5. Government-owned or controlled Corporations							
ii. Aggregate Corporate							
1. Commercial Papers							
2. Corporate Bonds							
3. Subordinated Bonds							
4. Callable/Puttable Bonds							
5. Industry							
6. Combination							
c. <u>Turnover Ratios</u> This provides information on how active the market is as absolute trading volume is related to outstanding bond size. Are turnover ratios available for the following categories?							
i. Aggregate Government							
1. Treasury Bonds							
2. Central Bank Bonds							
3. Local Government Bonds							
4. Government Agencies							
5. Government-owned or controlled Corporations							

	5	4	3	2	1	0	OPPORTUNITY TO PROVIDE FURTHER DETAIL
ii. Aggregate Corporate							
1. Commercial Papers							
2. Corporate Bonds							
3. Subordinated Bonds							
4. Callable/Puttable Bonds							
5. Combination							
6. Industry							

ANNEX 1 – RATING EXPLANATIONS

5 – DATA IS FREELY AVAILABLE TO THE PUBLIC AND IS REPORTED ON A TIMELY BASIS

A rank of 5 is for data that the investor is seeking (such as foreign investor holdings) that is readily available to investors such as through public websites or is regularly published such as through newsletters or in daily newspapers at little or no cost to the investor. Timeliness refers to how quickly the data is available after the time period coverage of the data. How soon the data is available to be considered timely will depend on the type of data and is best determined based on how the data will be used as opposed to a fixed rule (ie. 1 month after). For example, daily trading prices for bonds may best be released within the day or at least one day after to be relevant for investors (ie. For daily marking-to-market) but aggregate outstanding bond for the month could be delayed by weeks and still be acceptable to investors.

4 – DATA IS AVAILABLE TO THE PUBLIC SUBJECT TO FEES/SUBSCRIPTION; AND IS REPORTED ON A TIMELY BASIS

For a rank of 4, the timeliness factor is similar to that of a ranking of 5, however the data cannot be acquired without significant cost to the investor. Cost may be defined in terms of monetary cost and in terms of time or effort that the investor spends in acquiring the information. For monetary cost, the data may require subscription or purchase from exchanges or agencies. Time or effort may be defined as some data may be readily available in government agencies, but obtaining the data may require physical trips to where the data can be obtained and a lengthy application process.

3 – DATA IS AVAILABLE TO THE PUBLIC BUT IS NOT AVAILABLE ON A TIMELY BASIS

For a rank of 3, the data is freely available similar to a ranking of 5, however the data is not released on a timely basis. As in the prior discussion, timeliness will depend on the type of data and the investor will need to determine in the release date will result in data that is "stale" or no longer useful to investors. For example, data such as foreign investor fund flow is useful for investors, but if not reported on a timely basis may be useless to the investor. For example, data for a particular period may show substantial foreign fund inflows but if the data is several months late, the situation may have already changed and the market is now seeing foreign fund outflows.

2 – DATA IS BEING COLLECTED; BUT NOT AVAILABLE TO THE PUBLIC

For a rank of 2, the data is not available to investors but is being collected. This refers to data that may be used internally by the government or is collected by government agencies but is not released to the public. For example, data on investor holdings may be available to exchanges or bond agencies but is not made available to investors.

1 – DATA IS NOT AVAILABLE AND IS NOT BEING COLLECTED

For a rank of 1, the data is not only not available to investors but is also not being actively gathered by agencies. This is common with transactions that are bilateral in nature. For example, if bonds are not traded on an exchange and trades are done on an OTC basis, the data may not be readily available and will require surveys or self-reporting in order to collect the data.

0 – N/A

For a rank of 0, it means that the data is not available as not applicable for that particular market. For example, foreign investor holding or investment flow data for countries with a closed capital account or corporate bond data in markets where regulations disallow corporate bond issuance (or regulations for the issuance of corporate bonds have not yet been developed)

Bond Market Data

Below is a list of types of bond information that may be useful for market participants when making investment decisions. While the list is broad, it should be recognized that governments may not always be in a position to provide certain types of information, such as information on corporate bond yield curves. In some cases, private enterprises including EPFR and Bloomberg have undertaken to provide investors with information that is not necessarily available from public sources. However, it is also important to note that often these are subject to fees.

I. Total Bonds Outstanding

Information on the total bonds outstanding is helpful for investors for two reasons. From a credit risk standpoint, knowing total bonds outstanding also helps assess the overall indebtedness of the country. Also, the size of the market is also helpful in terms of liquidity. The bigger the bond market, the easier it is to accommodate large fund managers.

- a. Government/Corporate – Breaking down the bonds outstanding between government and corporate bonds is helpful as investors may only be interested in one of these markets. The government and corporate categories can also be broken down to provide more granularity. Knowing the breakdown is helpful as characteristics of bonds may be different and it aids in identifying risks in particular sectors. For example, local government bonds or municipal bonds may not necessarily enjoy the same level of credit standing as the central government.
 - i. Government Bonds
 1. Treasury Bonds – Bonds issued by the central government, typically for budget purposes
 2. Central Bank Bonds – Bonds issued by the central bank, normally done to control liquidity or the money supply
 3. Local Government Bonds – Bonds issued by local government units
 4. Government Agencies/Government Owned-Controlled Corporations – Some government agencies or government-owned corporations issue bonds directly and in some cases can carry guarantees from the central government.
 - ii. Corporate Bonds
 1. Commercial Papers – Short-term debt, usually issued in money markets
 2. Senior Corporate Bonds – Senior corporate debt has priority in claims over subordinated debt.
 3. Subordinated Corporate Bonds – Subordinated debt tends to have lower priority. Banks commonly issue these in order to raise capital to meet Basel requirements.
 4. Callable/Puttable Bonds – Bonds that have embedded options. There is some overlap as subordinated debt typically has a call option included.
 5. Asset-backed Bonds – Bonds that have been collateralized with some type of asset. Examples include mortgage-backed securities or covered bonds.
 6. Combination - In practice, different types of features can be combined. For example, Tier 2 securities are a combination of subordination and a call feature. Other types may also be created such as an asset-backed bond that is callable.
- b. By Rating – Rating distribution of corporate bond market is helpful also as it helps gauge the credit risk of the corporate bond market.
- c. By Tenor – Tenor is important as different investors have different duration requirements. For example, insurance companies seek longer term investments while individuals typically prefer shorter term investments.

Tenor can also be broken down into:

i. Original Maturity

1. Original maturity based on maturity date.
2. Original maturity based on call date/put date

ii. Remaining Maturity

1. Remaining maturity based on maturity date
2. Remaining maturity based on call date/put date.

Liquidity can sometimes differ by the original maturity of the bond and some investors focus on certain maturities as noted above. Remaining maturity is also helpful as it helps identify funding risk. If the average remaining maturity is lower, then the bond market may have some liquidity risk as additional funding will be required when the bonds mature. In addition, the maturity dates may also be subdivided based on call or put dates. This is helpful as it will allow investors to better assess funding risk or investment risk should the bonds be called or redeemed early.

d. By Sector – A breakdown is useful as corporate bonds are not homogenous. For example, an industry breakdown is useful as some investors seek exposure to certain industries or seek to limit them.

- i. Exchange-listed – In some markets, bonds are listed on exchanges and may enjoy greater liquidity and price transparency versus over-the-counter bonds.
- ii. Government-owned – Some companies are government-owned or controlled. For these companies, they may enjoy some type of government support that will reduce credit risk.
- iii. Industry – Identifying bonds by sector determines which industries are issuing bonds, which provides information on concentration risk or industries that require greater amounts of funding.
- iv. Issuers listed on Stock Exchange – The equity securities of some bond issuers are listed on exchanges. This reduces funding risks for issuers as they will have access to other forms of capital. Also, transparency tends to be greater for exchange-listed companies.

e. Investor Profile – Diversity of the investor base is also important as it helps in funding diversity. The percentage of “real” versus “fast” money is helpful as investments by “real” money tends to be less volatile. Also, knowing if there are foreign investors helps gauge risk of capital flight. Investor profiles can also be broken down by bond types, similar to the discussion above.

i. Government Bonds

1. Treasury Bonds
2. Central Bank Bonds
3. Local Government Bonds
4. Government Agencies/Government Owned-Controlled Corporations

ii. Corporate Bonds

1. Commercial Papers
2. Senior Corporate Bonds
3. Subordinated Corporate Bonds
4. Callable/Puttable Bonds
5. Asset-backed

II. Issuance Data

Issuance data is important also as it helps gauge the existing liquidity of the market. Large issuances in the best may suggest that either liquidity is ample or may indicate that future liquidity may be constrained due to the “crowding out” effect.

- i. Government/Corporate – A distinction between government and corporate bond issuance is helpful as the two markets may be distinct. Government issuance is also helpful for estimating how much of funding needs have been met or can be examined versus government budget performance. This can be broken down further into different types:
 1. Government Bonds (see prior discussion)
 - a. Treasury Bonds
 - b. Central Bank Bonds
 - c. Local Government Bonds
 - d. Government Agencies/Government Owned-Controlled Corporations
 2. Corporate Bonds
 - a. Commercial Papers
 - b. Senior Corporate Bonds
 - c. Subordinated Corporate Bonds
 - d. Callable/Puttable Bonds
 - e. Asset-backed
 - f. Industry
 - g. Exchange-listed
 - h. Government-owned
 - i. Issuers Listed on Stock Exchange
- ii. By Rating – Ratings distribution is helpful as it helps identify if there is a good mix of different credit types or the risk of credit bubbles. For example, if issuances of lower-rated issuers have been increasing.
- iii. By Tenor – This is helpful as it determines if issuers have been lengthening or shortening their maturity profiles which helps in the assessment of funding risk in the future.

III. Yield Curve

Having an available yield curve is useful for investors as it helps them assess the relative attractiveness of different bond markets. Yield curves are also important as it is used for valuation of not only bonds but also for derivative instruments such as swaps.

- a. Government Yield Curves – Government yield curves are important as they are not only used for evaluating investments in government bonds but as the benchmark risk-free rate yield curves, used for pricing of corporate bonds, equity investments and derivative instruments.
- b. Corporate Yield Curves – Corporate yield curves are helpful to assess credit spreads. It can be used for pricing/evaluating corporate bond investments for a given rating such as for issuance or if a certain corporate bond is overpriced or underpriced.
- c. Individual Bond Prices – Individual bond prices will be helpful for investors as they seek evaluate individual bonds or companies. They also help monitor investment performance or value existing investments.

The yield curve information can also be broken down into the different bond types to provide additional information on pricing. In addition to type, providing historical data on yields is helpful to help assess in scenarios such as stress or scenario-testing or providing data for economic models. It can also be used for marking-to-market by institutions.

IV. Foreign Fund Flow Data

Foreign Fund Flow Data refers to investment flows by foreign investors. This indicator will help assess the degree of vulnerability of a particular market with respect to "flight to quality". This again can be broken down into bond types. Portfolio flows can also be identified by country. This will identify which countries have excess liquidity and have been investing outside and help highlight if there are risks should certain countries decide to tighten monetary policy and will determine if fund outflows will be likely.

V. Liquidity

Liquidity is an important metric as it determines the ability of a market to absorb fund movements. If liquidity is too low, investors will have difficulty in exiting their investments in a timely manner. Also, ample liquidity helps attract large funds. Similar to the other discussion, liquidity factors can be broken out into the different bond types.

- a. Trading Volume – Absolute size of trade volumes is helpful to determine the size of the secondary market and if it is able to accommodate large placements.
- b. Bid-ask spreads – Helps investors assess the costs of trading and lower costs while indicating a more or less liquid market.
- c. Turnover Ratio – Provides information on how active the market is as absolute trading volume is related to outstanding bond size.

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For a work stream within the Asia-Pacific Financial Forum, an initiative under the Asia-Pacific Economic Cooperation (APEC) Business Advisory Council.

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Investor Rights in Insolvency Self-Assessment Template

This template examines the ease of access investors have to information concerning their rights in insolvency. We have identified the following areas for consideration:

1. Contract enforcement and dispute resolution
2. Rights of creditors
3. Coverage of the established insolvency law
4. Timing of cases
5. Additional Information in relation to collective insolvency proceedings
6. Supporting regulations and procedures
7. Local participants

1. Contract enforcement and dispute resolution

<p>Is there an opportunity to be heard in court?</p> <p>Explanation: In most civil law jurisdictions, all pleadings and submissions are in writing. In common law jurisdictions parties exchange pleadings and documentation but then present oral submissions to the court. Hence the question.</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No	<p>Opportunity to provide further detail.</p>
<p>On average, how quickly do cases come to court?</p> <p>Explanation: This is a key practical consideration.</p>	<input type="checkbox"/> Less than six months <input type="checkbox"/> Six months to one year <input type="checkbox"/> One to three years <input type="checkbox"/> Three to five years <input type="checkbox"/> More than five years	<p>Opportunity to provide further detail. (Please provide data to support your answer.)</p>
<p>Availability of collateral and its enforcement</p> <p>Explanation: (a) How easy and effective is it to take interests in collateral? and (b) if there is a breach of the underlying obligations, how easy and effective is it for the holder of the security to enforce its rights against that collateral?</p>	<p>Does the regime allow for the establishment of security/collateral?</p> <input type="checkbox"/> Yes <input type="checkbox"/> No <p>Does enforcement of collateral require a court process?</p> <input type="checkbox"/> Yes <input type="checkbox"/> No <p>On a scale of 1 to 10 (10 being the easiest), how easy is it to enforce interests/ repossess collateral in a timely fashion and make a meaningful recovery?</p>	<p>Opportunity to provide further detail. (Please provide evidence to support the scale rating with respect to collateral enforcement)</p>
<p>Are there separate laws and/or provisions for cross-border insolvencies?</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No <p>Date enacted:</p>	<p>Opportunity to provide further detail. (Please provide information on the relevant laws and/or provisions if yes.)</p>

<p>Availability of real property ownership and mechanisms to support its use</p> <p>Explanation: If I own a property or as a lender have taken security over a property, can I establish that fact to the outside world?</p>	<p>Who may own property (check all that apply)?</p> <p><input type="checkbox"/> Local individuals <input type="checkbox"/> Foreign individuals <input type="checkbox"/> Local companies <input type="checkbox"/> Foreign companies</p> <p>Is ownership evidenced through a transferable title evidence of which is available to third parties?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Is it easy to create a valid mortgage encumbrance whereby a lender can establish rights to the property?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>Opportunity to provide further detail.</p>
<p>The ability to take mortgages and fixed and floating legal charges</p>	<p>Does the law permit a debtor to transfer title to a creditor while remaining in possession?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Does the law permit creditors to take a fixed charge over real property?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Does the law permit creditors to take a fixed charge over moveable property?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>Opportunity to provide further detail.</p>

<p>Delineated provisions for secured transactions, including security interests in intangible property</p> <p>Explanation: Is there an underlying regime and process that recognizes security as a legal instrument such that any security rights are established to the outside world. Does this cover both tangible securities, e.g. property or real estate, and intangible items, e.g. receivables due from a customer, or intellectual property rights?</p>	<p>Is there an underlying regime and process that recognizes security as a legal instrument such that any security rights are established to the outside world?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Does the regime apply to tangible items such as real estate?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Does the regime apply to transferrable securities?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Does the regime apply to receivables?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Does the regime apply to after-acquired property?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Does the regime apply to intellectual property?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>Opportunity to provide further detail.</p>
<p>Are there effective registration systems to prove the existence of security and related rights to the following assets:</p>	<p>Real property?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Share and asset securities?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Intangibles (such as receivables and intellectual property)?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>Opportunity to provide further detail.</p>
<p>In the absence of the above, please describe any alternative mechanisms for creditors and debtors to resolve their issues.</p>		

2. Rights of creditors

<p>Are rights of creditors acknowledged in legislation?</p> <p>Explanation: Do creditors have legal protection in circumstances where debtors have posted collateral (secured) and in those in which they have not (unsecured)?</p>	<p>Unsecured debt</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Secured debt</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>Opportunity to provide further detail.</p>
<p>When was the relevant legislation enacted?</p> <p>Explanation: The legislation would refer to the attachment and execution of interests and in the granting of security interests/creation of secured transactions.</p>	<p>Date enacted:</p> <p>Subsequent updates:</p>	<p>Opportunity to provide further detail.</p>
<p>How accessible are the relevant legislative documents?</p> <p>Explanation: How easy is it for a local investor or foreign investor to access the pertinent laws regarding its rights?</p>	<p>Language of the law:</p> <p><input type="checkbox"/> Local <input type="checkbox"/> English <input type="checkbox"/> Other</p> <p>Are there official translations?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Form of storage:</p> <p><input type="checkbox"/> Hard copy only <input type="checkbox"/> Electronic <input type="checkbox"/> Electronic & publicly available</p>	<p>Opportunity to provide further detail. Please include any other languages not listed in which the legislation is written or translated.</p>

<p>Do registries exist?</p> <p>Explanation: Are loans above a certain amount required to be reported to a recognised credit registry or database?</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Form of storage:</p> <p><input type="checkbox"/> Hard copy only <input type="checkbox"/> Electronic <input type="checkbox"/> Electronic & publicly available</p> <p>Can the registry be publicly accessed?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Is there a fee payable to access the registry?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>Opportunity to provide further detail.</p>
<p>How efficient are the mechanisms for creditors to exercise their rights?</p> <p>Explanation: These questions revolve around how long it takes a creditor to follow the process of the law and center on transparency, predictability and efficiency.</p>	<p>How long does it take to enforce a judgment?</p> <p><input type="checkbox"/> One to three months <input type="checkbox"/> Three to six months <input type="checkbox"/> Six months to a year <input type="checkbox"/> More than a year (If so, please set forth how long.)</p> <p>How long does it take to get control over collateral?</p> <p><input type="checkbox"/> Less than one month <input type="checkbox"/> One to three months <input type="checkbox"/> Three to six months <input type="checkbox"/> Six months to a year <input type="checkbox"/> More than a year (If so, please set forth how long.)</p> <p>Is judicial assistance necessary for getting control over collateral?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Is it possible to gain rights over future advances after property is acquired?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>Opportunity to provide further detail, particularly if the times are highly variable.</p>

3. Coverage of the established insolvency law

<p>When was the relevant legislation enacted?</p> <p>Explanation: This section refers to law dealing with an established corporate insolvency regime, rescue procedures and the rights of secured creditors.</p>	<p>Date enacted:</p> <p>Subsequent updates:</p>	<p>Opportunity to provide further detail.</p>
<p>On what regime is it based?</p> <p>Explanation: Many insolvency regimes are based on pre-existing ones from more developed markets. Please indicate which, if any.</p>	<p><input type="checkbox"/> English law</p> <p><input type="checkbox"/> U.S. Bankruptcy law</p> <p><input type="checkbox"/> Other</p> <p><input type="checkbox"/> N/A</p>	<p>Opportunity to provide further detail. Please explain if Other is marked.</p>
<p>Does the law apply equally to:</p>	<p>State-owned enterprises?</p> <p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>Large corporations?</p> <p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>Small and medium enterprises?</p> <p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>Listed companies?</p> <p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>Financial institutions?</p> <p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p>	<p>Opportunity to provide further detail. Please explain any situation in which the answer is no.</p>
<p>How accessible are the relevant legislative documents?</p> <p>Explanation: How easy is it for a local investor or foreign investor to access the pertinent laws regarding their rights?</p>	<p>Language of the law:</p> <p><input type="checkbox"/> Local</p> <p><input type="checkbox"/> English</p> <p><input type="checkbox"/> Other</p> <p>Are there official translations?</p> <p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>Form of storage:</p> <p><input type="checkbox"/> Hard copy only</p> <p><input type="checkbox"/> Electronic</p> <p><input type="checkbox"/> Electronic & publicly available</p>	<p>Opportunity to provide further detail. Please include any other languages not listed in which the legislation is written or translated.</p>

<p>How does the law treat creditors in the event of insolvency?</p>	<p>Is there a moratorium at the opening of proceedings providing for a stay on the exercise of security rights?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>If so, does it apply to secured creditors?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>If so, is it just in the case of liquidation or also used for corporate rescues?</p> <p><input type="checkbox"/> Liquidation only <input type="checkbox"/> Liquidation and others</p> <p>Are foreign creditors treated the same as domestic creditors?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No (Please explain in next column.)</p>	<p>Opportunity to provide further detail.</p>
<p>Does the law allow for cramdown procedures?</p> <p>Explanation: Cramdown procedures allow courts to modify terms of a loan over the objection of a party subject to certain conditions with the aim of being equally beneficial to both the creditor and debtor.</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>Opportunity to provide further detail.</p>

4. Timing of cases

<p>Are the commencement criteria clear?</p> <p>Explanation: This, unlike the previous section on timing, refers only to cases brought specifically under an insolvency regime, not just contract enforcement.</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No	<p>Opportunity to provide further detail.</p>
<p>Is there an opportunity to be heard in court?</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No	<p>Opportunity to provide further detail.</p>
<p>How quickly do cases come to court?</p>	<input type="checkbox"/> Less than six months <input type="checkbox"/> Six months to one year <input type="checkbox"/> One to three years <input type="checkbox"/> Three to five years <input type="checkbox"/> More than five years	<p>Opportunity to provide further detail.</p>
<p>How many insolvency cases are commenced annually?</p>	2005 _____ 2006 _____ 2007 _____ 2008 _____ 2009 _____ 2010 _____ 2011 _____ 2012 _____ 2013 _____ 2014 _____	<p>Opportunity to provide further detail.</p>

5. Additional Information in relation to collective insolvency proceedings

<p>Are there detailed commencement criteria?</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>If yes, is the test based on:</p> <p><input type="checkbox"/> Cash flow insolvency <input type="checkbox"/> Balance sheet insolvency <input type="checkbox"/> Both of the above</p>	<p>Opportunity to provide further detail.</p>
<p>Is there framework for extra-judicial negotiations (i.e. out-of-court work outs)?</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Are there publicly available criteria for determining when a workout may be conducted out of court?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Is the out-of-court process subject to judicial oversight?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>How frequently are out-of-court workouts used as an alternative to court-led processes:</p> <p><input type="checkbox"/> Hardly ever <input type="checkbox"/> Occasionally <input type="checkbox"/> Frequently <input type="checkbox"/> Very frequently</p> <p>What type of body is responsible for managing out of court workouts?</p> <p><input type="checkbox"/> Non-judicial government agency <input type="checkbox"/> Professional association <input type="checkbox"/> Other (please describe)</p> <p>How frequently do out-of-court workouts occur?</p>	<p>Opportunity to provide further detail.</p>
<p>Are there anti-avoidance/clawback provisions?</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>Opportunity to provide further detail. If yes, please explain.</p>
<p>Are there personal liability risks for directors of insolvent companies?</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>Opportunity to provide further detail.</p>

6. Supporting regulations and procedures

<p>Are there regulations and procedures in place to support the primary insolvency law?</p> <p>Explanation: Outside of legislation, what regulations and prescribed procedures exist to support the laws?</p>	<p>If yes:</p> <p>Are they in the form of subsidiary legislation (e.g., winding-up regulations and/or rules?)</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Or</p> <p>Are they in the form of out-of-court/market practice guidelines?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>Opportunity to provide further detail.</p>
<p>When were these created?</p>	<p>Date enacted:</p> <p>Subsequent updates:</p>	<p>Opportunity to provide further detail.</p>
<p>How accessible are the relevant legislative documents?</p>	<p>Language of the law:</p> <p><input type="checkbox"/> Local <input type="checkbox"/> English <input type="checkbox"/> Other</p> <p>Are there official translations?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Form of storage:</p> <p><input type="checkbox"/> Hard copy only <input type="checkbox"/> Electronic <input type="checkbox"/> Electronic & publicly available</p>	<p>Opportunity to provide further detail. Please include any other languages not listed in which the legislation is written or translated.</p>

7. Local participants

<p>Is there a government agency to regulate insolvency processes and the conduct of insolvency office holders?</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No	<p>Opportunity to provide further detail.</p>
<p>Judges</p>	<p>Are judges independent?</p> <input type="checkbox"/> Yes <input type="checkbox"/> No <p>How does one become a judge?</p> <input type="checkbox"/> Experience <input type="checkbox"/> Examinations <input type="checkbox"/> Appointment <input type="checkbox"/> Election <input type="checkbox"/> Other (please explain) <p>What is the range of remuneration for judges?</p> <p>Is judicial remuneration commensurate with the private sector?</p> <p>Are insolvency judges:</p> <input type="checkbox"/> Specialists? <input type="checkbox"/> Generalists?	<p>Opportunity to provide further detail.</p>

<p>Insolvency Professionals (IPs)</p>	<p>Are there specialist insolvency practitioners in the jurisdiction?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>If so, what type of training and qualification requirements apply to them?</p> <p>University degree in law or accounting?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Specialized qualification in insolvency practice?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Membership of professional association?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Continuing professional development requirements?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Who is responsible for regulating the IPs?</p> <p>How are they remunerated?</p> <p><input type="checkbox"/> According to locally-based statutory rates/scales? <input type="checkbox"/> By hourly rates approved by courts and/or creditor committees? <input type="checkbox"/> On some other basis? (Please explain.)</p>	<p>Opportunity to provide further detail.</p>
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APEC Business Advisory Council
Report to APEC Finance Ministers
2015

ANNEX B

**Advisory Group on APEC Financial
System Capacity Building**

**2015 Report on Capacity Building Measures to
Strengthen and Develop Financial Systems**

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

2015 REPORT ON CAPACITY BUILDING MEASURES TO STRENGTHEN AND DEVELOP FINANCIAL SYSTEMS

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**THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM
CAPACITY-BUILDING**

**2015 REPORT ON CAPACITY-BUILDING
MEASURES TO STRENGTHEN AND DEVELOP
FINANCIAL SYSTEMS**

Summary of Recommendations

Building on its work of previous years, the Advisory Group proposes in this year's report a number of measures to accelerate the development of the region's financial systems to address various constraints that prevent significant progress in expanding consumption and business activity in APEC's emerging markets. These key constraints include: underdeveloped financial markets and institutions, inadequate access of small enterprises and the large low-income segment of the population to financial services, and obstacles to expanded private investment in infrastructure. This report addresses issues in four areas: (a) building financial systems to support inclusive, resilient and stronger growth through the Asia-Pacific Financial Forum (APFF); (b) expanding access to finance; (c) promoting a regional pipeline of bankable infrastructure Public-Private Partnership (PPP) projects; and (d) improving valuation practices in the region.

**THE ASIA-PACIFIC FINANCIAL FORUM: BUILDING FINANCIAL SYSTEMS TO SUPPORT
INCLUSIVE, RESILIENT AND STRONGER GROWTH**

The APFF, a platform for public-private collaboration to develop robust and integrated financial markets in the region, was proposed by the APEC Business Advisory Council (ABAC) and adopted by the APEC Finance Ministers at their 2013 annual meeting in Bali. In 2014, the APFF identified undertakings to advance development in key areas of financial markets that are critical to the region's economic aspirations. This year, the APFF advanced its work in these areas, as presented in greater detail in its 2015 Progress Report to the APEC Finance Ministers.

The APFF Progress Report recommended that the APEC Finance Ministers (a) undertake a pathfinder initiative to develop credit information systems; (b) undertake a pathfinder initiative to improve policy frameworks for secured transactions and the use of movable assets as collateral; (c) convene public-private dialogues on regulatory issues in trade and supply chain finance; (d) hold workshops on emerging facilitators of trade and supply chain finance; (e) support the development of alternative funding mechanisms for MSMEs; (f) develop best practices for strengthening MSMEs' resilience; (g) establish an APEC-wide DRF expert group to develop a gap analysis report, a disaster risk database and a baseline DRF framework for APEC economies; (h) promote the accumulation of long-term capital in pension funds through retirement income market reforms; (i) identify and address regulatory and accounting issues that affect insurers' incentives to undertake long-term investment; (j) identify best practices in promoting private funds for equity investment in infrastructure; (k) undertake various activities to support the development of microinsurance; (l) undertake public-private sector workshops to promote the effective use of hedging instruments and risk management tools and fostering a more diverse investor and issuer base; (m) ensure the successful launch of the Asia Region Funds Passport (ARFP) through the facilitation of its early enlargement;

and (n) convene regular APFF Roundtables on global rules that affect financial markets and services and their implementation across the region.

Recommendation:

- *The Advisory Group proposes that APEC Finance Ministers endorse the 2015 APFF Progress Report and its recommendations as described above.*

EXPANDING ACCESS TO FINANCE

The region is home to more than a billion people who do not have access to a bank account or formal financial services. Much has been achieved in expanding financial inclusion, but significant work remains. To more effectively promote financial inclusion, a clear understanding of the perspectives across disadvantaged communities is required, and efforts should be focused on developing innovative products and services that appropriately address the needs of customers, considering elements such as product range, cost, accessibility, financial capability and regulation to ensure customer protection.

Recommendation:

- *The Advisory Group recommends that APEC Finance Ministers (a) explore a formal definition of financial inclusion, such as the definition developed by the Global Partnership for Financial Inclusion (GPII), that can help measure and compare financial inclusion across economies and serve as a useful guide for policymakers; (b) develop an APEC model framework for financial inclusion strategies as a reference to help economies in designing domestic strategies suited to local needs and conditions; and (c) establish a new working group to discuss digital finance issues and align with other existing working groups within APEC as well as other knowledge sharing organizations.*

PROMOTING A REGIONAL PIPELINE OF BANKABLE INFRASTRUCTURE PUBLIC-PRIVATE PARTNERSHIP (PPP) PROJECTS

The development of infrastructure has not kept pace with the region's economic growth, resulting in congestion of roads, power shortages and inadequate public services, as well as uneven growth, contributing to regional and social inequalities. With increasing need for funding and greater efficiency in delivering infrastructure projects, economies are turning to expanded private sector investment in infrastructure. A major obstacle is the lack of a pipeline of bankable infrastructure projects in developing economies that can attract private sector capital, due in large part to insufficient capacity for project preparation.

Recommendations:

- *The Advisory Group recommends that APEC collaborate with the G20 Global Infrastructure Hub in developing initiatives to enhance public sector project preparation capacity, such as the development of a PPP Knowledge Portal, in collaboration with public sector agencies, international organizations and the private sector through APIP. Member economies should coordinate these efforts with related initiatives being undertaken or supported by ADB, IMF, OECD and the World Bank, including the use of such tools to improve project preparation as the International Infrastructure Support System (IISS).*
- *The Advisory Group recommends that member economies continue holding APIP dialogues among relevant officials, the private sector and relevant international organizations in 2016. Future dialogues should build on and advance the conclusions*

of previous dialogues that have been held with Indonesia, Malaysia, Mexico, Peru, the Philippines, Thailand and Vietnam.

- *The Advisory Group recommends that member economies develop a holistic policy framework on sustainable urban infrastructure development, including action plans that can be adopted, through the Asia-Pacific Urban Infrastructure Network (UIN).*

IMPROVING VALUATION PRACTICES IN APEC

Valuations are central to decision-making and the economic growth and development of financial systems are impacted in a multitude of ways by valuation. In the light of the impact of valuation on a wide range of matters, there is a need to ensure that the valuation profession has the capacity to undertake its work in a professional and credible manner that gives a central role to standards, ethics, independence and objectivity, competence and transparency.

Recommendation:

- *The Advisory Group recommends that APEC support ongoing efforts to develop a roadmap to assist economies in strengthening valuation practices and the valuation profession, including the holding of roundtables to share experiences of how valuation practices can contribute to economic growth and to share and discuss the results of the audit of current valuation landscapes and the template of best practice in key areas.*

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

2015 REPORT ON CAPACITY-BUILDING MEASURES TO STRENGTHEN AND DEVELOP FINANCIAL SYSTEMS

Ensuring robust global economic growth requires expanding the world economy's growth potential, particularly through increased consumption and business activity in emerging markets. The tepid growth that has characterized the world economy since the Global Financial Crisis reflects the lack of significant progress in these areas. There is, however, significant potential for APEC as a regional grouping to become a major engine of growth, if its member economies, and especially the developing economies, are able to address the underlying factors that constrain growth of domestic consumption and investment.

Among these are underdeveloped financial markets and institutions, inadequate access of small enterprises and the large low-income segment of the population to financial services; and obstacles to expanded private investment in infrastructure. Building on its work of previous years, the Advisory Group proposes in this year's report a number of measures to accelerate the development of the region's financial systems to address these constraints. The Advisory Group welcomes the Finance Ministers' decision to launch the Cebu Action Plan (CAP) and hopes that these proposals will contribute to its progress.

This report is divided into four sections: (a) building financial systems to support inclusive, resilient and stronger growth through the Asia-Pacific Financial Forum (APFF); (b) expanding access to finance; (c) promoting a regional pipeline of bankable infrastructure Public-Private Partnership (PPP) projects; and (d) improving valuation practices in the region.

I. THE ASIA-PACIFIC FINANCIAL FORUM: BUILDING FINANCIAL SYSTEMS TO SUPPORT INCLUSIVE, RESILIENT AND STRONGER GROWTH

The APFF, a platform for public-private collaboration to develop robust and integrated financial markets in the region, was proposed by the APEC Business Advisory Council (ABAC) and adopted by the APEC Finance Ministers at their 2013 annual meeting in Bali. In 2014, the APFF identified undertakings to advance development in key areas of financial markets that are critical to the region's economic aspirations. These areas are: (a) lending infrastructure; (b) trade and supply chain finance; (c) insurance and retirement income; (d) financial market infrastructure and cross-border practices; (e) capital markets; and (f) linkages and cross-border issues.

This year, the APFF advanced its work in these areas, as presented in greater detail in its 2015 Progress Report to the APEC Finance Ministers. Key accomplishments include:

- a proposal to establish a Financial Infrastructure Development Network (FIDN) comprising private and public sector entities, multilateral institutions and industry associations to help member economies develop legal frameworks for credit information systems and secured transactions and movable asset finance systems;

- identification of key issues for dialogues and workshops on trade and supply chain finance with relevant public and private sector stakeholders in the region, including capital and related rules affecting trade finance, digital and innovative working capital management products and techniques, digitalization of supply chain finance, and interrelationships among finance, trade, customs and technology to support the internationalization of MSMEs;
- ongoing work on a guide for legal and regulatory frameworks, settlement systems and market conventions supporting sound and efficient repo markets, design of workshops to assist economies in establishing classic repo markets, disseminate industry best practices, and adopt international standards for efficient clearing and settlement of repo transactions;
- completion of self-assessment templates to help relevant authorities facilitate availability of information for investors in the region's debt markets and the launch of a pilot program with the Philippines to use these templates in identifying gaps and undertaking measures to fill them.
- engagement of industry to assist the progress of the ARFP by identifying critical elements in designing rules and operational arrangements for a successful regional funds passport;
- further development of the action plan to assist economies in ensuring an enabling legal infrastructure for derivatives;
- identification of key issues for workshops and dialogues to help economies develop a regional securities investment ecosystem, including a regional roadmap of upcoming regulatory and market changes;
- recent work on retirement income and longevity solutions, microinsurance, disaster risk financing, financing vehicles and supporting measures to facilitate investment by pension funds and insurers in infrastructure and capital markets, and regulatory and accounting frameworks that support long-term investment in infrastructure.
- ongoing research and discussion on the regulation and supervision of the region's banking systems and capital markets, market integration and access and regional financial architecture

The 2015 APFF Progress Report contains recommendations to (a) undertake a pathfinder initiative to develop credit information systems; (b) undertake a pathfinder initiative to improve policy frameworks for secured transactions and the use of movable assets as collateral; (c) convene public-private dialogues on regulatory issues in trade and supply chain finance; (d) hold workshops on emerging facilitators of trade and supply chain finance; (e) support the development of alternative funding mechanisms for MSMEs; (f) develop best practices for strengthening MSMEs' resilience; (g) establish an APEC-wide DRF expert group to develop a gap analysis report, a disaster risk database and a baseline DRF framework for APEC economies; (h) promote the accumulation of long-term capital in pension funds through retirement income market reforms; (i) identify and address regulatory and accounting issues that affect insurers' incentives to undertake long-term investment; (j) identify best practices in promoting private funds for equity investment in infrastructure; (k) undertake various activities to support the development of microinsurance; (l) undertake public-private sector workshops to promote the effective use of hedging instruments and risk management tools and fostering a more diverse investor and issuer base; (m) ensure the successful launch

of the Asia Region Funds Passport (ARFP) through the facilitation of its early enlargement; and (n) convene regular APFF Roundtables on global rules that affect financial markets and services and their implementation across the region.

The Advisory Group proposes that APEC Finance Ministers endorse the 2015 APFF Progress Report and its recommendations as described above.

II. EXPANDING ACCESS TO FINANCE

The region is home to more than a billion people who do not have access to a bank account or formal financial services. Much has been achieved in expanding financial inclusion, but significant work remains. To more effectively promote financial inclusion, a clear understanding of the perspectives across disadvantaged communities is required, and efforts should be focused on developing innovative products and services that appropriately address the needs of customers, considering elements such as product range, cost, accessibility, financial capability and regulation to ensure customer protection.

This year's Asia-Pacific Forum on Financial Inclusion, hosted by the Philippine Government on 3-4 March 2015 in Tagaytay City, Philippines, discussed recent achievements and challenges for financial inclusion in the region, an overview of the state of financial inclusion in specific APEC economies (Mexico, Viet Nam and Papua New Guinea (PNG) and the importance of applying a customer-centric approach to digital finance for both increasing financial inclusion and protecting customers, in addition to lending infrastructure issues that have been dealt with in the previous section.¹

Forum participants evaluated the progress that has been made within their member economies on financial inclusion over the last five years, including those on the specific recommendations identified by the Forum in 2010. Discussion and feedback gathered from the Forum participants indicated broad consensus that much has been achieved, and that the advent of the Forum itself has created a powerful platform for knowledge sharing and spread of best practice in key areas.

The Forum discussed the merits of adopting a formal definition of financial inclusion, such as the definition developed by the Global Partnership for Financial Inclusion (GPII), which would cover specific parameters and help determine and compare the level of inclusivity of the financial sector across economies. There is significant diversity across APEC on financial inclusion, with huge variance in outcomes for households and firms across APEC member economies. It was concluded that an APEC-supported definition could serve as a useful guide for APEC economies as well as better enable policymakers to align their financial inclusion goals.

Participants also discussed the pros and cons of appointing a single organization such as the central bank or relevant government ministry to take overall responsibility for the development of the financial infrastructure, potentially including financial inclusion. While elements of the overall work could be delegated to other government bodies, the leadership, coordination and responsibility could reside within a single organization. This approach would increase the overall effectiveness and efficiency of financial infrastructure development and necessary reforms.

¹ The Forum was attended by 129 participants of which 54 were government representatives including officials from the APEC Finance and Central Banks Deputies Meeting. The other 69 participants included representatives of the private sector, academic institutions and civic organizations.

Another issue for discussion was the development of digital technology, which can be harnessed to promote financial inclusion. Digital-based services providers that have deeper penetration than financial services providers in many economies are offering financial access and services at lower cost. The business models of digital finance are changing the environment for lending, savings, insurance and payments in a way that warrants more attention by policymakers. Specific issues include: resetting oversight of customer data, privacy and protection practices for the digital economy; setting regulatory practice and oversight for digital financial service providers including non-bank providers and therefore subject to the financial regulatory framework; and increasing financial literacy training in the areas of e-money, digital wallets, mobile payments, digital data gathering and sharing, and cyber security.

The Advisory Group recommends that APEC Finance Ministers (a) explore a formal definition of financial inclusion, such as the definition developed by the Global Partnership for Financial Inclusion (GPII), that can help measure and compare financial inclusion across economies and serve as a useful guide for policymakers; (b) develop an APEC model framework for financial inclusion strategies as a reference to help economies in designing domestic strategies suited to local needs and conditions; and (c) establish a new working group to discuss digital finance issues and align with other existing working groups within APEC as well as other knowledge sharing organizations.

III. PROMOTING A REGIONAL PIPELINE OF BANKABLE INFRASTRUCTURE PUBLIC-PRIVATE PARTNERSHIP (PPP) PROJECTS

The development of infrastructure has not kept pace with the region's economic growth, resulting in congestion of roads, power shortages and inadequate public services, as well as uneven growth, contributing to regional and social inequalities. With increasing need for funding and greater efficiency in delivering infrastructure projects, economies are turning to expanded private sector investment in infrastructure. A major obstacle is the lack of a pipeline of bankable infrastructure projects in developing economies that can attract private sector capital, due in large part to insufficient capacity for project preparation.

These issues were progressed by the Asia-Pacific Infrastructure Partnership (APIP) this year through its participation in the APEC PPP Experts' Advisory Panel, its continued program of dialogues with individual governments and discussions on new and emerging initiatives in the area of infrastructure.

Since the final ABAC and Advisory Group meetings for 2014, the APIP has held two dialogues – one with the Government of Indonesia held on 24 November 2014 in Jakarta, and another with the Government of the Philippines held on 4 March 2015 in Tagaytay City, Philippines.

The dialogue with Indonesia was attended by around 80 representatives from the Indonesian Government, multilateral development institutions and the private sector. It was co-chaired by Mr Andin Hadiyanto, Chairman of the Fiscal Policy Agency, Indonesia and by Mr. Wishnu Wardhana, ABAC Indonesia. The dialogue focused on three issues: seaports and related public transport; metropolitan transport systems and rail and related linkages to other transport, and energy. Key messages from the dialogue were as follows:

- The introductory overview highlighted the positive impact that recommendations from previous APIP dialogues have had on infrastructure policy development in Indonesia,

which include the importance of having a clear institutional framework for PPP arrangements, developing short, medium and long term infrastructure strategies and plans, improving the way that various infrastructure agencies cooperate and coordinate with each other and deeper engagement in regional and multilateral infrastructure meetings.

- Transport infrastructure should be constructed in the context of a plan that links connecting infrastructure, whether road, rail or ports. The components should be part of an integrated government strategy that links the whole economy together and the economy to the region and globally. Given the high levels of capital expenditure associated with transport and long procurement processes, private sector investment will require as prerequisites for investment political stability, transparency, robust legal systems and clearly articulated long-term policy objectives.
- Transport regulations should be consistent with the overall PPP framework. The scope of government guarantees and viability gap funding should be clearly articulated. The PPP Centre should develop a pipeline of projects and there should be government champions.
- The adoption of collaborative approaches to structure PPPs and to consider different operating models can usefully be undertaken by the government in attracting private sector participation in transport projects.
- Similarly, the use of contemporary management tools such as outcome based performance management, partnership models and delivery frameworks would be conducive to attracting private sector investment. The establishment of PPP mechanisms should also require that the benefits of such investment to Indonesia are sustainable through the implementation and operations phases, rather than simply focusing on achieving closing a number of PPP transactions.
- Decision making in government should be clear, and demarcation and the roles of decision making authorities clearly understood by all relevant stakeholders.

The dialogue with the Government of the Philippines attracted around 60 representatives from the Philippine Government, multilateral development institutions and the private sector. Among its highlights are the following:

- Rapid urbanization brings about a number of key challenges, especially for infrastructure services and financing, planning coherence and urban governance to address fragmented lines of authority in planning and delivery inconsistencies. An integrated planning framework needs to consider environmental sustainability, social inclusiveness and competitiveness, with the key enablers of effective governance, innovative financing and knowledge, and capacity development.
- The current core urban issues that need to be addressed are: overcrowding and congestion, traffic congestion and inefficient urban transport, safer and affordable housing, natural disaster risks and environmental degradation from frequent flooding and rising flood damage. There is an acute shortage of drinking water, inadequate sanitation coverage, poor services and poor solid waste disposal.
- The Philippine Development Plan is seeking to address these challenges by: (1) improving connectivity and efficiency among urban center regional growth hubs; (2) improving wastewater and solid waste management; and (3) improving coordination and planning, and streamlining government processes.

- Urban development plans should have a strong focus on the need to facilitate the movement of people within and between the production spaces and social spaces, and cabinet-level urban planning should not overly focus on housing at the expense of the overall infrastructure plan. Local-level urban planning is currently over focused on land use conversion and zoning but should place a greater emphasis on interconnectivity at a higher geographical level. Aside from these frameworks, actual physical plans should also safeguard land for infrastructure.
- In transportation, the key issues were defined in terms of policy (legal readiness and project implementation, institutionalizing new organizational structure and building capacity); resources (encouraging participation of local and international firms and lenders to participate, timing of tenders); and people (PPP acceptance of various agencies, risk aversion of various stakeholders, political environment and transitioning of plans and projects and ensuring inclusive growth).
- In the area of urban public works, three key areas are (1) infrastructure development for growth; (2) governance for institutions and social welfare; and (3) green traffic and pollution management. The focus of government efforts is on (1) institutionalizing good governance and anti-corruption reforms; (2) upgrading the quality and safety of roads and bridges with stronger private sector participation; (3) providing better access to tourism destinations, ports and food production areas; (4) continuing work on the Master Plan for flood management in Metro Manila and surrounding areas; (5) developing the Mindanao Logistics Network Program, and (6) undertaking resilience and disaster risk management projects.
- In the area of energy, key programs are oriented to climate-proof energy infrastructure and facilities to develop indigenous sources of energy and to expand the use of natural gas and continue the long-term push for sustainable fuels for transport public utility vehicles. The implementation of measures will need assistance from the private sector.
- Creating an overall integrated infrastructure master plan that clearly identifies the lines of authority for urban development plans and their implementation would allow the private sector time to allocate resources and provide confidence for long term planning. It could provide a basis for consistency of decision making across all levels of government, articulate performance targets, enable risks to be better quantified and be used as a benchmark against other cities in Asia that are competing for funds and investors.
- Regulatory structures must be in place to deal with issues such as pricing and taxes, and be independent, to avoid any conflict of interest because this will discourage private sector participation and investments in PPP projects. The regulatory authority should also competently deal with issues over the life of the project.
- New infrastructure should be created selectively and greater emphasis could be placed on better management of existing transport infrastructure systems. PPPs are complex in an urban environment and the government could consider the continuum of partnership schemes to engage the private sector, such as BOT.
- The private sector needs a pipeline of both short and long term projects to be able to allocate resources and keep their project teams together for future bids and work. Long term planning gives a sense of predictability and visibility for interested investors.

The Advisory Group recommends that APEC collaborate with the G20 Global

Infrastructure Hub in developing initiatives to enhance public sector project preparation capacity, such as the development of a PPP Knowledge Portal, in collaboration with public sector agencies, international organizations and the private sector through APIP. Member economies should coordinate these efforts with related initiatives being undertaken or supported by ADB, IMF, OECD and the World Bank, including the use of such tools to improve project preparation as the International Infrastructure Support System (IISS).

The Advisory Group recommends that member economies continue holding APIP dialogues among relevant officials, the private sector and relevant international organizations in 2016. Future dialogues should build on and advance the conclusions of previous dialogues that have been held with Indonesia, Malaysia, Mexico, Peru, the Philippines, Thailand and Vietnam.

The Advisory Group recommends that member economies develop a holistic policy framework on sustainable urban infrastructure development, including action plans that can be adopted, through the Asia-Pacific Urban Infrastructure Network (UIN).

IV. IMPROVING VALUATION PRACTICES IN APEC

Valuations are central to decision-making and the economic growth and development of financial systems are impacted in a multitude of ways by valuation.²² In the light of the impact

²² Specifically, valuation plays an important role in relation to the following:

- **Prudential regulation of banking and insurance with respect to mortgage and secured lending:** Valuation plays an important role in determining the loan amount and risk exposure to the lender, with respect to various types of security such as real estate, tangible assets, publicly traded investments, financial derivatives and shares of privately held companies and financial instruments that are accepted by financial institutions.
- **Taxation revenue model:** Taxes on estates, stamp duties, corporate and personal dispositions of assets all require valuation to determine an equitable amount of taxes to be paid. Valuation plays an important role in determining the quantum of taxes to be paid in relation to the disposing of assets such as real estate, businesses or financial instruments, such as within the context of corporate reorganization or emigration.
- **Mergers and acquisitions with respect to cross-border initial public offerings and distressed asset restructuring:** In the M&A context, valuation is an integral part of the process providing target screening, industry pricing, value analysis based on the target's stand-alone outlook and capabilities, quantification of potential synergies, and ultimately, the valuation of tangible assets (real estate, machinery & equipment) and intangible assets acquired for price determination and financial reporting.
- **Public-private partnerships:** In PPPs, where the private party provides a public service or project and assumes substantial financial, technical and operational risk in the project, valuation can determine the ownership contribution of each party, whether in cash or assets to ensure fair contributions of each partner.
- **Financial reporting for public and private companies:** Accounting rules on measurement and related amortization with respect to real estate, tangible and intangible assets, and financial instruments can have a material impact on the financial position and financial performance of an entity, impacting investment decisions. It is therefore important that control processes around the measurement of values and their reliability are in place.
- **Dispute resolution:** In the context of valuation in a litigation (the most common form of judicial dispute resolution), the issue is typically related to shareholder dispute, family dispute over inheritance or breaches of corporate agreements. The dispute could involve a variety of assets such as real estate, tangible assets, intangible assets, and businesses across different geographical locations. The ultimate claim or award will be based on valuations.
- **Compulsory purchase or dispossession:** The term eminent domain (United States, the Philippines), compulsory purchase (United Kingdom, New Zealand, Ireland), resumption (Hong Kong), resumption/compulsory acquisition (Australia), or expropriation (South Africa, Canada) refer to the power to take private property for public use by a state or national government. The property may be taken either for government use or by delegation to third parties.

of valuation on a wide range of matters, there is a need to ensure that the valuation profession has the capacity to undertake its work in a professional and credible manner that gives a central role to standards, ethics, independence and objectivity, competence and transparency. The key components of such a framework include the availability of a robust regulatory regime appropriate across all asset classes, the presence of strong professional organizations, access to reliable information, availability of education and training and the profession's adherence to widely accepted valuation and professional practice standards, followed by appropriate and visible enforcement.

The Advisory Group supports ongoing work in collaboration with the International Valuation Standards Council (IVSC) to strengthen the valuation profession and practices in the region, in the form of an audit of the current valuation landscape of member economies and preparation of a template of best practice in key areas (regulation and compliance, organizational infrastructure, access to information and disclosure, education and training, and standards), which will describe options for establishing best practice landscapes for the valuation practices in various types of economies.

This year, the initiative continues to make progress in efforts to strengthen valuation practices and to promote the role of the valuation profession across member economies, in dialogue with regulators, practitioners and the many users of valuation services. Current market volatility across the region is reinforcing the argument for certainty in relation to value. Similarly, diversification by many institutions and companies into new markets and sectors outside their traditional markets is adding further momentum to the initiative.

Plans are currently in place to hold a series of roundtables and engage with the valuation community in several APEC economies, in particular Malaysia, the Philippines and Vietnam, to develop road maps to assist those economies in adopting appropriate standards as well as strengthening valuation practice and the valuation profession. A symposium is being planned to publicize the results of the roundtables across the region.

The Advisory Group recommends that APEC support ongoing efforts to develop a roadmap to assist economies in strengthening valuation practices and the valuation profession, including the holding of roundtables to share experiences of how valuation practices can contribute to economic growth and to share and discuss the results of the audit of current valuation landscapes and the template of best practice in key areas.