August 31, 2016

Hon. Alfredo Eduardo Thorne Vetter
Chair, APEC Finance Ministers' Meeting
Minister of Economy and Finance
Peru

I have the honor to convey to you this year's ABAC Report to APEC Finance Ministers.

As regional business leaders, we are keenly aware of the uncertainties currently being experienced in global markets. They underscore the urgency of structural reforms to stabilize and revitalize our economies. We believe that APEC has a key role to play in transforming the Asia-Pacific region into a strong and resilient engine of global growth. We urge Finance Ministers to promote legal, policy and regulatory reforms, and capacity building measures that will enable our financial markets to support the development of the real economy.

ABAC supports Perú's strong leadership in taking forward various initiatives under the Cebu Action Plan (CAP). For its part, under its 2016 theme of *Quality Growth and Human Development*, ABAC has undertaken a number of activities since the previous AFMM to advance several important CAP initiatives, in collaboration with our partners in the Asia-Pacific Financial Forum (APFF), the Asia-Pacific Infrastructure Partnership (APIP) and the Asia-Pacific Forum on Financial Inclusion. What follows below is a summary of what ABAC has accomplished and specific actions we recommend for you and your colleagues to consider:

- *Expanding micro-, small and medium enterprises' (MSMEs') access to finance through legal and institutional reforms*. We collaborated with various stakeholders to launch the Financial Infrastructure Development Network (FIDN) in November 2015 and convened workshops in four economies. We are undertaking a baseline analysis of credit information sharing in 21 economies, creating a credit information data dictionary, and pursuing two pathfinder projects on cross-border sharing of commercial and consumer credit information within existing legal and regulatory frameworks.

  We recommend that Ministers encourage the appropriate authorities to work with FIDN in developing modern credit information systems and regionally consistent legal and institutional frameworks for secured transactions and insolvency. The availability of such frameworks would expand MSMEs' access to finance and enable them to increase their contributions to regional integration. We also recommend that finance officials collaborate with APFF in holding public-private dialogues on regulatory issues and emerging facilitators of trade and supply chain finance.

- *Promoting financial inclusion*. Since 2010, ABAC has convened the Asia-Pacific Forum on Financial Inclusion on an annual basis in cooperation with the ADB Institute and other stakeholders. The Forum provides an opportunity for stakeholders to review current trends in financial inclusion, recent achievements, challenges and opportunities. This year's Forum addressed credit information systems, microinsurance, cross-border payment systems, savings, digital financial infrastructure, financial literacy, consumer protection with respect to digital finance, and insolvency. We ask Finance Ministers to encourage policy makers and regulators responsible for financial inclusion and MSME finance to study the report of this year's Forum and to participate in the 2017 Forum.

- *Increasing microinsurance coverage in APEC*. We recommend that the Finance Ministers Process (FMP) undertake activities in 2017, in collaboration with APFF, to complete the roadmap for expanding micro-insurance coverage as envisaged under the CAP.

- *Developing effective disaster risk financing and insurance (DRFI) mechanisms*. This year we created a network of industry experts in the APFF drawn from the insurance, re-insurance, catastrophe risk modelling and related sectors. To further advance the CAP we recommend that the FMP convene a workshop in early 2017, in collaboration with APFF, to identify economies most in need and perils that need to be prioritized. This would be an initial step in promoting private disaster insurance schemes. We ask that the FMP complete the stock-taking on the availability of risk exposure data as a step toward the development of regional risk sharing measures. We also propose that finance officials be involved in the drafting of an APEC roadmap for DRFI, involving experts from the public and private sectors and multilateral institutions.

- *Developing a robust pipeline of bankable infrastructure projects*. We recommend that the FMP more closely integrate and coordinate its various infrastructure initiatives, using the PPP Experts Advisory Panel as the coordinating center. We suggest expanding cooperation with the Global Infrastructure Hub, including early adoption by member economies of the Hub's online tools and resources, as well as their participation in the International Infrastructure Support System (IISS). We propose that economies hold further APIP dialogues in 2017, and that the FMP advance the CAP's initiative to promote urban infrastructure development in collaboration with the Urban Infrastructure Network (UIN).

- *Expanding the region's long-term investor base*. Long-term investors such as insurers and pension funds play critical roles in the development of capital markets, financing of infrastructure projects and providing financial security. With the progressive aging of societies, their roles will become even more important in channeling long-term liabilities into long-term assets that can provide adequate returns to meet future emergency and retirement needs. We propose that APEC economies expand the region's long-term investor base, by establishing mandatory retirement systems and introducing tax incentives to promote the retirement savings market. We propose that economies promote infrastructure investment as a defined asset class, and adopt regulatory standards that support development of the long-term investor base.

- *Mobilizing Islamic Finance for infrastructure investment*. Following suggestions we received at our dialogue with Finance Ministers in Cebu, ABAC collaborated with the governments of Brunei Darussalam and Malaysia to hold workshops focused on how to mobilize capital in Islamic institutions to fund infrastructure across the region. Based on the conclusions of these workshops, we recommend the establishment of an Islamic Infrastructure Investment Platform (I3P). This would be a pathfinder initiative to promote collaboration among public, private, international and academic experts in removing obstacles to cross-border infrastructure investment by Islamic financial institutions.

- *Deepening the region's emerging capital markets*. In collaboration with various partners, ABAC convened APFF workshops to help implement capital market initiatives under the CAP. APFF also completed an assessment of key tax metrics that assist regulators in better understanding the detailed tax implications of the Asia Region Funds Passport (ARFP). We recommend that Finance Ministers encourage more member economies to join the ARFP, undertake workshops with APFF on the development of classic repo and derivatives markets, and use the APFF self-assessment templates to improve the availability and quality of information for capital market investors. We propose accelerating the financial integration of capital markets with greater access to companies and investors within the region. We also recommend that the FMP collaborate with APFF in convening a regional symposium in 2017 to develop a roadmap for improving the regional financial market infrastructure.

- *Facilitating innovation in financial market infrastructure*. The growing role of financial technology (Fintech) creates new opportunities to enhance the region's financial market infrastructure (FMI), but also introduces new risks. These FMIs are important in promoting cross-border operations of MSMEs. To facilitate innovation in the region's FMI, we recommend that Finance Ministers encourage policy makers and regulators to participate in APFF workshops on cybersecurity, Know-Your-Customer (KYC) rules and e-Payments.

- *Harnessing financial technology (Fintech) to accelerate the development of financial markets*. To discuss how APEC could harness Fintech to build bigger, more robust and inclusive financial markets, ABAC convened two APFF Roundtables, one on each side of the Pacific. Based on the outcomes of those discussions, we recommend that Finance Ministers establish a regional platform to bring together stakeholders from the public and private sectors to identify, in close collaboration with each other, concrete ways to help member economies harness financial innovation to build stronger and more inclusive and integrated financial markets. These stakeholders should include representatives from the industry, public sector and major international organizations.

- *Improving valuation practices in APEC*. ABAC is collaborating with various stakeholders to enhance the quality of valuation practices and the profession across member economies. This year, an audit of the valuation industry in APEC's 21 member economies was completed and a template of best practices prepared. These outcomes were discussed in roundtables held in two economies. To improve the quality of regional valuation practices and the expertise of professionals, we recommend that Finance Ministers encourage member economies to host further roundtables with ABAC, the International Valuation Standards Council (IVSC), valuation professional organizations (VPOs), and experts from industry and relevant bodies..

- *Fostering continued dialogue and research on the future of financial regulation*. ABAC continues to promote research and discussions in APFF on the present conditions and future directions of financial markets and regulations. Various dialogues were convened under the APFF in 2016 to discuss these matters. We recommend that Finance Ministers encourage policy makers and regulators involved in the region's financial markets to participate in APFF dialogues on financial regulations.

Two of these issues require particular attention. The first is capital market development, which is important for successfully addressing many issues, including financing of infrastructure, MSMEs and supply chains, developing the long-term investor base, and supporting economic growth and financial stability. The second is Fintech, which presents considerable opportunities to make financial services more inclusive and efficient, but also carries new risks and calls for attention from regulators and policy makers.

As economic cooperation within APEC progresses, we anticipate that demand for finance will grow significantly. Meeting this demand will require closer financial cooperation among governments and regulatory bodies and the support of multilateral development banks. It will also require innovations in financial services and platforms for various forms of collaboration among commercial financial institutions in the APEC region.

Additionally, last year's Leaders' Declaration noted the need to address the fiscal and economic effects of ill health. APEC Ministers also recommended the convening of cross-fora dialogue for this purpose. ABAC supports these calls and encourages finance and health officials to collaborate in developing solutions to deal with this issue.

We believe that the CAP provides a well-designed roadmap that can help the financial sector more effectively contribute to the development of the region. The specific recommendations we are submitting in the enclosed Report have the objective of advancing the initiatives that will create the most favorable conditions for financial markets to support sustained growth throughout APEC. We invite Finance Ministers to consider these recommendations, which are explained in greater detail in the Report.

We are appreciative of the opportunity that Finance Ministers have given ABAC to contribute to their work, in collaboration with our partners in APFF, APIP and the Asia-Pacific Forum on Financial Inclusion. We look forward to discussing these important matters with Ministers during our upcoming dialogue with them in Perú, and anticipate a successful and productive conclusion to this year's AFMM.

Yours sincerely,

Juan Francisco Raffo
ABAC Chair 2016

Attachments: *2016 ABAC Report to APEC Finance Ministers*
Annex A: Asia Pacific Financial Forum (APFF) 2016 Progress Report to the APEC Finance Ministers (and 4 Appendices)
Annex B: Advisory Group on APEC Financial System Capacity Building 2016 Report on Capacity Building Measures to Strengthen and Develop Financial Systems

APEC Business Advisory Council

2016 Report to APEC Finance Ministers

Building Bigger, Robust and Inclusive Financial Markets

31 August 2016

ABAC
APEC Business Advisory Council

2016 Report to APEC Finance Ministers

BUILDING BIGGER, ROBUST AND INCLUSIVE FINANCIAL MARKETS

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APEC Business Advisory Council

2016 Report to APEC Finance Ministers

BUILDING BIGGER, ROBUST AND INCLUSIVE FINANCIAL MARKETS

Eight years have passed since the Global Financial Crisis marked the end of an era of exceptionally rapid economic growth in the Asia-Pacific region. While massive fiscal and monetary stimulus has kept the global economy afloat, a return to sustained economic dynamism remains elusive. New uncertainties arising in the wake of stagnating growth in major emerging markets and the UK's decision to leave the EU are further dampening investor confidence and threatening the fragile recovery. The need for serious structural reforms to inject renewed vitality into the region's economy has now become more urgent.

An important component of these reforms involves creating favorable conditions for inclusive and broad-based growth. With about 41 percent of the world's population, 54 percent of the world's Gross Domestic Production, and 44 percent of global trade, APEC can pave the way for a return to high growth, if it can unlock the tremendous potential of the huge number of consumers and small enterprises in its emerging member economies, and enable them to leap across the middle-income trap.

This will require mobilizing the region's savings, channeling them to investment in productive infrastructure and efficient and innovative enterprises that create more jobs, empowering people to increase consumption and investment as their incomes rise, and pooling resources to mitigate the impact of adverse future events. The modernization of the region's financial systems – building bigger, robust and inclusive financial markets – is a key enabler in meeting these requirements.

Significant structural reforms are needed in many economies to address a wide range of challenges. These include small businesses' and low-income households' lack of access to finance, difficulties in attracting private sector funding for infrastructure, the lack of deep and liquid capital markets and long-term institutional investor base, and continued vulnerability of communities and supply chains to the impact of natural disasters, among others.

An important issue is the deficiency of legal systems within the region in supporting trade and investment and a strong business environment. Considerable divergence of legal frameworks and regulatory practices is a major obstacle to cross-border business. In many economies, significant legal and regulatory reforms and improvements in transparency, enforcement and capacity of the judiciary and legal professionals are needed to enable the effective delivery of financial services, especially in the context of today's digital economy.

ABAC believes that APEC can play an important role in meeting these challenges. Last year, ABAC welcomed the launch of the Finance Ministers' Cebu Action Plan (CAP), a roadmap for promoting financial integration, advancing fiscal reforms and transparency, enhancing financial resilience and accelerating infrastructure development and financing in the region.

This year, we supported the Ministers' efforts to begin implementing the initiatives under CAP, particularly through their work on financial inclusion, infrastructure and disaster risk financing and insurance. These efforts have benefited from ABAC's three initiatives: the Asia-Pacific Financial Forum (APFF), the Asia-Pacific Infrastructure Partnership (APIP) and the Asia-Pacific Forum on Financial Inclusion. We also continue to undertake activities assigned by the CAP to APFF in the areas of capital market development, financial infrastructure for MSMEs and trade and supply chain finance.

The following are the activities convened since the previous AFMM in Cebu that contributed ideas and recommendations to this Report:

- 2015 Sep 22, Iloilo, Philippines: APEC SME Finance Forum
- 2015 Sep 23-24, Iloilo, Philippines: APFF Roundtable on Lending Infrastructure for MSMEs
- 2015 Oct 27, Brunei Darussalam: Workshop on Developing an Islamic Infrastructure Investment Platform (I3P)
- 2015 Nov 12, Manila, Philippines: Reforming the Asia-Pacific Financial Infrastructure and Launch of FIDN
- 2015 Nov 16, Manila, Philippines: APFF Repo and Derivatives Market Workshop for the Philippines
- 2016 Jan, Kuala Lumpur, Malaysia: Malaysia Valuation Roundtable
- 2016 Feb 13-14, Lima: FMP Workshop on DRF and DR Insurance
- 2016 Feb 24, San Jose, USA: APFF Roundtable on Financial Innovation I
- 2016 Mar 14-15, Manila, Philippines: FIDN Conference on Credit Infrastructure
- 2016 Mar 23, Sydney, Australia: APFF Industry/Regulator Dialogue
- 2016 Apr 7-8, Tokyo, Japan: 2016 Asia-Pacific Forum on Financial Inclusion
- 2016 Apr 19, Jakarta, Indonesia: APFF Repo Market Workshop for Indonesia
- 2016, Apr 26, Port Moresby, Papua New Guinea: PNG Valuation Roundtable
- 2016 May 10, Kuala Lumpur, Malaysia: APFF Workshop on Developing an Islamic Infrastructure Investment Platform (I3P)
- 2016 May 21-22, Nanjing, China: International Conference on Secured Transactions Legal Reform
- 2016 Jul 4-5, Bangkok, Thailand: First Meeting on the Mekong Credit Information Sharing
- 2016 Jul 8, Singapore: APFF Workshop on Trade and Supply Chain Finance
- 2016 Jul 15, Hong Kong, China: APFF Roundtable on Financial Innovation II
- 2016 Aug 1, Shenzhen, China: APFF High-Level Symposium: Public-Private Collaboration to Develop APEC Financial Markets – Achievements and Way Forward
- 2016 Aug 2, Shenzhen, China: APFF Collateral Registry Roundtable

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 *2016 APFF Progress Report to the APEC Finance Ministers* and the *2016 Report on Capacity Building Measures to Strengthen and Develop Financial Systems*. These key issues are:

a. expanding MSMEs' access to finance through legal and institutional reforms;
b. promoting financial inclusion;
c. increasing microfinance coverage in APEC;
d. developing effective disaster risk financing and insurance mechanisms;

e. developing a robust pipeline of bankable infrastructure projects;
f. expanding the region's long-term investor base;
g. mobilizing Islamic Finance for infrastructure investment;
h. deepening the region's emerging capital markets;
i. facilitating innovation in financial market infrastructure;
j. harnessing financial technology (Fintech) to accelerate the development of financial markets;
k. improving valuation practices in APEC;
l. fostering continued dialogue and research on the future of financial regulation;
m. addressing the intersection of finance, health and economic growth; and
n. fulfilling the critical role of finance in regional economic development and cooperation.

Two of these issues require particular attention. The first is capital market development, which is important for successfully addressing many issues, including financing of infrastructure, MSMEs and supply chains, developing the long-term investor base, and supporting economic growth and financial stability. The second is Fintech, which presents considerable opportunities to make financial services more inclusive and efficient, but also carries new risks and calls for attention from regulators and policy makers.

EXPANDING MSMES' ACCESS TO FINANCE THROUGH LEGAL AND INSTITUTIONAL REFORMS

Enabling MSMEs to effectively participate in economic activities and global value chains is an important objective for APEC member economies. For most MSMEs, lack of access to finance is a key obstacle. Behind this are factors such as inadequate legal and institutional infrastructure to support risk-based lending using transaction data and the use of movable assets as collateral; regulatory issues; the lack of enabling environments for equity-based financing and financial innovations; and MSMEs' lack of access to risk management tools such as insurance. These will also need to be addressed in the context of growing regional economic integration and the role that financial services play in enabling cross-border business activities by MSMEs.

The Finance Ministers have identified these issues as priorities and incorporated them in the CAP. Since the 2015 APEC Finance Ministers' Meeting, ABAC has collaborated with finance ministries, regulatory agencies and other stakeholders in the APFF to undertake several activities to advance these initiatives. These include the launch of the Financial Infrastructure Development Network (FIDN) in November 2015 and seminars and workshops held in the Philippines, China and Thailand to support them in developing their credit information and secured transaction systems, as well as a workshop in Singapore to address issues in trade and supply chain finance.

These activities are being continued and expanded. In addition, FIDN is undertaking a baseline analysis of credit information sharing across APEC economies, the development of a consumer and commercial credit information data dictionary to facilitate regional convergence in support of cross-border MSME and migrant worker access to finance, and the preparation of two pathfinder projects on cross-border sharing of commercial and consumer credit information among credit bureaus from a few member economies, within existing legal and regulatory frameworks. In the field of secured transactions, FIDN plans to undertake studies on the use of model codes, alternative dispute resolution mechanisms and the benefits of a harmonized digital APEC collateral registry to facilitate cross-border transactions.

Recommendations

- ***Encourage economies to work with FIDN to develop modern credit information systems and regionally consistent legal and institutional frameworks for secured transactions and insolvency that can expand MSMEs' access to finance and enable them to increase their contributions to regional integration.*** **This should involve the convening of workshops in individual economies bringing together public and private sector stakeholders and experts; advisory activities and seminars to support legal and policy reform and modernization of collateral and credit registries; outreach activities to educate MSMEs, lenders and other market participants on how they can benefit from these opportunities; and support for the pathfinder projects on cross-border sharing of commercial and consumer credit reports among credit bureaus within existing legal and regulatory frameworks, the development of the credit information data dictionary and the baseline analysis of credit information sharing in APEC member economies.**

- ***Collaborate with APFF in holding public-private dialogues across all relevant agencies and stakeholders on regulatory issues and emerging facilitators of trade and supply chain finance.*** **These should aim to promote effective and regionally consistent implementation of capital and liquidity standards, greater awareness of Know-Your-Customer, Counterparty Due Diligence and Anti-Money Laundering rules, as well as expanded use of technology including 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.**

PROMOTING FINANCIAL INCLUSION

The region is home to an estimated 694 million people who do not have access to a bank account or formal financial services.[1] This also involves a significant gender gap of 9 percent (only 50 percent of women in developing economies globally reported having an account, as compared to 59 percent of men). Many of those who have accounts are not yet fully benefiting from their use for payments services. In developing economies, only 9 percent of adults have borrowed from financial institutions, as compared to 18 percent in OECD economies. Only 40 percent of savers in developing economies have placed their savings in formal institutions, compared to more than 70 percent in OECD economies. Access of low-income individuals to insurance services is also very limited – only 4.3

[1] Data are for East Asia/Pacific and Latin America/Caribbean. Source: World Bank Group, *Global Findex Database* (http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2015/10/19/090224b08315413c/2_0/Rendered/PDF/The0Global0Fin0ion0around0the0world.pdf).

percent in Asia and 7.6 percent in Latin America are covered by microinsurance.[2]

Lack of access to a variety of financial services – including savings, investments, payments, credit and insurance – deprives many low-income households and individuals of the means to prepare for contingencies and retirement; to maximize returns from their savings; to invest in education, housing, health care and other needs; to make financial transactions more conveniently and at lower costs, and to start businesses. At the same time, it negatively impacts economic growth by preventing the mobilization and more efficient deployment of savings within the economy, impeding investment and consumption by a broad segment of the population, and limiting the development of the domestic financial services sector.

The rapid development of digital technology in financial services provides significant opportunities to advance 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 Finance Ministers have identified financial inclusion as a priority area since 2010, when they launched the Asia-Pacific Forum on Financial Inclusion as proposed by ABAC. Since then, ABAC has convened the Forum, in cooperation with ADB Institute and various other stakeholders every year. The Forum provides an opportunity for stakeholders to review current trends in financial inclusion, recent achievements, ongoing challenges and opportunities within the region. Through these discussions, the Forum has produced several specific recommendations to support the efforts of member economies' policy makers and regulators to promote financial inclusion. This year's Forum examined financial inclusion in the context of the advent of the digital age. The Forum Report[3] touched on credit information systems, microinsurance, cross-border payment systems, savings, digital financial infrastructure, financial literacy, consumer protection with respect to digital finance, and insolvency.

Following are the key conclusions of the Forum:

- Favorable conditions for the development of credit information systems that benefit MSMEs and low-income individuals include undertakings by governments to collect data on individuals as a matter of policy, protection of individuals' rights to have

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[2] Source: MunichRe Foundation, *The Landscape of Microinsurance in Asia and Oceania*, 2013 (http://www.munichre-foundation.org/dms/MRS/Documents/Microinsurance/2013MILandscape/2013LandscapeofMIAsiaOceania_fullReport/The%20landscape%20of%20microinsurance%20in%20Asia%20and%20Oceania%202013%20-%20full%20report.pdf)

[3] The full report of the 2016 Asia-Pacific Forum on Financial Inclusion can be downloaded from ABAC Online at http://www2.abaconline.org/assets/2016/3%20Shenzen/2016_Asia-Pacific_Forum_on_Financial_Inclusion_Tokyo_Japan_7-8_April_2016_072716.pdf .

access to all their data, a balanced approach to the protection of data and privacy, and enabling of credit bureaus and registries to use data generated by individuals' transactions with financial and non-financial entities, such as utilities, for the purpose of giving individuals and business owners access to credit and other financial services.

- In developing insolvency and secured transaction systems, it is important to strike an effective balance between the rights of creditors and debtors, between liquidation and reorganization and between the need for efficiency and the need for legal fairness.

- Key components of an enabling environment for expanding coverage of microinsurance include proportional regulation of insurance products, dialogue between industry and regulators and deepening the understanding of the market.

- Promoting financial inclusion in the development of cross-border payments entails providing access to and use of a combination of products, with an increasing focus on financial products and services that clients are seeking. While the focus of policy has been on reducing costs of remittances, convenience and trust are the other key factors migrant workers and their families consider in their remittance decisions.

- A comprehensive ecosystem for promoting savings includes regulations that respond to channel-specific situations such as clear delineation of responsibilities between agents and financial service providers, as well as collaboration among government, financial service providers and other specialists collaborating together to develop and implement specific programs, especially financial education.

- An inter-operable digital financial infrastructure can be developed through greater coordination among government agencies and private sector industry associations and institutions, to promote greater efficiency, innovation, lower costs and enhanced convenience for MSME borrowers and consumers.

- Effective integrated financial education strategies and programs are those that bring together and synergize initiatives by government, financial services providers and other relevant stakeholders, as well as economy-wide school curriculums that have shown to be effective, tailored for various age groups and backed by training for educators. Strategies should also include electronic learning platforms that have proven successful in different markets in reaching more people.

- Digital finance presents new challenges for consumer protection compared to traditional finance due to its different customers, the additional dynamic presented by agents, technology-based interface and lack of clarity as to who in the delivery channel is responsible to the client for specific services. It is expected that these challenges, while at present still manageable due to the early stage of development of the digital finance market, policy makers and regulators will need to develop responses in areas like suitability of products for clients, privacy and data protection as digital finance becomes more pervasive.

Recommendation

- ***Encourage policy makers and regulators responsible for financial inclusion and MSME finance to study the report of the 2016 Asia-Pacific Forum on Financial Inclusion and to participate in the 2017 Forum.***

INCREASING MICROINSURANCE COVERAGE IN APEC

Effective risk management through microinsurance is critical for low income individuals, micro- and small enterprises, and developing economies.[4] An estimated three billion people globally are potential microinsurance customers who can generate an estimated $30 billion in insurance premiums - a substantial market for many developing economies. New developments in mobile insurance, disaster risk management and public-private partnerships are helping to expand inclusive insurance while also requiring a paradigm shift for regulators, insurers, and others in the insurance value chain.

Microinsurance is an important financial product for developing economies that are exposed to frequent natural disasters. It plays a key role in disaster risk financing, where the underdevelopment of capital markets hinders the use of instruments such as natural catastrophe bonds. An example is the Philippines, where (as of 2014) 62 percent of the entire insurance coverage is through microinsurance products. It has proven very effective in helping promote recovery, in particular after the devastation caused by Typhoon Haiyan in 2013.[5] Microinsurance forms a key part of many micro- and small enterprises' strategy for ensuring business continuity after a risk event. It enhances their ability to access loans by mitigating lenders' risk concerns, reducing the need to seek additional loans and divert capital, and helping create risk-aware environments as more people begin to recognize the link between insurance premiums and risk levels.

Scale is an important driver of growth for the industry, allowing the cost of microinsurance products to be reduced as more insurers and clients are involved. It also allows the quality of insurance products to be improved. Technology provides an opportunity to achieve scale. While microinsurance coverage in most developing economies amounts to around 5 percent of the total population, their mobile penetration rates typically reach about 70 percent or more. This gap represents an opportunity for insurance providers to reach a much larger portion of the population through mobile products.

In the context of financial inclusion, it is important to recognize that products such as savings, credit, insurance and payments should not be addressed individually. There is a need for greater recognition among stakeholders about how these products can be integrated to increase impact and overall effectiveness in achieving financial inclusion. As an example, in the event of a crisis, a household would potentially use a variety of financial products to recover including their savings, micro loans and insurance cover. By integrating multiple products, new solutions can be found to provide better value for customers and

[4] Around 5.2 percent of the total market in Asia, Africa and Latin America are currently covered by microinsurance. This shows that much more needs to be done to increase access. There are nearly 1,000 microinsurance products currently being offered by more than 500 insurers. Currently, the primary microinsurance product is a life product, followed by an accident product. Far down the list are health insurance products. *Source: GIZ.*

[5] In November 2013 Typhoon Haiyan hit the Philippines with the highest wind speeds ever recorded on land. It impacted over 16 million people impacted and displaced nearly 4.1 million. It resulted in over 6,000 lives lost and an estimated USD 700 million in damage to agriculture and infrastructure. Following the typhoon, 126,363 microinsurance claims were made with payments from insurers totaling USD 12 million. The average payment to microinsurance clients was USD 108 (PHP 4,777) which was used for either housing repairs (50%) or restarting livelihoods (50%). In terms of timing, 27% of claims were paid within the first 4 ½ weeks of the typhoon, with 60% being paid by March 2014. *Source: GIZ*

more effectively achieve an environment of financial inclusion which is not limited to a single product.

Recommendation

- ***Undertake activities in 2017 to complete the roadmap for expanding microinsurance coverage* as envisioned under the CAP. Discussions on the roadmap may include the following elements: (a) adoption of the toolkit developed by the Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia (RFPI Asia) of the GIZ for integrating insurance into DRFI mechanisms to help insurers develop products that are appropriate for MSMEs;[6] (b) development of policy frameworks for establishing risk pools and other DRFI instruments, provision of incentives, use of technologies, and mechanisms for public-private sector cooperation; (c) creation of the legal basis for the provision of mandatory insurance coverage to MSMEs; (d) capacity building for public and private stakeholders regarding product development, distribution and promotion of MSME insurance; (d) development of data management on catastrophic events; (e) establishment of central business registries with hazard mapping and catastrophe coverage for enterprises; (f) proportionate regulation to support a wide range of insurance products designed for MSMEs; (g) mechanisms for public-private dialogue in developing products and solutions for responses to and mitigation of disaster risk; and (h) implementation, financing and coordination.**

DEVELOPING EFFECTIVE DISASTER RISK FINANCING AND INSURANCE MECHANISMS

Being in the world's most natural disaster-prone region, Asia-Pacific policy makers are setting their sights on developing financial instruments to help mitigate the impact of disasters *ex ante*. This complements ongoing efforts to improve disaster response and disaster risk management strategies. In 2015, APEC member economies collaborated with other stakeholders to advance work on disaster risk reduction and related issues including climate change. Various international agreements[7] that were signed stress the importance of public-private sector collaboration in addressing the impact of natural disasters.

ABAC supports the Finance Ministers' inclusion of disaster risk financing and insurance (DRFI) in the CAP, identifying deliverables and their timelines to (a) establish private disaster insurance schemes and deepen insurance penetration within economies; (b) develop regional risk sharing measures, and (c) develop a roadmap and network of experts through the support of APFF for expanding the coverage of micro-insurance and disaster risk finance in member economies.

[6] These discussions may consider the toolkit developed by the Deutsche Gesellschaft fur Internationale Zusammenarbeit (GIZ), which highlights four steps: risk assessment, disaster risk management mapping, identification of gaps and exploration of disaster risk options. Throughout these steps, the framework supports the integration of microinsurance as a key part of broader disaster risk strategies

[7] These include the Sendai Framework on Disaster Risk Reduction, the Sustainable Development Goals and the Paris Agreement of 2015.

This year, APFF initiated its work on DRFI by building a network of industry experts that can collaborate especially with the IAIS, ADB, OECD and WB in achieving the CAP deliverables. This network now includes experts from the Geneva Association and insurance, re-insurance, catastrophe risk modelling and related firms. APFF also started collaborating actively with the ASEAN Natural Disaster Research and Works Sharing (ANDREWS), a working committee of the ASEAN Insurance Council (AIC).

APFF collaborated with the Peruvian Ministry of Economy and Finance in organizing the *APEC Workshop on Disaster Risk Financing & Insurance* on 13-14 February, 2016, in Lima, Peru. Among its key conclusions are the following:

- The quality, availability and ability to share or transfer risk data are crucial in the management of a DRFI scheme. While gathering data and modeling risks are costly, the information thus collected is useful for risk reduction, including awareness raising and urban planning. Ongoing international cooperation in climate and flood data sharing needs to be intensified.

- Domestic catastrophic risk pooling should be considered as part of a comprehensive disaster risk management package, including contingent credit lines and other forms of finance. Where insurance penetration is immature, making the most of existing community network, such as that of banks, and relevant regulatory offices can be effective. While data collection is of fundamental importance, parametric features could facilitate a quick implementation in some jurisdictions. The central government's role is crucial in establishing and managing effective DRFI schemes. However, practical expertise accumulated in private sector entities such as insurance companies, banks and risk modelers should be harnessed.

- While risk profiles and social and fiscal conditions may differ across jurisdictions, a comprehensive DRFI scheme needs to be designed and organized as a component of a comprehensive disaster risk management system in each jurisdiction, involving awareness raising, risk assessment, risk reduction and sharing of data.

APFF also joined a working group together with eight economies, the World Bank and OECD that will develop methodologies for data gathering on public assets exposure and develop good quality insurance databases. APFF will bring the private sector's perspective in helping to build these methodologies.

Recommendations

- ***Identify economies and perils of priority*** **as an initial step in promoting private disaster insurance schemes as envisaged under the CAP. This may be undertaken through a workshop in early 2017 with broad participation from finance ministries and related public sector stakeholders, multilateral institutions and the private sector through APFF.**

- ***Complete the stock-taking on availability of risk exposure data*** **as a step toward the development of regional risk sharing measures. This may be undertaken through the aforementioned workshop in conjunction with the previous recommendation.**

- ***Initiate the drafting of an APEC roadmap for DRFI*** **as envisaged under the**

CAP, involving experts from the public and private sectors and multilateral institutions.

DEVELOPING A ROBUST PIPELINE OF BANKABLE INFRASTRUCTURE PROJECTS

The ADB estimates that Asia needs around USD8 trillion in the decade to 2020 to bridge its infrastructure gap. The Economic Commission for Latin America and the Caribbean estimates that Latin American economies need to annually invest 6.2 percent of their GDP (around USD320 billion) on infrastructure development to meet their economic goals to 2020. Investors have plenty of appetite for infrastructure projects, but poor structuring of deals prevents them from making actual investment decisions. Addressing the lack of a pipeline of bankable infrastructure projects, due in large part to insufficient capacity for project preparation, is a priority issue in APEC.

ABAC supports the Finance Ministers' initiatives under the CAP in response to this challenge, particularly the creation of the APEC Knowledge Portal in collaboration with the Global Infrastructure Hub (GIH) and in coordination with the International Infrastructure Support System (IISS), the standardization of PPP terms and practices, expanded participation in the APEC PPP Experts' Advisory Panel, facilitating long-term investment in infrastructure, and promoting urban infrastructure development. The APIP supports these objectives through its active participation in these initiatives and the dialogues it holds with governments of individual economies.

The Urban Infrastructure Network (UIN), formed upon ABAC's proposal in 2014, completed its report setting out a framework of best practices and their application as a guide to economies in managing complex urbanization processes. It included action plans that relates to economies, provincial and municipal levels of government at different stages of capability in handling urban infrastructure challenges. Key recommendations including prioritization of urban funding transfers, ensuring that relevant Ministries work to coordinate financing with all levels of government and take measures proposed by UIN, and capacity building initiatives aimed at enabling developing economies enhance urban development, planning and financing efforts.

Recommendations

- ***More closely integrate and coordinate the various infrastructure initiatives under the FMP,*** **including new initiatives introduced by the CAP and ongoing initiatives such as the Asia-Pacific Infrastructure Partnership (APIP) Dialogues, the APEC PPP Experts' Advisory Panel and the PPP Center Network, by using the PPP Experts Advisory Panel as the coordinating center.**

- ***Expand cooperation between the Global Infrastructure Hub (GIH) and the FMP,*** **including early adoption by member economies of the GIH's online tools and resources as well as their participation in the International Infrastructure Support System (IISS).**

- ***Continue holding APIP dialogues among interested governments, the private***

sector and relevant international organizations in 2017. **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.**

- ***Advance the CAP's initiative to promote urban infrastructure development*** **in collaboration with the Urban Infrastructure Network (UIN).**

EXPANDING THE REGION'S LONG-TERM INVESTOR BASE

Long-term investors such as insurers and pension funds play critical roles in the development of capital markets and financing of infrastructure projects, in addition to the important functions that they play in providing financial security. With the progressive aging of much of the region's population, their roles will become even more important going forward in channeling long-term liabilities into long-term assets that can provide adequate returns to meet future emergency and retirement needs.

Recommendations

- ***Consider the establishment of mandatory and scalable retirement systems*** **to effectively channel the region's huge savings currently concentrated in short-term bank deposits into longer term institutional investments. Scalability could be achieved through the implementation of strong tax incentives to encourage higher levels of retirement savings.**

- ***Promote infrastructure investment as a defined asset class*****, in order to facilitate more holistic regulatory treatment that can encourage more private sector infrastructure investment.**

- ***Adopt accounting, solvency, investment, and securities standards supportive of the development of retirement savings and infrastructure investment.*** **To encourage insurers and pension funds to engage in long-term investments and retirement solutions, regulatory and accounting barriers should be removed, and policies that are suitable for long-term business should be promoted. Global solvency and accounting standards should be designed in a way to incentivize companies to improve risk management and adopt best practice.**

- ***Encourage participation of all relevant public sector stakeholders in dialogues with the private sector*** **to address barriers to long-term investment. APFF intends to promote active participation of the private sector in conferences organized by network members and to convene workshops in the region involving a wide range of stakeholders.**

MOBILIZING ISLAMIC FINANCE FOR INFRASTRUCTURE INVESTMENT

Islamic finance has significant potential to meet long-term funding needs for infrastructure projects, which are suitable for its asset-based and risk-sharing nature. The global Islamic capital market has been growing in size and depth across jurisdictions, with a combined market capitalization of around USD23.2 trillion spread across 58 jurisdictions covered by the Dow Jones Islamic Market World Index (as of the time of this Report's writing).[8]

At the 2015 APEC Finance Ministers' Meeting hosted by the Philippines in Cebu, ministers and the private sector discussed the development of an Islamic Infrastructure Investment Platform (I3P), in order to facilitate the mobilization of capital in Islamic institutions to fund infrastructure across the region. In October 2015, the government of Brunei Darussalam hosted a workshop in collaboration with the APEC Business Advisory Council (ABAC) Brunei, the APIP and the APFF. In May this year, the government of Malaysia, in collaboration with ABAC Malaysia, hosted an APFF workshop to develop concrete proposals.

Participants in the workshop agreed on the following proposed features of I3P:

- I3P would provide a platform for collaboration among public, private, international and academic experts to address the key obstacles to the expansion of cross-border investment by Islamic financial institutions, especially long-term investment from takaful and Islamic pension funds, in infrastructure projects in APEC economies.

- I3P would be a pathfinder initiative involving initially Brunei, Malaysia and other interested APEC member economies that can be open to participation by other APEC members as it develops. It is hoped that I3P's success in addressing key issues would lead to more cross-border investment in infrastructure among participating economies, as well as more investment from leading Islamic financial centers to the region.

- I3P would be an initiative under the FMP to be championed jointly by Brunei, Malaysia, ABAC, and any other interested APEC economies. The pathfinder economies will also invite ADB and the World Bank Group to support the initiative. It would seek the collaboration of related FMP policy initiatives such as the APFF and APIP, both of which will mobilize experts from their respective networks, as well as other institutions such as the Islamic Development Bank and the Sustainable Infrastructure Foundation.

- I3P will have a small secretariat based in a location agreed upon by the pathfinder economies. The funding for the secretariat may be provided by the public or private sector or both, or may be shouldered by an existing organization.

- During the initial stage, a small APFF task force led by the Brunei private sector would play a provisional secretariat role, while undertaking activities and discussions leading to the establishment of the secretariat. Initially, the role of the secretariat would be mostly coordination and maintenance of a directory of experts participating in the initiative.

- Actual work would be undertaken by public, private, international and academic experts on a volunteer basis, organized around a number of work streams led by volunteer Sherpas agreed upon by the pathfinder economies.

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[8] *Dow Jones Islamic Market World Index Fact Sheet* (https://www.djindexes.com/mdsidx/downloads/fact_info/Dow_Jones_Islamic_Market_World_Index_Fact_Sheet.pdf).

- Activities would be undertaken on a self-funded basis. Participating organizations will be encouraged to host activities. Participants will be responsible for financing their own travel and accommodation through their own institutions or sponsors. Funding may be solicited from appropriate sources for projects that require significant dedication of time and effort, such as research projects or surveys.

- During the initial stage, I3P would have the following work streams to address key issues identified during the first two workshops: (a) development of common definitions of Sharia-compliant infrastructure projects and financial instruments acceptable in all pathfinder economies, taking into account the proposals to define infrastructure and real assets and their incorporation in an enabling Islamic investment infrastructure environment referred to later in this report; (b) development of Islamic hedging instruments; (c) development of financial instruments suitable for infrastructure investment from Islamic pension funds and *takaful*; (d) identification of discriminatory tax policies in pathfinder economies and actions to address them; (e) development of a virtual place to coordinate a directory of experts, definitions, funders, participating economies, and qualifying infrastructure projects to help progress various initiatives under this platform; and (f) collaboration with the International Infrastructure Support System (IISS) in developing project preparation tools for participating economies.

Recommendation

- ***Establish an Islamic Infrastructure Investment Platform (I3P)* as a pathfinder initiative to provide a platform for collaboration among public, private, international and academic experts to address the key obstacles to the expansion of cross-border investment by Islamic financial institutions, especially long-term investment from takaful and Islamic pension funds, in infrastructure projects in APEC economies. I3P should address in its work the definitions of infrastructure and financial instruments; Islamic hedging instruments; financial instruments for pension funds and *takaful*; discriminatory tax policies; a directory of experts, definitions, funders, participating economies and qualifying infrastructure projects; and collaboration with the International Infrastructure Support System (IISS).**

DEEPENING THE REGION'S EMERGING CAPITAL MARKETS

Capital markets, particularly local currency bond markets, are of crucial importance for the region's financial stability, economic growth, and the efficient channeling of long-term savings to investment in long-term assets like infrastructure. Various initiatives have successfully brought about the rapid growth of Asian government bond markets, a key stage in the process of capital market development. The next stage, which involves increasing market depth and liquidity and accelerating the financial integration of debt and equity markets, will be critical to the sustained growth and development of the region's financial markets.

ABAC welcomes the Finance Ministers' decision to include the development of capital markets as one of the deliverables under the CAP. The APFF has organized its work program in line with the Ministers' direction to promote the development of liquid repo markets, legal and documentation infrastructure facilitating risk mitigation, transparency of capital markets (issuer disclosure, bond market data, investor rights in insolvency), and a regional securities investment ecosystem to promote cross-border investment in capital markets. Through the APFF, ABAC is engaging with regulators in individual member economies as well as with the ASEAN+3 Bond Market Forum (ABMF), the ASEAN Capital Markets Forum (ACMF) and the Pacific Alliance.

ABAC welcomes the signing of the Statement of Understanding for the Asia Region Funds Passport (ARFP) in Cebu last September by six economies and the signing of the Memorandum of Cooperation early this year by Australia, Japan, Korea, New Zealand and Thailand. ABAC notes that discussions among industry representatives in the APFF concluded that, with the decision by Japan in 2015 to join the scheme's original participants, the ARFP has made significant progress. APFF collaborators conducted informal discussions with regulators in Hong Kong, Singapore and Chinese Taipei and spoke at an Industry-Regulator Dialogue in Sydney to encourage other member economies to join the ARFP. The APFF also established a Tax Task Force that completed an assessment of the key tax metrics in actual and potential ARFP participating jurisdictions to help regulators understand the detailed tax implications of ARFP and made this assessment available to regulators in participating jurisdictions.[9]

ABAC has been collaborating with the ADB, the Asia Securities Industry and Financial Markets Association (ASIFMA) and International Swaps and Derivatives Association, Inc. (ISDA) to assist the Philippines and Indonesia in the development of their repo and derivatives markets, using the APFF platform. An APFF workshop on the Philippines' repo and derivatives markets was held last November in Manila, while another workshop on Indonesia's repo market was held last April in Jakarta. Discussions are ongoing to hold future workshops in China on bond, repo and derivatives markets and in Indonesia on its derivatives market.

The APFF has been assisting capital market regulators in improving the availability and quality of information needed by investors in these markets, using the self-assessment templates completed in 2014.[10] The Philippines' Securities and Exchange Commission has already completed its assessment and continues to work with APFF. Discussions with officials from Vietnam, Thailand and Malaysia are ongoing to discuss the self-assessment templates. The templates have also been circulated to the members and lead representatives of the ACMF.

9 A detailed summary of the tax metrics for ARFP economies can be found in http://www.ey.com/Publication/vwLUAssets/EY-update-asia-region-funds-passport-the-state-of-tax/$FILE/EY-update-asia-region-funds-passport-the-state-of-tax.pdf. The APFF thanks EY for permission to reproduce the tax information contained in their EY Tax Alert dated 8 August 2016.

10 The APFF 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 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. The templates are organized around three categories – disclosure, bond market data and information on investor rights in insolvency. These three categories broadly align with information that may be relevant to successive phases of the investment process: initial purchase, secondary market trading, and rights in the event of default.

Recommendations

- ***Encourage more member economies to join the Asia Region Funds Passport (ARFP) by signing the Memorandum of Cooperation.*** **APFF also welcomes opportunities and invitations to provide private sector resource persons to dialogue with regulators and industry in economies that decide to consider joining the ARFP.**

- ***Encourage more member economies to collaborate with APFF in undertaking workshops on development of classic repo and derivatives markets*** **to enable the effective use of hedging instruments and improve bond market liquidity. ABAC also thanks the ADB for its collaboration in financing and organizing these activities and welcomes the support of other interested organizations.**

- ***Encourage more member economies to engage with APFF in using the self-assessment templates on information for capital market investors to help expand the investor base.***

- ***Collaborate with APFF in convening a regional symposium in 2017 on the development of a roadmap for improving the regional financial market infrastructure.*** **ABAC recommends that discussions focus on the harmonization of market access and repatriation practices, improving the inter-operability, liquidity and connectivity of domestic and cross-border financial markets, reducing systemic risks, and creating a securities investment ecosystem that can promote cross-border portfolio investment flows across member economies.**

FACILITATING INNOVATION IN FINANCIAL MARKET INFRASTRUCTURE

The growing role of financial technology (Fintech) raises new opportunities and risks with respect to the development of the region's financial market infrastructure (FMI), which is also particularly important in promoting cross-border operations of MSMEs.[11] As governments begin to grapple with the issues that Fintech raises, government-industry collaboration will be needed to better understand the impact of developments and determine appropriate regulation that allows innovation while protecting the consumer and limiting systemic risk. Inter-agency cooperation will be particularly critical as issues go across government departments. Cooperation between governments will also be important to reduce the risk of different standards developing across APEC economies.

ABAC intends to collaborate with industry, public sector and multilateral stakeholders using the APFF platform to help policy makers and regulators identify approaches and ways forward to address issues in three key areas – cybersecurity, Know-Your-Customer (KYC) rules and electronic payments (e-Payments) – through a series of workshops.

- *Cybersecurity*: Fintech has the potential to leverage data and new risk modeling

[11] Financial market infrastructure (FMI) covers the recording, clearing and settlement of payments, securities, derivatives and other financial transactions.

techniques to lower security risks. Cybersecurity remains a major risk as Fintech evolves, but better technology that can properly combat new risks raised in a digital world could provide a solution. Robust cybersecurity can ensure that high levels of security are maintained and enhanced at the economy level amidst increasing cross border data flows. Discussions will focus on best practices and opportunities and risks involved in various policy options.

- *KYC*: Identity is critical for people to bank and transact. However, mobile phones and data are powering new ways to open up access and participation. In order to provide effective, safe, and secure products, service providers need to be able to easily and reliably identify consumers. Technology can help to provide better forms of identity using biometrics, transaction details, or physical tokens (i.e. mobile phones). Discussions will focus on the myriad of KYC regulations across the region, creating interoperable baseline standards for KYC, exploring new ways of identity verification as well as tiers of KYC appropriate to the type and value of transactions.

- *E-Payments*: E-Payments have a major impact by lowering transaction costs, increasing transparency, and making transfers of money faster and more efficient. Restrictions on e-payments, including amounts that can be processed, the type of entity that can engage in processing, location of processing facilities, or the technology that can be used will impact growth, equity, and innovation. Cross department cooperation is also important. Drawing on the latest APEC e-Payment Readiness Index,[12] discussions will explore conditions under which economies can promote healthy disruption and encourage firms and consumers into the e-Payment infrastructure, and how e-Payment systems can make compliance with AML and CTF rules, and identification and payment of taxes and other processes easier, less costly, less time-consuming and more transparent.

Recommendation

- ***Encourage policy makers and regulators to participate in APFF workshops on cybersecurity, Know-Your-Customer (KYC) rules and e-Payments*** **to facilitate innovation in the region's financial market infrastructure.**

HARNESSING FINANCIAL TECHNOLOGY (FINTECH) TO ACCELERATE THE DEVELOPMENT OF FINANCIAL MARKETS

The growing use of Fintech, which includes mobile money, shared ledger technology, big data, artificial intelligence, electronic platforms, advanced analytics and automated processes, among others, is challenging established business models. Various innovations are helping unbanked individuals and small businesses gain access to finance and enhancing business processes such as clearing and settlement, compliance, risk management and fund administration. Technologies such as block chain and artificial intelligence have potential applications that could revolutionize financial service firms' efficiency and responsiveness to customer needs.

[12] The report may be downloaded from https://www2.abaconline.org/assets/2016/3%20Shenzen/Resource_Material_-_Fintech_E-payment_Readiness_Index_20161.pdf.

Policy makers and regulators have begun to respond to these developments, in compliance with mandates to promote financial stability, protect consumers and privacy and maintain the integrity of financial systems. However, for the APEC Leaders' and Finance Ministers' aspirations to make financial systems more inclusive, efficient and responsive to the region's vast financing needs to be met, a balanced and coherent approach that maximizes the benefits of innovation while adequately addressing emerging risks and concerns will be required.

In the context of APEC's mission to promote open trade and investment and quality growth across the region, collaboration across jurisdictions and between public and private sectors in addressing these challenges is important. Within APEC itself, various fora are conducting discussions and initiatives that are relevant. ABAC, through its working groups collaborating with the Finance and Economics Working Group and the APFF, can play an active part in this process.

To discuss how APEC can harness Fintech to build bigger, robust and inclusive financial markets, ABAC convened two APFF Roundtables on both sides of the Pacific. The first Roundtable was held in February in Silicon Valley, and the second in July in Hong Kong. The Roundtables brought together policy makers and regulators, experts and practitioners from major financial institutions, Fintech start-ups, consulting firms, multilateral institutions and academe. Both events concluded that for APEC member economies to benefit from Fintech, all these stakeholders need to agree on a shared vision and work closely together.

Recommendation

- ***Establish a regional platform to bring together stakeholders from the public and private sectors to address in close collaboration with each other key issues arising from the development of FinTech*, and identify concrete ways to help member economies harness financial innovation to build bigger, robust, inclusive and integrated financial markets. These stakeholders should include representatives from the industry (FinTech startups and major financial institutions, related service providers, associations and experts), public sector (government and regulatory agencies, relevant APEC fora) and major international organizations.**

IMPROVING VALUATION PRACTICES IN APEC

Valuations are central to decision making in the global economy and impact the public interest, economic growth and development of financial systems in a multitude of ways. This underscores the importance of high quality valuation practices and a credible valuation profession in all the APEC economies. ABAC appreciates the support that Finance Ministers have expressed in their 2014 and 2015 Joint Ministerial Statements for our work in this field. ABAC has been collaborating with the International Valuation Standards Council (IVSC), valuation professional organizations (VPOs) across the region, experts from industry and other relevant bodies to promote high quality valuation practices and professionals across member economies.

This work focuses on the following:

a. promoting region-wide convergence of valuation practices;
b. exploring the valuation landscape in Asia Pacific economies;
c. discussing model valuation architecture, associated best practice, the role of commonly accepted valuations standards and of VPOs;
d. recording strengths, weaknesses and impediments to improving valuation practices and identify where there is need to develop and/or reinforce valuation infrastructure;
e. prioritizing opportunities to enhance existing landscape and implementation challenges; and
f. outlining the development process for member economies that lack valuation infrastructure.

Stakeholders have since completed work on two documents, which are now both available online. The first is the audit of the valuation landscape in APEC's 21 member economies, covering various asset classes.[13] The second is the template of best practices, which describes various options for establishing best practice landscapes for valuation practices in member economies.[14] Roundtables have been convened in Malaysia in January and Papua New Guinea in April to discuss best practices. Discussions with other member economies are under way to hold other Roundtables and a Symposium. Experts from IVSC and VPOs are also providing valuable inputs to FIDN activities, particularly with respect to the valuation of collateral.

Recommendation

- ***Encourage member economies to host discussions with ABAC, the International Valuation Standards Council (IVSC), valuation professional organizations (VPOs), experts from industry and other relevant bodies on improving the quality of valuation practices and professionals.***

FOSTERING CONTINUED DIALOGUE AND RESEARCH ON THE FUTURE OF FINANCIAL REGULATION

The rapid and continuing evolution of financial markets and ongoing efforts by Asia-Pacific economies to modernize their financial systems pose major challenges to policy makers and regulators. In the context of APEC Finance Ministers' aspirations to develop inclusive and efficient financial markets that can support strong, sustainable and balanced growth, financial regulatory reforms will need to be based on up-to-date and accurate assessments of market conditions, as well as deep insights on how policy and regulatory measures will affect the behavior of market players and the direction of market developments.

ABAC highly values the Finance Ministers' active engagement with the private sector and

[13] This may be downloaded from http://www2.abaconline.org/assets/2016/3%20Shenzen/Resource_Material_-_APEC_Valuation_Landscape.pdf .

[14] This may be downloaded from http://www2.abaconline.org/assets/2016/3%20Shenzen/Resource_Material_-_Valuation_Best_Practices_Template.pdf .

their strong support for the various platforms that have been established through which policy makers and regulators can dialogue with experts from the private sector, multilateral institutions and academe. We believe that such dialogues will become increasingly valuable in coming years. ABAC continues to promote research and discussions in APFF on the present conditions and future directions of financial markets and regulations, which help authorities and industry deepen their knowledge of markets and anticipate emerging issues.

Among the activities under the APFF in 2016 were an industry-regulator dialogue in Sydney in March, research on the potential for patient capital to finance infrastructure projects, a workshop on collaboration among the region's financial regulators, and research by the Melbourne University Research Group on the regional architecture for financial regulation in Asia and various ways in which regional coordination and integration can be strengthened.[15] The research team is planning a conference in December in Singapore to discuss these issues.

Recommendation

- ***Encourage policy makers and regulators involved in the region's financial markets to participate in dialogues and programs organized by academic and research institutions together with the financial industry to further the work of APFF on regional financial architecture and regulations.***

- ***Welcome the APFF's work on definitions of infrastructure and real assets in the context of developing an enabling environment for investment by Islamic financial institutions in infrastructure and encourage their adoption.***

ADDRESSING THE INTERSECTION OF FINANCE, HEALTH AND ECONOMIC GROWTH

Demographic shifts such as aging populations and increases in non-communicable diseases (NCDs) have significant fiscal and economic impacts. NCDs cause 60 percent of all deaths globally (35 million deaths a year), increasing to 75 percent by 2030, with 80 percent of these deaths occurring in low and middle-income countries. A 2014 study of six APEC economies estimated that the annual cost of NCDs in terms of lost gross domestic product (GDP) could be as much as 6.1 percent of GDP by 2030.

A 2015 study commissioned by ABAC showed an average of an additional 2 percent in lost GDP from early retirement due to ill-health, with NCDs as the main contributing factor. This is putting pressure on public sector and corporate pension and health schemes. The demographic strain of aging populations and dwindling workforces paying into retirement systems will put further pressure on pension obligations. The fiscal implications of health are significant, and require creating fiscal space and financial stability in health budgeting. Furthermore, due to the lack of adequate health/pension financing mechanisms, the savings rate in the APEC region is abnormally high. The development of said mechanisms will help put the capital to more productive use in capital markets.

[15] Working papers and journal articles have been published and are available on the research project website (https://government.unimelb.edu.au/financial-regulation-in-asia).

Recommendation

- ***Encourage finance and health officials to collaborate in developing solutions that would drive more equitable financing, strengthen health systems and expand access to health care, pensions, and disability coverage, in support of the Leaders' call to address the fiscal and economic impacts of ill health and the APEC Ministers' recommendation to convene cross-fora dialogue for this purpose.***

CONCLUSION: FULFILLING THE CRITICAL ROLE OF FINANCE IN REGIONAL ECONOMIC DEVELOPMENT AND COOPERATION

Economic cooperation in APEC has provided strong foundations for progress in trade liberalization and facilitation and increased connectivity that have enabled the region to achieve rapid economic growth. This process is continuing as member economies pursue cooperation in advancing regional free trade initiatives; the strengthening of physical, institutional and people-to-people connectivity; and ongoing regional initiatives in various APEC fora. Individual member economies are also promoting complementary domestic and cross-border initiatives. As these initiatives progress, the region will face a growing demand for investment, financing and cross-border financial services including international settlement, currency exchange, supply chain finance, factoring, payment and risk management.

The demand for infrastructure in energy, communication and transportation will increase, and the channeling of investment to these sectors from pension funds, insurers, asset management companies and commercial banks, and the provision of services including credit and bond financing, financial leasing, advisory services, project insurance, cash management and financial consulting will become more urgent. Other areas where finance can play important roles in accelerating the growth of trade and investment include industrial cooperation, energy resources, environmental technology and the movement of people. These will require the further development of project finance, trade finance and cross-border consumer finance.

Closer regional financial cooperation among governments and financial regulatory bodies will also be required, including the broader use of regional currencies for settlement and clearing, the sharing of credit information, and convergence of secured transactions and insolvency laws, practices and institutional frameworks to meet financing needs of MSMEs and migrants. Financial regulators will also need to further strengthen communications and exchanges of information, and capacity-building to develop compliance professionals needed by institutions and enterprises.

Given that resources in the public sector and multilateral financial institutions are limited, the ability of commercial financial institutions to meet the region's growing funding requirements will need to be enhanced. Improving the bankability of infrastructure projects, creating innovative financial instruments and providing enabling regulatory environments for cross-border financing of projects and activities will be indispensable. Support by multilateral development banks will also contribute to this process. Platforms for various forms of collaboration among commercial financial institutions in the APEC region will help the business sector play a greater role in meeting increased demand for funding.

The emergence of Fintech provides an opportunity for the region to accelerate the development of financial services in line with APEC's vision of free and open trade and investment that benefits all enterprises, economies and people. Innovation will also need to be pursued in services and products to develop cross-border financial services and financing of supply chains, industrial cooperation and infrastructure projects. Close collaboration between the public and private sectors will be required for these efforts to succeed.

In this context, ABAC views the FMP's role in accelerating the development and integration of financial services in APEC as critical to sustaining economic growth and reaping the benefits of other APEC fora's efforts to promote trade and investment in goods and services and expanding connectivity across the region. Legal, policy and regulatory reforms to create opportunities for MSMEs to grow and more substantially benefit from open trade and investment will also be critical for developing economies to achieve inclusive growth and avoid the middle income trap.

We believe that the CAP provides the roadmap that can translate these objectives into reality. The recommendations we are proposing in this report are aimed to advance those initiatives that will create the favorable conditions for the region's financial markets to support sustained growth throughout APEC. We respectfully invite Finance Ministers to consider these recommendations.

We thank the Finance Ministers for giving ABAC the opportunity to contribute our views on how we can advance 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 Peru this year. We look forward to discussing these matters with the Finance Ministers during our upcoming meeting with them in Peru and to the successful conclusion of this year's APEC Finance Ministers' Meeting.

2016 Report to APEC Finance Ministers

ANNEX A

Asia-Pacific Financial Forum

2016 Progress Report to the APEC Finance Ministers

31 August 2016

Asia-Pacific Financial Forum
2016 Progress Report to the APEC Finance Ministers

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Asia-Pacific Financial Forum

2016 Progress Report to the APEC Finance Ministers

EXECUTIVE SUMMARY

Home to 39 percent of the world's population and generating 57 percent of its economic output, the Asia-Pacific region is undoubtedly the most dynamic corner of the globe. Fueled by external trade and investment, many of its economies, particularly on the Western side of the Pacific, experienced rapid growth and rising prosperity in the late 20th and early in this century to become some of today's top manufacturing, trading and technological powerhouses.

However, the financial sector has lagged behind in this process. With the exception of a few advanced financial centers, most economies in the region have yet to develop the deep and liquid capital markets needed to support financial stability and the financing of long-term undertakings and projects, especially infrastructure. Most formal financial institutions, particularly in the banking system where the region's financial resources are concentrated, remain unable to serve the needs of large parts of the population as well as micro-, small and medium enterprises (MSMEs).

With a few exceptions, markets in the region are not supported by the presence of a strong long-term investor base, especially insurance firms and pension funds. The region's fragmented markets, regulatory regimes and market infrastructure provide a difficult terrain for lenders and investors seeking opportunities in financing cross-border projects and transactions. Many economies' legal frameworks, especially in secured transactions, insolvency, privacy and credit information, need to be redesigned to fit the needs of enterprises in a globalized and digital world.

To provide a platform for public-private collaboration to develop robust and integrated financial markets in the region, the APEC Business Advisory Council (ABAC) proposed the establishment of the Asia-Pacific Financial Forum (APFF). APEC Finance Ministers, at their 2013 annual meeting in Bali, launched the APFF as one of their policy initiatives. The APFF work program is currently structured around four major clusters:

- MSMEs' access to financial services;
- the development of deep, liquid and integrated financial markets;
- promoting financial resilience; and
- financial innovation.

Enabling MSMEs to effectively participate in economic activities and global value chains (including domestic commercial activity and access to international markets and export opportunities) is an important objective for APEC member economies. For most MSMEs, lack of access to finance is a key obstacle. Since the 2015 APEC

Finance Ministers' Meeting, ABAC has collaborated with finance ministries, regulatory agencies and other stakeholders in the APFF to undertake several activities to address this issue. These include the launch of the Financial Infrastructure Development Network (FIDN) in November 2015 and seminars and workshops held in the Philippines, China and Thailand to support them in developing their credit information and secured transaction systems, as well as a workshop in Singapore to address issues in trade and supply chain finance.

- ***It is recommended that APEC member economies work with FIDN to develop modern full-file and comprehensive credit information systems and regionally consistent legal and institutional frameworks for secured transactions and insolvency that can facilitate the use of movable assets as collateral. These will help expand MSMEs' access to finance and enable them to increase their contributions to regional integration. This effort should involve: (a) the convening of workshops in individual economies bringing together public and private sector stakeholders and experts; (b) advisory activities and seminars to support legal and policy reform and modernization of collateral and credit registries; (c) outreach activities to educate MSMEs, lenders and other market participants on how they can benefit from these opportunities; and (d) support for the pathfinder projects on cross-border sharing of commercial and consumer credit reports among credit bureaus within existing legal and regulatory frameworks, the development of the credit information data dictionary and the baseline analysis of credit information sharing in APEC member economies.***

In today's globalized world, cross-border trade, supply chains and supply chain finance play key roles in the deepening and broadening of an economy's industrial base, leading to growth. Increased risk aversion in the wake of the global financial crisis has led to a general tightening of credit for lesser known enterprises, particularly for MSMEs in lower tiers of global supply chains and in frontier, developing and emerging markets. Thus, the need to reduce barriers and inefficiencies in the trade ecosystem to facilitate businesses' abilities to conduct cross-border trade and access supply chain finance has become even more important than before.

- ***It is recommended that APEC member economies collaborate with APFF in holding public-private dialogues across all relevant agencies and stakeholders on regulatory issues and emerging facilitators of trade and supply chain finance. These should aim to promote effective and regionally consistent implementation of capital and liquidity standards, greater awareness of Know-Your-Customer, Counterparty Due Diligence and Anti-Money Laundering rules. They should also focus on the expanded use of technology including 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.***

Being in the world's most natural disaster-prone region, Asia-Pacific policy makers are setting their sights on developing financial instruments to help mitigate the impact of disasters *ex ante*. APFF supports the Finance Ministers' work on disaster risk financing and insurance (DRFI), identifying deliverables and their timelines to (a) establish private disaster insurance schemes and deepen insurance penetration within economies; (b) develop regional risk sharing measures, and (c) develop a roadmap and network of experts through the support of APFF for expanding the coverage of micro-insurance and disaster risk financing in member economies.

- ***APEC member economies are encouraged to identify economies and perils of priority as an initial step in promoting private disaster insurance schemes as envisaged under the Cebu Action Plan (CAP). This may be undertaken through a workshop in early 2017 with broad participation from finance ministries and related public sector stakeholders, multilateral institutions and the private sector through APFF.***

- ***It is proposed that the Finance Ministers' Process complete the stock-taking on availability of risk exposure data as a step toward the development of regional risk-sharing measures. This may be undertaken through the aforementioned workshop in conjunction with the previous recommendation.***

- ***It is proposed that the drafting of an APEC roadmap for DRFI be initiated as envisaged under the CAP, involving experts from the public and private sectors and multilateral institutions.***

Effective risk management through microinsurance is critical for low income individuals, micro- and small enterprises, and developing economies. It is an important financial product for developing economies that are exposed to frequent natural disasters. It plays a key role in disaster risk financing, where the underdevelopment of capital markets hinders the use of instruments such as natural catastrophe bonds. Around three billion people globally are potential microinsurance customers who can generate an estimated USD30 billion in insurance premiums - a substantial market for many developing economies. New developments in mobile insurance, disaster risk management and public-private partnerships are helping to expand inclusive insurance while also requiring a paradigm shift for regulators, insurers, and others in the insurance value chain.

- ***It is proposed that stakeholders in the APEC Finance Ministers' Process undertake activities in 2017 to complete the roadmap for expanding microinsurance coverage as envisioned under the CAP. Discussions on the roadmap may include the following elements: (a) adoption of the toolkit developed by the Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia (RFPI Asia) of the GIZ for integrating insurance into DRFI mechanisms to help insurers develop products that are appropriate for MSMEs;[1]***

[1] The toolkit highlights four steps: risk assessment, disaster risk management mapping, identification of gaps and exploration of disaster risk options. Throughout these steps, the framework supports the integration of

(b) development of policy frameworks for establishing risk pools and other DRFI instruments, provision of incentives, use of technologies, and mechanisms for public-private sector cooperation; (c) creation of the legal basis for the provision of mandatory insurance coverage to MSMEs; (d) capacity building for public and private stakeholders regarding product development, distribution and promotion of MSME insurance; (e) development of data management on catastrophic events; (f) establishment of central business registries with hazard mapping and catastrophe coverage for enterprises; (g) proportionate regulation to support a wide range of insurance products designed for MSMEs; (h) mechanisms for public-private dialogue in developing products and solutions for responses to and mitigation of disaster risk; and (i) implementation, financing and coordination.

Long-term investors such as insurers and pension funds play critical roles in the development of capital markets and financing of infrastructure projects, in addition to the important functions that they play in providing financial security. With the progressive aging of the region's societies, their roles will become even more important going forward in channeling long-term liabilities into long-term assets that can provide adequate returns to meet future emergency and retirement needs.

- ***APEC economies should consider the establishment of mandatory and scalable retirement systems. A mandatory system provides the scale necessary to effectively channel the region's huge savings currently concentrated in short-term bank deposits into longer term institutional investments and productive assets. Retirement savings can help professionalize the financial system through deeper domestic capital markets and expanded roles of long-term investors such as insurers and pension funds. Scalability is provided by implementing strong tax incentives to encourage higher levels of retirement savings. Altogether the system promotes public financial awareness, ensuring a diverse range of retirement income products and improved financial security for the region's rapidly growing number of retirees.***

- ***APEC economies should promote infrastructure investment as a defined asset class to facilitate more holistic regulatory treatment that can encourage more private sector infrastructure investment. Inadequate infrastructure investment has been a long-standing issue in emerging Asia (outside of China), as documented by the ADB and others. At the same time, Asia's huge savings are still being mostly channeled into short-term bank deposits and government securities in mature markets. Promotion of infrastructure as a defined asset class will help bridge the gap between Asian savings and investable long-term assets.***

- ***APEC economies should adopt accounting, solvency, investment, and securities standards supportive of the development of retirement savings and infrastructure investment. To encourage insurers and pension funds to engage in***

microinsurance as a key part of broader disaster risk strategies.

long-term investments and retirement solutions, barriers of regulations and accounting should be removed, and policies that are suitable for long-term business should be promoted. Global solvency and accounting standards should be designed in a way to incentivize companies to improve risk management and adopt best practice.

- ***It is recommended that APEC Finance Ministers encourage the participation of all relevant public sector stakeholders in dialogues with the private sector to address barriers to long-term investment. APFF intends to promote active participation of the private sector in conferences organized by network members and to convene workshops in the region involving a wide range of stakeholders.***

Islamic finance has significant potential to meet long-term funding needs for infrastructure projects, which are suitable for its asset-based and risk-sharing nature. The global Islamic capital market has been growing in size and depth across jurisdictions, with a combined market capitalization of around USD23.2 trillion spread across 58 jurisdictions covered by the Dow Jones Islamic Market World Index (as of the time of this Report's writing).[2] At the 2015 APEC Finance Ministers' Meeting hosted by the Philippines in Cebu, ministers and the private sector discussed the development of an Islamic Infrastructure Investment Platform (I3P), that could facilitate the mobilization of capital in Islamic institutions to fund infrastructure across the region. Subsequent workshops were convened in Brunei Darussalam and Kuala Lumpur to advance thinking on the issue.

- ***APEC should establish an Islamic Infrastructure Investment Platform (I3P) as a pathfinder initiative to provide a platform for collaboration among public, private, international and academic experts to address the key obstacles to the expansion of cross-border investment by Islamic financial institutions, especially long-term investment from takaful and Islamic pension funds, in infrastructure projects in APEC economies. I3P should address in its work the definitions of infrastructure and financial instruments, Islamic hedging instruments, financial instruments for pension funds and takaful and discriminatory tax policies. It should also create a directory of experts, definitions, funders, participating economies and qualifying infrastructure projects, and collaborate with the International Infrastructure Support System (IISS).***

Capital markets, particularly local currency bond markets, are of crucial importance for the region's financial stability, economic growth, and the efficient channeling of long-term savings to investment in long-term assets like infrastructure. Various initiatives have successfully brought about 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 sustained growth and development of the region's capital markets.

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[2] *Dow Jones Islamic Market World Index Fact Sheet* (https://www.djindexes.com/mdsidx/downloads/fact_info/Dow_Jones_Islamic_Market_World_Index_Fact_Sheet.pdf).

APFF continues to engage with domestic regulators and governments to encourage the further development of classic repurchase agreement (repo) and derivatives markets and increasing secondary market liquidity in the region. APFF also created a series of self-assessment templates on disclosure, bond market data and information on investor rights in insolvency. These templates 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. Finally, the APFF is supporting the successful launch of the Asia Region Funds Passport by encouraging other member economies to join the ARFP and providing regulators an assessment of the key tax metrics in actual and potential ARFP participating jurisdictions.

- ***Member economies are encouraged to collaborate with APFF in undertaking workshops on development of classic repo and derivatives markets to enable the effective use of hedging instruments and improve bond market liquidity. The APFF also welcomes collaboration from other interested organizations in financing and convening these activities.***

- ***More member economies should engage with APFF in using the self-assessment templates on information for capital market investors to help expand the investor base.***

- ***More member economies should join the Asia Region Funds Passport (ARFP) by signing the Memorandum of Cooperation. APFF also welcomes opportunities and invitations to provide private sector resource persons to dialogue with regulators and industry in economies that decide to consider joining the ARFP.***

- ***It is recommended that participating regulators continue to engage the private sector on the implementation of the ARFP.***

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.

- ***APFF proposes to convene a regional symposium in 2017 on the development of a roadmap for improving the regional financial market infrastructure. Discussions could focus on (a) the harmonization of market access and repatriation practices; (b) improving the inter-operability, liquidity and connectivity of domestic and cross-border financial markets; (c) reducing systemic risks; and (d) creating a securities investment ecosystem that can promote cross-border portfolio investment flows across member economies.***

The growing role of financial technology (Fintech) raises new opportunities and risks with respect to the development of the region's FMI, which is also particularly important in promoting cross-border operations of MSMEs. The APFF can provide a platform for industry, public sector and multilateral stakeholders to help policy makers and regulators identify approaches and ways forward to address issues in three key areas. These cut across Fintech developments in APEC where early work and progress can be made under the APFF process through a series of workshops – cybersecurity, Know-Your-Customer (KYC) rules and electronic payments (e-Payments).

- ***Policy makers and regulators should participate in APFF workshops on cybersecurity, Know-Your-Customer (KYC) rules and e-Payments to facilitate innovation in the region's financial market infrastructure.***

The potential of Fintech to drive inclusive growth is huge, but technological innovations can also magnify the potential for harm to consumers, the economy and financial systems. This increases the burden on regulators to keep pace with the innovations in the market, which will enable them to make regulations more effective in enhancing stability and enabling innovation and growth, and to strike the right balance between adapting to the local contexts across different markets and developing a regulatory model that can be applicable in many markets and thus able to contain compliance costs and provide seamless scale.

- ***It is recommended that APEC Finance Ministers establish a regional platform to bring together stakeholders from the public and private sectors to address in close collaboration with each other key issues arising from the development of Fintech. Through this platform, they could identify concrete ways to help member economies harness financial innovation to build bigger, robust, inclusive and integrated financial markets. These stakeholders should include representatives from the industry (Fintech startups and major financial institutions, related service providers, associations and experts), public sector (government and regulatory agencies, relevant APEC fora) and major international organizations.***

The rapid and continuing evolution of financial markets and ongoing efforts by Asia-Pacific economies to modernize their financial systems pose major challenges to policy makers and regulators. APFF continues to provide a platform for research and discussions on the present conditions and future directions of financial markets and regulations. This is helping authorities and industry deepen their knowledge of markets and anticipate emerging issues. This includes research on the role of Islamic finance in cross-border funding of infrastructure developed in conjunction with Harvard University that would help overcome the problems arising from differing interpretations of Sharia compliance.

- ***It is recommended that APEC Finance Ministers encourage policy makers and regulators involved in the region's financial markets to participate in dialogues***

and programs organized by academic and research institutions together with the financial industry to further the work of APFF on regional financial architecture and regulations.

- ***It is recommended that APEC Finance Ministers welcome the APFF's work on definitions of infrastructure and real assets in the context of developing an enabling environment for investment by Islamic financial institutions in infrastructure and encourage their adoption.***

Building on its 2014 Interim Report and 2015 Progress Report to APEC Finance Ministers, the APFF this year advanced its work on several initiatives. This work included a number of roundtables, workshops and conferences across the region, work stream discussions, and collaboration with APEC finance officials. This year, the APFF supported the Finance Ministers' efforts to begin implementing the initiatives of the CAP. The APFF also continues to undertake activities assigned by the CAP in the areas of capital market development, financial infrastructure for MSMEs and trade and supply chain finance.

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 achieving concrete results to advance the various initiatives under the CAP.

Asia-Pacific Financial Forum
2016 Progress Report to the APEC Finance Ministers

INTRODUCTION

Home to 39 percent of the world's population and generating 57 percent of its economic output, the Asia-Pacific region is undoubtedly the most dynamic corner of the globe. Fueled by external trade and investment, many of its economies, particularly on the Western side of the Pacific, experienced rapid growth and rising prosperity in the late 20th and early in this century to become some of today's top manufacturing, trading and technological powerhouses.

However, the financial sector has lagged behind in this process. With the exception of a few advanced financial centers, most economies in the region have yet to develop the deep and liquid capital markets needed to support financial stability and the financing of long-term undertakings and projects, especially infrastructure. Most formal financial institutions, particularly in the banking system where the region's financial resources are concentrated, remain unable to serve the needs of large parts of the population as well as micro-, small and medium enterprises (MSMEs).

With a few exceptions, markets in the region are not supported by the presence of a strong long-term investor base, especially insurance firms and pension funds. The region's fragmented markets, regulatory regimes and market infrastructure provide a difficult terrain for lenders and investors seeking opportunities in financing cross-border projects and transactions. Many economies' legal frameworks, especially in secured transactions, insolvency, privacy and credit information, need to be redesigned to fit the needs of enterprises in a globalized and digital world.

The lack of a robust financial sector was not a significant issue in the early stages of the region's economic development, when rapid growth was driven by exports to North America and Europe, direct investments and the migration of labor from agriculture to manufacturing. As their economies matured, requiring a more balanced mix of consumption and investment to spur growth, and trading patterns increased in complexity with the emergence of supply chains, the need for more developed financial systems became more pronounced.

The Asian Financial Crisis of 1997-98 exposed the weaknesses of the region's financial systems, which relied overwhelmingly on the banking sector. Economies' exposure to the double (maturity and currency) mismatch that led to the crisis and its painful aftermath prompted domestic and regional efforts to pursue the development of local currency bond markets. Economies' growing need for investment in infrastructure to alleviate the strains generated by rapidly growing business activities in urban centers also placed the spotlight on inadequate capital markets and the dearth of domestic sources of long-term finance.

The combined impact of underdeveloped financial systems on consumption, investment, enterprise growth, trade and infrastructure development and their knock-on effects on employment and economic growth underscores the importance of financial sector development for economies to avoid the middle income trap. At the same time, a fast growing region with huge savings, a large population, high mobile phone penetration, a growing middle class and massive infrastructure investment needs at a time when traditional business models are being disrupted across financial services presents tremendous opportunities.

This is the context in which the Asia-Pacific Financial Forum (APFF) was proposed by the APEC Business Advisory Council (ABAC) and launched by APEC Finance Ministers at their 2013 annual meeting in Bali. Its purpose is to provide a platform for public-private collaboration to develop robust and integrated financial markets in the region. The APFF work program is currently structured around four major clusters.

- The first deals with issues related to MSMEs' access to financial services, which is a priority issue in many APEC member economies. This focuses on addressing weaknesses in the financial infrastructure that lenders use to manage credit risks in lending to MSMEs. This also includes access to trade and supply chain finance for those involved in global and regional supply chains.

- 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 third deals with promoting financial resilience in the Asia-Pacific region, which is the most disaster-prone region in the world. It includes access to microinsurance services for low-income individuals and households as well as disaster risk financing and insurance (DRFI) mechanisms to help mitigate the impact of natural catastrophes *ex ante*.

- The fourth deals with financial innovation, in particular how policy makers and regulators could respond to the growing use of financial technology (Fintech), which includes mobile money, shared ledger technology, big data, artificial intelligence, electronic platforms, advanced analytics and automated processes, among others, that is challenging established business models.

An overarching theme that encompasses issues in these four clusters is the regional financial and regulatory architecture, where APFF is engaging academic financial experts, regulators, standard setters and industry practitioners. This includes discussion of the broader global regulatory reform and standard setting process and the role of the Asia-Pacific regulatory community and financial industry within this setting.

This Progress Report is structured along seven major themes, each corresponding to an active APFF work stream:

- financial infrastructure, which is divided into credit information and secured transactions and movable asset finance systems;
- trade and supply chain finance;
- microinsurance and disaster risk financing and insurance (DRFI);
- retirement income and long-term investment in capital markets and infrastructure, which includes the impact of regulation and accounting issues;
- capital markets, which includes sections on classic repo and derivatives markets, information for capital market investors, support for the Asia Region Funds Passport (ARFP) initiative, and financial market infrastructure and cross-border practices;
- financial innovation; and
- linkages and structural issues.

Advancing the Financial Infrastructure Development Network (FIDN)

FIDN has been an excellent platform for stakeholders to share and learn from each other on how to develop the financial infrastructure necessary for broad-based growth and development. For the Bangko Sentral ng Pilipinas, we continue to learn from other jurisdictions and experts on the areas of credit information systems, secured transaction systems and collateral registries which all contribute to making our financial system more inclusive.

Nestor Espenilla – Deputy Governor, Bangko Sentral ng Pilipinas, Republic of the Philippines

Initiatives such as FIDN paved the way for the development of better financial innovation policies, as regulators, financial institutions and development partners collaborate to pursue reforms in all forms and on all fronts to improve and develop inclusive financial services for all, especially for the underserved and marginalized sectors of society.

The launching of FIDN in the Philippines last November 2015 followed by the two FIDN conferences, sent a strong message that the government, in partnership with the private sector and development partners, is committed in its aspiration for inclusive growth by pursuing policy reforms that enable MSMEs to tap financial resources through other acceptable and non-traditional forms of collateral.

Gil Beltran – Undersecretary, Department of Finance, Republic of the Philippines

The FIDN events have brought to fore the existing gaps in the secured transactions regime in the Philippines, particularly, as regards the use of movable collaterals. They have broadened my knowledge on the possibilities that our economy could consider adopting in our quest to improve existing laws, systems and procedures to further bolster financial inclusion of our MSMEs. Further, the lessons and experiences shared by other economies provided a rich source of information which the Philippines can use in coming up with the right formula to address our own challenges in this regard.

The said events also made it clear that for this endeavor to succeed, it would entail not only the active participation of all government agencies concerned, but that it would also require the invaluable cooperation of all the stakeholders, such as the different lending institutions and, more importantly, the MSMEs themselves. Indeed, the passage into law of the desired legislative measure is just the first step in our long journey to achieving a modern secured transactions regime that is truly responsive to the needs of both our MSMEs and lending institutions.

Ronaldo Ortile – Deputy Administrator, Land Registration Authority, Department of Justice, Republic of the Philippines

Given the velocity with which entrepreneurs can spot opportunities, the promised availability of credit only leads stakeholders to automatically think bigger and more outward towards the larger markets. The opportunity to do business outside the economy, whether as a participant in a global value chain or as a direct entrant into the other ASEAN economies, creates a demand to find parallel solutions to those issues encountered in the Philippines, i.e. access to credit. It is quite fortunate that there is the FIDN project in place that the CIC can participate in.

The existence of the FIDN gives the CIC credibility to fulfill the promise that a better credit and collateral regime in this economy, better for its openness and transparency, will be replicated elsewhere which in turn will open up more international opportunities in a level playing field. The depth of organizations and resource persons made visible in the various FIDN forums brings faces to the organization that inspire the local entrepreneur that what is spoken of can actually be done.

Ultimately, while the success of a local or ASEAN wide venture is subject to many variables, FIDN promises to be the platform from which cross-border ventures will find the energy to launch, not as a guarantee of success, but as an assurance of a playing field where the terms of engagement are clear. The benefit to CIC is how this exciting prospect pushes the local stakeholders into full and enthusiastic compliance as they come to understand that locally, the CIC's data sharing registry is the entry point into a greater set of international opportunities.

Jaime Garchitorena – CEO & President, Credit Information Corporation (regulatory body for credit bureaus)

Enabling MSMEs to effectively participate in economic activities and global value chains (including domestic commercial activity and access to international markets and export opportunities) is an important objective for APEC member economies. For most MSMEs, lack of access to finance is a key obstacle. Behind this are factors such as inadequate legal and institutional infrastructure to support risk-based lending using transaction data and the use of movable assets as collateral. The Finance Ministers have identified these issues as priorities and incorporated them in the Cebu Action Plan (CAP).

Since the 2015 APEC Finance Ministers' Meeting, APFF has provided the platform for collaboration among the private sector, finance ministries, regulatory agencies and other stakeholders to undertake various activities to advance these initiatives. These include the launch of the Financial Infrastructure Development Network (FIDN) as a subgroup of the APFF in November 2015 and seminars and workshops held in the Philippines, China and Thailand to support them in developing their credit information and secured transaction systems.

Credit information

With the approval of the CAP in 2015, specific projects were set for credit information sharing (CIS) as part of FIDN. Regarding CIS, the FIDN specifies the following 5 core deliverables/work streams:

- the development of a consumer credit information data dictionary;
- the development of a commercial credit information data dictionary;
- the implementation of a cross-border consumer credit information sharing pilot;
- the implementation of a cross-border commercial credit information sharing pilot; and
- the completion of a baseline study on consumer/commercial credit information sharing practices and laws.

A CIS Steering Committee was created to execute the work plan specified in the CAP. The FIDN CIS Steering Committee is comprised of representatives from the private sector (the Asia-Pacific Credit Coalition or APCC, the Consumer Data Industry Association or CDIA, the Business Information Industry Association or BIIA, the Australian Retail Credit Association or ARCA, and the global firms Lexis-Nexis, D&B, Experian and TransUnion), and from non-governmental organizations and multilateral institutions (Policy and Economic Research Council or PERC, the International Finance Corporation/World Bank Group or IFC/WBG and ABAC). Individual project managers were designated for each of the 5 sub-streams (Experian and PERC/APCC leading sub-stream 1; BIIA leading sub-stream 2; ARCA/D&B/PERC leading sub-stream 3; IFC/BIIA leading sub-stream 4; and PERC leading sub-stream 5). Individual project managers report progress to the FIDN CIS Steering Committee at least quarterly or more often as needed.

The following describes the work of the different substreams

- *Sub-stream 1: Consumer Credit Data Dictionary*. After various consultations, CDIA has agreed to share a copy of Metro 2 (a new standard electronic data reporting format) with either PERC and/or BIIA for use in efforts to generate a regional template data dictionary. In addition, the project manager secured participation of experts from industry to guide and assist efforts in this work stream. This represents a major step forward as the combined expertise from designated experts at Experian and TransUnion will greatly expedite progress with the development of the consumer credit data dictionary. PERC/APCC, Experian and BIIA have begun coordinating efforts to control for and minimize duplicative work given the recognition of the substantial overlay between the consumer and commercial credit data dictionary work streams. It is anticipated that a draft consumer credit data dictionary will be completed by the end of 2016, to be revised and finalized by mid-2017.

- *Sub-stream 2: Commercial Credit Data Dictionary*. Project managers from the BIIA have begun collecting data formats and guidebooks for business information from among APEC member economies and have amassed over one dozen. In addition, BIIA has socialized this project with its membership and has enlisted the active participation of CRIF, CreditSafe, Experian, and IFC/WBG in a peer review capacity. As with the consumer credit data dictionary, the generation of a regional template for the commercial credit data dictionary will be greatly aided with the active participation of subject matter experts from the private sector. The project manager has begun a comparative analysis of the various data formats in an effort to emphasize similarities and to target distinct differences as areas to address moving forward. It is anticipated that a draft commercial credit data dictionary will be completed by the end of 2016 to be revised and finalized by mid-2017.

- *Sub-stream 3: Cross-border Consumer Credit Information Sharing Pilot.* The project manager has been engaged in ongoing discussion with ARCA about the potential for a cross-border pilot using consumer credit data flows among Australia, New Zealand, and several surrounding Pacific islands. ARCA had received a prior pledge of support for such a project from the parliaments in both Australia and New Zealand. It is expected that ARCA will reach a decision on the proposed collaboration with FIDN on this project during the 3rd quarter of 2016. In the event that ARCA is unable to move forward, APCC member D&B Australasia has indicated a potential willingness to take the lead on the pilot and aid PERC/APCC and the FIDN CIS Steering Committee. This project is expected to begin in 2017.

- *Sub-stream 4: Cross-border Commercial Credit Information Sharing Pilot.* In line with the CAP's call for a regional credit information network, IFC/WBG and ABAC organized the first meeting of the Mekong sub-region credit reporting services providers (CRSPs) in Bangkok on July 4, 2016, with the support of the BIIA, National Credit Bureau of Thailand, and the Thai Bankers' Association. The event managed to gather together eight CRSPs from China, Vietnam, Thailand, Cambodia and Lao PDR to seriously discuss how to share credit information for the purpose of trade, investment and cross-border employment.[3] Participants agreed on a set of basic principles for the sub-regional credit reporting collaboration. Among others, these include the following:
  - Sharing will be in the form of credit reports only, not a physical transfer of data from one economy to another.
  - CRSPs will set up voluntary, bilateral and reciprocal arrangements among themselves.
  - Sharing will be conducted based on commercial principles and driven by enquiries from the data subject host economies.
  - CRSPs should comply with any existing regulatory requirements in the data

[3] Participants recognized and agreed on the need for cross-economy exchanges of credit information in view of the deepening economic integration in the Asia-Pacific Region. It is acknowledged that credit information collaboration across borders is particularly challenging as various economies have structured their credit reporting systems to service domestic members only. All participating CRSPs expressed willingness to develop ways for such exchanges subject to their respective stages of development, regulatory requirements and market demands. Participants brainstormed on the basic process of sharing credit reports across the borders and how to handle identify verification and dispute resolutions. They also agreed to meet on an annual basis in order to know each other better and to review progress. The on-going work on the credit reporting Data Dictionary led by BIIA will be complementary to this pilot initiative in the Mekong.

subject source economies (e.g., consent, permissible use, security requirement).
- The host economy CRSP should validate the identity of data subjects and be prepared to assist the source economy CRSP on any information disputes.
- CRSPs should make available English version credit reports. Participants also emphasized the importance of adequate communications with their regulators, members and data subjects on this new type of services. IFC will take the lead in developing a sample bilateral agreement.

- *Sub-stream 5: Baseline Research on Credit Information Sharing within APEC.* PERC and the National Center for APEC discussed funding for this research project with various organizations. The United States Agency for International Development (USAID) and the US Department of State, which are both collaborating with FIDN, indicated that the project is significant and would yield valuable information that would support the objectives of the CAP, and offered to help close any funding gap should the project receive partial funding. The project managers will work to submit funding notes for different segments of the FIDN deliverables during the next APEC funding cycle, while continuing to seek funding for the baseline research. Once funding is secured, the research and analysis can be completed within 12 months. Aspirationally, this work stands to be concluded at the end of 2017.

Secured Transactions Reform

The Secured Transactions Reform Committee (STRC) of the FIDN promotes an enabling environment based upon clear and predictable legal frameworks for economic development and inclusive growth. Its work is specifically focused on facilitating a diverse set of financing solutions for MSMEs, infrastructure projects and cross-border trade and supply chains. ABAC, partnering private sector organizations, IFC/WBG and the Organization for Economic Co-operation and Development (OECD) will collaborate with and be supported by a broad range of institutions. These include international organizations, public sector bodies, private sector firms, and academic entities within interested economies.

Through workshops, direct outreach to policy makers, dialogues and studies, the Committee is seeking to:

- support reform and development of secured transactions systems and insolvency frameworks among APEC economies;

- promote good practices and internationally accepted principles on secured transactions legislation, including comprehensive definitions of eligible collateral, the free assignability of claims for the purposes of financing, and other provisions shown to enhance the ease of credit for MSMEs;

- foster the establishment and development of effective modern collateral registries and promoting pathways to single, central and online security interest notice filing systems and comprehensive coverage of security interests on movable assets such as accounts receivables, inventory, equipment, title documents, instruments, and intellectual property, among others; and

- partner with local economy stakeholders to improve the capacity of lenders in structuring, delivering and managing credits based on movable assets, receivables and other forms of intangible assets as well as the development of the necessary operational infrastructure (e.g., third-party collateral management industries, 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.

Since the launch of FIDN in November 2015, the Committee has developed a network of leading experts in secured transactions reform to support member economies. This network encompasses multilateral development agencies, leading industry trade groups, private sector lenders, academic think tanks and universities, leading legal experts, and collateral registry officials. This diverse network provides member economies with simple and cost-efficient access to global best practices and expertise across the necessary elements to achieve modern secured transactions reform, including in areas such as:

- *Legislation and Model Laws*: Committee members include experts from IFC/WBG, United Nations Commission on International Trade Law (UNCITRAL), USAID, National Law Center, Harvard University and a number of consultants with experience working with economies to develop modern secured transaction regimes.

- *Collateral Registry Development*: Committee members include the Australian Financial Security Authority (Australia's collateral registry registrar), the Ministry of Economy of Mexico, and the Land Registration Authority under the Department of Justice of the Philippines.

- *Training and Capacity Building*: Committee members include the Commercial Finance Association (CFA), the predominant industry trade group for asset-based lending; and Factors Chain International (FCI), the leading global factoring trade organization

- These trade groups, additionally joined by IFC/WBG and its experts, have deep resources and experience in providing training and capacity building to lenders and factors globally.

The Committee has also actively engaged with the Strengthening Economic Legal Infrastructure (SELI) group of the Economic Committee to promote reform efforts across the APEC member economies. Since the launch of FIDN, the Committee has provided expertise to interested member economies, including the Philippines, Brunei, China and Thailand.

Supporting the Reform of the Philippines' Financial Infrastructure

FIDN delivered the following results to the Philippines:

- *Established a common understanding of the key reforms in secured transactions and credit information systems across the relevant key stakeholders.*Through the FIDN's engagement, mind sets have shifted across key relevant stakeholders and clients. Clients and stakeholders are now aligned and in full appreciation of best practices shared by experts and the business case for credit infrastructure reforms.

- *Established strong partnerships locally and internationally that clients can leverage on*. Recognizing that other local agencies are also focused on the same goal of promoting financial inclusion, the Committee extended the invitation to participate to other relevant government entities like the Philippine central bank. The Deputy Governor of the central bank has become a solid partner championing credit infrastructure reforms and has been very instrumental in facilitating dialogues and presentations relating to the reforms through the FIDN. On the international front, the Committee engaged FIDN's international experts in the private and public sectors. These partners have been additional champions to promote credit infrastructure reforms.

- *Solidified commitment and priority*. By participating in FIDN activities, the Committee was able to help solidify the commitment and prioritization of the Department of Finance's objectives in the government's agenda and the APEC's agenda. Credit infrastructure is now part of the roadmap of reforms that the APEC economies committed to and signed off under the Philippines' APEC leadership in 2015. FIDN provided the opportunity to collaborate with various agencies within the government. With the solidified partnership, a number of key officials in the Philippine Government (Chair of the Securities and Exchange Commission, Undersecretaries of the Department of Finance, Deputy Governor and Directors of the Philippine Central Bank and National Treasurer of the Philippines) have become willing and regular active participants of the FIDN forum to facilitate dialogue and act as keynote speakers. Messages coming from this level of the government have been very effective in promoting buy-in among other stakeholders.

The launch of the FIDN in November 2015 brought together around 300 participants (e.g., bankers, MSMEs, lawyers, media) and was covered by 30 media people across local and international networks. It was attended by around 20 APEC delegates and key officials in the Philippine Government (Secretary of Finance, National Treasurer, Securities and Exchange Commission Chair, Central Bank Deputy Governor, among others). The launch was featured in a number of leading local and international newspapers.

Motivated by the lessons learned from FIDN, the Philippines' technical working group on Secured Transactions immediately initiated its working sessions to focus on drafting the new Philippine secured transactions law. Through FIDN, international experts shared their expertise, their lessons of experience and the private sector view with Philippine policy makers pursuing credit infrastructure reforms.

In March, the Committee provided a workshop on secured lending to interested stakeholders in Brunei at the invitation of the Monetary Authority of Brunei in support of their recent enactment of a modern secured transactions order. As Brunei sought support for creating a new collateral registry in support of the law, the Committee provided introductions to the Ministry of Economy in Mexico. As the law nears implementation, FIDN and the Monetary Authority are discussing additional capacity building and industry training activities to accelerate adoption of secured lending and expanded access to credit to Brunei MSMEs and mid-market enterprises.

On May 21-22, FIDN supported a conference in Nanjing, China to help the Chinese government obtain broader and effective support for its plan to introduce an updated secured transactions law. This joint conference was held with IFC/WBG, the People's Bank of China (PBOC), the Nanjing University of Finance and Economics, and the China Society for Civil Law Research. China plans to introduce the first Civil Code in its history, with approval of general principles expected in early 2017 and various elements to be developed afterwards, including a new secured transactions law.

The conference provided technical knowledge from international experience and promoted better understanding of the business side of secured transactions among law academics and legal professionals who will be advising officials in the design of the legal framework. This conference aimed to help them provide advice that will be consistent with what lenders and MSMEs require to effectively lend on a secured basis. Other participants and speakers included representatives from PBOC, the National People's Congress, the Supreme People's Court and China's commercial banks, as well as academics and officials from Korea, Vietnam, and the USA. FIDN provided international experts to talk about best practices in various aspects of secured transactions from other economies.

More recently, FIDN has begun engagement with the Bank of Thailand, in conjunction with the Thai Bankers' Association, to support the introduction of the recently enacted secured transaction law – and prepared a workshop for policymakers, regulators and industry participants in August in Bangkok to build awareness and adoption of the new law.

In the short period since its launch in November 2015, FIDN has built a broad network of experts, enhanced and expanded its support of the reform efforts in the Philippines, and initiated supporting activities with Brunei, Thailand and China. During the balance of the APEC year, FIDN hopes to build upon these successes with each of the economies through continued workshops and capacity building – as well as to support other interested member economies.

Recommendation

- ***It is recommended that APEC member economies work with FIDN to develop modern full-file and comprehensive credit information systems and regionally consistent legal and institutional frameworks for secured transactions and insolvency that can facilitate the use of movable assets as collateral. These will help expand MSMEs' access to finance and enable them to increase their contributions to regional integration. This effort should involve: (a) the convening of workshops in individual economies bringing together public and private sector stakeholders and experts; (b) advisory activities and seminars to support legal and policy reform and modernization of collateral and credit registries; (c) outreach activities to educate MSMEs, lenders and other market***

participants on how they can benefit from these opportunities; and (d) support for the pathfinder projects on cross-border sharing of commercial and consumer credit reports among credit bureaus within existing legal and regulatory frameworks, the development of the credit information data dictionary and the baseline analysis of credit information sharing in APEC member economies.

FACILITATING TRADE AND SUPPLY CHAIN FINANCE

In today's globalized economies, cross-border trade, supply chains and supply chain finance play key roles in the deepening and broadening of an economy's industrial base, leading to growth. Trade finance is critical to support global trade flows, which are now being materially reshaped, with intra-regional trade growing in importance. Production lines that were previously based only in one location are now increasingly being deconstructed and spread across different locations to take advantage of factor endowments.

Supply chain finance primarily provides the necessary financing and liquidity to support firms' working capital needs. Increased risk aversion in the wake of the global financial crisis has led to a general tightening of credit for lesser known enterprises, particularly for MSMEs in lower tiers of global supply chains and in frontier, developing and emerging markets. [4] While many factors influence trade, the long-term sustainability of financing to support increased production, import and export levels and firms' access to finance are important factors that have been significantly affected by post-global financial crisis dynamics.

Numerous factors affect trade and supply chain finance. High priority items for consideration include the environment for secured transactions, bank capital regulations and rules on Counterparty Due Diligence (CDD). Other factors that can facilitate trade and supply chain finance are innovations such as electronic supply chain management platforms and Bank Payment Obligations (BPOs) and the wider use of regional currencies in trade settlement, which can make supply chain participants' access to working capital more efficient.

This year, the APFF's work on trade and supply chain finance was undertaken in the context of a slowing down of economic growth and a more rapid deceleration of trade growth, especially in the Asia-Pacific region. These trends are disproportionately affecting MSMEs and, given their significant contributions across APEC to employment (over 50 percent) and production (between 20 and 50 percent of GDP),[5] the region's economy as well. Thus, the need to reduce barriers and inefficiencies in the trade ecosystem to facilitate businesses' abilities to conduct cross-border trade and access supply chain finance has become even more important than before.

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[4] Alexander Malaket estimates that, based on analysis from the Asian Development Bank and the International Finance Corporation, there is an annual global trade financing gap (unmet demand) of USD 1-2 trillion, a significant portion of which is linked to SME suppliers in emerging Asian markets. See "How can we close the global trade financing gap?" *World Economic Forum* (https://www.weforum.org/agenda/2015/11/how-can-we-close-the-global-trade-financing-gap/).

[5] Source: http://www.apec.org/Groups/SOM-Steering-Committee-on-Economic-and-Technical-Cooperation/Working-Groups/Small-and-Medium-Enterprises.aspx

Discussions undertaken by partner institutions in the APFF, including a conference organized on 9-10 March 2016 by the International Chamber of Commerce in Singapore, an informal dialogue with trade finance experts in Singapore on 7 July and an APFF workshop hosted by ABAC Singapore and the Singapore Business Federation on 8 July have yielded the following insights:

Consistent Know-Your-Customer/Customer Due Diligence/Anti-Money Laundering (KYC/CDD/AML) standards across supply chains and awareness by all participants are needed to facilitate sustainable access to finance. Of an estimated USD2.1 trillion of criminal proceeds reported in 2011, USD1.6 trillion were estimated to have been laundered through financial institutions, of which in turn less than 0.5 percent were recovered. [6] Additionally, heavy fines were imposed on a number of financial institutions for weak financial controls. In 2013, financial institutions accounted for most of about 2 million Suspicious Activity Reports (SARs) filed globally.[7]

Due to the costly KYC process and regulatory risk for control failures, many banks have turned to de-risking of selected clients, industries and geographies of concern and readjusting their risk-acceptance criteria. This de-risking has also impacted correspondent banking relationships, with certain markets effectively losing access to the global banking network and thus to trade finance and trade opportunities.

KYC/AML compliance activity is an ongoing effort that starts from client onboarding to transaction-level monitoring for suspicious and unusual activities. It is applied regardless of size to suppliers, buyers and correspondent banks involved in the whole supply chain and across geographic locations. It is comprehensive, necessarily detailed and requires sufficient resources, including technology, to assist in or to monitor compliance. There is some push from among regulators and within industry for risk-based due diligence and KYC and Know Your Customer's Customer (KYCC) requirements. The degree of due diligence - expected and executed - can vary significantly, and the challenges relate as much to clients' constraints as to banks' constraints and sub-optimal processes.

However, there are scenarios where resource-stretched businesses can neglect providing timely information to their banks. It can lead to the raising of banks' internal "red flags" on such businesses, submission of SARs to authorities and finally seeking to exit relationships when there is a perceived disproportionate increase of their risks-to-opportunity profile. Some financial institutions are working with their clients to promote a common standard in KYC/AML

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[6] This is not to imply that such volumes are materially linked to trade finance. In fact, the vast majority of so-called trade-based money laundering occurs outside of trade finance, through invoice padding.

[7] Standard Chartered Bank: *De-risking, Know-Your-Customer & Anti-Money Laundering Compliance in Trade*, 8 July 2016.

compliance and de-risking through education, in order to reduce financial crime and regulatory risk for both the client and the bank.

What this means for public-private collaboration: KYC/AML compliance has significant impact on access to finance, and is taking up considerable resources and time of financial institutions, given the huge penalties they face for non-compliance. Greater training and awareness of KYC/AML standards throughout supply chains can reduce the incidence of KYC/AML breaches and thus, selective de-risking. Well-considered market utilities can promote efficient, effective and cost-optimal compliance. Consistent communication of expectations and consequences[8] and consistency between regulatory directives and their implementation by inspectors and supervisors are important.

Modernization of secured transactions systems and their convergence across the region can reduce credit risks and promote access to finance. Secured transactions laws establish the fundamental framework on which financing and credit risks management can be executed by banks to improve access to finance. Progressive improvements in these areas, from reforms started over a decade ago, are now showing dividends. An example of an economy that has undertaken significant reform is Vietnam, which recently enacted a civil code that incorporated best practices in secured transactions.

However, a number of economies continue to have implementation gaps between laws and practices that blunt these laws' positive impact. These gaps include insufficient credit information and transparency, a lack of judicial precedence in enforcement, and underdeveloped collateral management ecosystems. Economies also face the challenges of ensuring that reforms keep pace with the faster pace of market development and deepening the understanding of the market and its practices by legal professionals, the judiciary and legal experts. APEC economies currently exhibit wide variations in level of development of various aspects of secured transactions laws, as measured by the World Bank Group. [See Table 1.]

What this means for public-private collaboration. The work of FIDN on secured transactions, credit information and insolvency needs to continue, particularly in addressing implementation gaps between laws on one hand and regulations and market practices on the other through activities promoting greater awareness and an interdisciplinary approach.

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8 For example, IMF Managing Director Christine Lagarde mentioned that highly visible enforcement actions have only focused on violations that were "repeated, systematic, and egregious" and are not meant to pursue accidental occurrences that are due to lack of information or mistakes in judgment. See IMF, *Relations in Banking – Making it Work for Everyone* (https://www.imf.org/en/News/Articles/2016/07/15/13/45/SP071816-Relations-in-Banking-Making-It-Work-For-Everyone)

Table 1: Secured Transactions Legal Rights – APEC Economies (10 – key features are all present)

Economy	1	2	3	4	5	6	7	8	9	10	Economy Total
Australia	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
Brunei Darussalam	x	✓	✓	✓	✓	x	x	x	x	x	4
Canada	✓	✓	✓	✓	✓	x	✓	✓	x	✓	8
Chile	x	x	✓	✓	✓	✓	x	x	x	x	4
China	x	x	✓	x	✓	x	x	x	✓	x	3
Hong Kong, China	x	✓	✓	✓	✓	x	x	x	✓	✓	7
Indonesia	x	✓	x	✓	✓	x	x	x	x	x	4
Japan	x	✓	x	x	✓	x	x	x	✓	✓	4
Korea	x	x	x	✓	✓	✓	x	✓	x	✓	5
Malaysia	x	✓	✓	✓	✓	x	x	x	✓	✓	6
Mexico	✓	x	✓	x	✓	✓	✓	✓	✓	✓	9
New Zealand	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
Papua New Guinea	x	✓	✓	x	✓	x	x	x	x	x	3
Peru	✓	✓	✓	✓	✓	✓	✓	x	x	✓	8
Philippines	x	x	x	x	x	x	x	x	✓	✓	2
Russian Federation	x	x	✓	x	✓	✓	x	x	✓	✓	4
Singapore	x	✓	✓	✓	✓	x	x	✓	✓	✓	7
Chinese Taipei	x	x	x	x	✓	x	x	x	✓	✓	3
Thailand	x	x	x	x	✓	x	x	x	✓	x	2
USA	✓	✓	✓	✓	✓	x	✓	✓	✓	✓	9
Vietnam	✓	✓	✓	x	✓	✓	x	x	x	✓	6

Legend – Features of a good secured transactions law:

1. Does an integrated or unified legal framework for secured transactions that extends to the creation, publicity and enforcement of functional equivalents to security interests in movable assets exist in the economy?
2. Does the law allow businesses to grant a non-possessory security right in a single category of movable assets, without requiring a specific description of collateral?
3. Does the law allow businesses to grant a non-possessory security right in substantially all of its assets, without requiring a specific description of collateral?
4. May a security right extend to future or after-acquired assets, and may it extend automatically to the products, proceeds or replacements of the original assets?
5. Is a general description of debts and obligations permitted in collateral agreements; can all types of debts and obligations be secured between parties; and can the collateral agreement include a maximum amount for which the assets are encumbered?
6. Is a collateral registry in operation for both incorporated and non-incorporated entities, that is unified geographically and by asset type, with an electronic database indexed by debtor's name?
7. Does a notice-based collateral registry exist in which all functional equivalents can be registered?
8. Does a modern collateral registry exist in which registrations, amendments, cancellations and searches can be performed online by any interested third party?
9. Are secured creditors paid first (i.e. before tax claims and employee claims) when a debtor defaults outside an insolvency procedure?
10. Does the law allow parties to agree on out of court enforcement at the time a security interest is created? Does the law allow the secured creditor to sell the collateral through public auction and private tender, as well as, for the secured creditor to keep the asset in satisfaction of the debt?

Source: *World Bank Group*

The trade and supply chain finance ecosystem is changing as a result of various drivers. These include technology, macroeconomic environment, concerns over rising corporate indebtedness and delinquency, legal reforms, and banking capital requirements and compliance needs. In particular:

a. Standardization of supply chain financing terminologies,[9] once adopted by markets, is expected to result in more coherent approaches to trade products and risks. This is conducive to facilitating more consistent access to financing products. The business case for further standardization can be considered and its business case viability will be needed.

b. Credit risk management limits like Single Name Limits, a lack of domestic sources of funds and foreign currency restrictions mean that regional and multinational banks continue to provide financing from established financial centers. Their domestic market financing activities remain low-key, which in other ways allows for collaboration with domestic financial institutions.

c. Supply chain financing banks are increasingly utilizing third party platforms that operate like an open architecture of banking services to clients or considering other forms of collaboration with Fintech firms and other non-banks. Banks are moving away from being "everything to everyone" to being more specialized. Being plugged into such third party platforms will become more important for MSMEs and businesses to avail themselves of a range of financing products and services.

d. The development of secondary markets for risk participation, including securitization-type methods, is important to free capacity in banks' tighter balance sheets.

e. Pricing for trade finance products is at an all-time low, which should facilitate access to finance. Participants need to note that this level of pricing is artificially low and is not sustainable, and a "hockey-stick" increase in pricing could occur. Businesses should perform stress-tests on their cashflow and profit and loss to better prepare for such a day.

f. Different jurisdictions have different degrees of requirements on KYC/AML, and this lack of consistency can be confusing to businesses' understanding. Regional and global banks tend to take the highest standard offered in any one of the jurisdictions where they operate, and apply it consistently across the rest.

g. Consistent client onboarding documentation and approach are key to growing supply chain financing.

Technology literacy can expand MSMEs' capacity to participate in supply chains. Technology is a financing enabler, and e-commerce and digital trade finance have always been a part of the APFF's agenda on trade and supply chain finance. This agenda had initially focused on the different e-commerce models that could act as

[9] *Source*: Bankers' Association for Finance and Trade (BAFT), Euro Banking Association (EBA), Factors Chain International (FCI) + International Factors Group (IFG), International Chamber of Commerce (ICC) and International Trade and Forfaiting Association (ITFA), *Standard Definitions for Techniques of Supply Chain Finance* 2016 (http://www.supplychain247.com/paper/standard_definitions_for_techniques_of_supply_chain_finance).

springboards for MSMEs and businesses to leapfrog onto global value chains. In 2015, the APFF began emphasizing technology supply chains for companies to become more attuned with market conditions, and thus to better manage their inventory and working capital. In 2016, this emphasis has deepened with calls for greater technology literacy.

a. Wider technology adoption has given rise to an "Everyone-to-everyone" economy (E2E) where value creation is increasingly and more often driven by connectivity and collaboration between consumers and organizations.

b. Blockchain is an advanced technology with potential to promote greater operational and financing efficiency. Some examples mentioned included possible applications in letters of credit which can blend in neatly with smart contracts, as well as the prevention of duplicated invoice financing.

c. Supply chain financing's scale and size are now more complex, with multidirectional flows among hubs, sourcing agents, suppliers and buyers across different jurisdictions. Technology is needed to keep pace with this complexity.

d. Financial institutions are increasingly collaborating with third party platforms to deliver focused value-added services. MSMEs and businesses need to be part of such third party platforms.

Singapore provides an example of a pilot initiative where authorities and industry collaborate in using blockchain technology to facilitate invoice recording and financing. It is estimated that wider commercial applications of blockchain technology can occur within a 2-year period. Within the mining industry, digitalization is being increasingly adopted in supply chain finance and operational processes.

Technology will play an ever increasing role in trade and supply chain finance, and the considerations for its successful introduction, adoption and dissemination will involve multifaceted issues[10] that need collaborative approaches to solve and unlock its value. Trade and supply chain finance is also linked to capital market development, in particular, the availability of a robust secondary market that can enable the securitization of trade loans and enhance the capacity of financial institutions to manage their balance sheets.

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10 For example, on 10th and 11th March 2016, Singapore's Attorney General's Chambers, UNCITRAL and the Association of Banks in Singapore had organized a roundtable and a seminar on *Electronization of Transferable Documents or Instruments Used in International Trade* to discuss the legal aspects of the uses of trade-related electronic documents. The seminar also introduced a draft UNCITRAL Model Law on Electronic Transferable Records that all together can eventually facilitate the important alignment of legal frameworks with applications of technological advances in business.

Recommendation

- ***It is recommended that APEC member economies collaborate with APFF in holding public-private dialogues across all relevant agencies and stakeholders on regulatory issues and emerging facilitators of trade and supply chain finance. These should aim to promote effective and regionally consistent implementation of capital and liquidity standards, greater awareness of Know-Your-Customer, Counterparty Due Diligence and Anti-Money Laundering rules. They should also focus on the expanded use of technology including 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.***

Strengthening Financial Resilience

When Peru hosted two disaster risk financing and insurance (DRFI) seminars in February 2016 under the Finance Ministers' Process, APFF cooperated actively with the Peruvian organizers in the Ministry of Economy and Finance, participating in the proceedings not only by providing a speaker to give the overall private sector perspective about helping to increase insurance penetration in APEC economies, but also by bringing in other participants from the private sector (two leading international CAT modelers) and a representative from IAIS who gave the insurance regulators' perspective.

At the same time, APFF has joined the Working Group created by eight economies together with World Bank and OECD, presently chaired by Peru, which will focus on issues of methodologies for data gathering about public assets exposure and to develop good quality insurance databases. It is expected that APFF will bring the private sector's perspective in helping the task assigned to the World Bank to build these methodologies.

Gregorio Belaunde Matossian – Director of Risk Management, Ministry of Economy and Finance, Peru

Disaster Risk Financing and Insurance (DRFI)

The Asia-Pacific is the world's most natural disaster-prone region on the planet. For decades, it has recorded the biggest number of natural disaster events. Their economic consequence has been enormous, which is attributable to growing concentration of population and economic activities in hazard-prone areas, and significant enough to affect economies' sovereign risk ratings. 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 and Insurance (DRFI) as a means to build resilience in the region.

Consequently, Asia-Pacific policy makers are setting their sights on developing financial instruments to help mitigate the impact of disasters *ex ante*. This complements ongoing efforts to improve disaster response and disaster risk management strategies. The year 2015 saw relatively modest economic losses from natural disasters in the APEC region. Nevertheless, the region suffered from unusually strong hydro-meteorological and significant seismic events.[11] During that year, APEC member economies collaborated with other stakeholders to advance work on disaster risk reduction and related issues including climate change. Various

[11] These include the severe winter storm in the U.S. (February), the thunderstorm that accompanied flash floods and storm surges in Australia (April), and Typhoon Goni which hit the Philippines and Japan (August). El Niño was blamed for bringing drought to the western part of the Pacific, including Vietnam, Malaysia, Thailand and Australia. The strong El Niño of 2015/16 has been faded, but many see global warming as an exacerbating factor for weather-related losses in the region. As regards geological risks, the 2016 Kumamoto earthquakes in Southern Japan turned out to be the second largest insured earthquake loss in the economy after the Tohoku Earthquake of March 2011.

international agreements[12] that were signed stress the importance of public-private sector collaboration in addressing the impact of natural disasters.

The Finance Ministers selected DRFI as one of the priority issues they incorporated in the CAP. The Ministers identified initiatives and expected deliverables, and how they should be carried out in terms of short, medium, and long-term objectives over the course of ten years. It is worthy of note that CAP recognizes the role of private sector players, and stresses the importance of public and private sectors working closely together. The three sets of deliverables were laid out as follows (see Table 2):[13]

- Establish and promote private disaster insurance schemes (medium/long-term).
- Deepen insurance penetration within their economies and develop regional risk sharing measures (long-term).
- Develop a roadmap and network of experts through the support of APFF for expanding the coverage of micro-insurance and disaster risk finance in member economies (medium term).

In response to the CAP's request to study the possibility of constructing a disaster risk data base, it was deemed necessary to start with framing the scope and granularity of what constitutes a database. Meanwhile, APFF intends to stay in close contact with the Asian Development Bank (ADB), OECD, WBG and other international institutions to help publish meaningful outputs to support policymaking efforts pertaining to DRFI. APFF's work will build on the studies so far published by ADB, OECD, WBG and the Geneva Association.

This year, APFF initiated its work on DRFI by building a network of industry experts who can collaborate with the International Association of Insurance Supervisors (IAIS), ADB, OECD and WB in achieving the CAP deliverables. This network now includes experts from the Geneva Association and insurance, re-insurance, catastrophe risk modelling and related firms. APFF also started collaborating actively with the ASEAN Natural Disaster Research and Works Sharing (ANDREWS), a working committee of the ASEAN Insurance Council (AIC).

APFF collaborated with the Peruvian Ministry of Economy and Finance in organizing the *APEC Workshop on Disaster Risk Financing & Insurance* on 13-14 February, 2016, in Lima, Peru.[14] The Workshop focused on how to improve catastrophic risk data

12 These include the Sendai Framework on Disaster Risk Reduction, the Sustainable Development Goals and the Paris Agreement of 2015.

13 Besides the policy related deliverables, the plan also listed a number of studies to be carried out to support the discussion, namely, APEC disaster risk database, the Asian Development Bank (ADB) & OECD report on public finance frameworks, and OECD study on risk mitigation instruments.

14 The two-day workshop on DRFI was hosted by the Peruvian Ministry of Economy and Finance. The target audience was finance ministry officials in the APEC region, and the event benefited from the inputs given by OECD and the World Bank, as well as risk modelers. Officials from the Philippines, the US, Japan, Indonesia, New Zealand and Chile each presented living examples of existing and projected cases of disaster risk pooling scheme.

gathering, which is fundamentally important in designing an effective DRFI system, and what approaches can be taken to develop catastrophic risk pooling system on a domestic level. Among its key conclusions are the following:

- The quality, availability and ability to share or transfer risk data are crucial in the management of a DRFI scheme. While gathering data and modeling risks are costly, the information thus collected is useful for risk reduction, including awareness raising and urban planning. Ongoing international cooperation in climate and flood data sharing needs to be intensified.

TABLE 2: Timeline to Promote DRFI in the APEC Economies

CAP Deliverables	APFF Activities	Timeline		
		2016 (Peru)	**2017 (Vietnam)**	**2018 (PNG)**
1. Establish and promote private disaster insurance schemes	Contribution to APEC DRFI seminars	Presented private sector perspective at the APEC DRFI Workshop 13-14 Feb., Lima, Peru	Continue as an annual effort	Continue as an annual effort
	Assist APEC in identifying economies and perils of priority	Initiate discussions with APEC FM officials	Identify economies and perils of priority*3	Communicate with relevant officials towards implementation
2. Deepen insurance penetration within their economies and develop regional risk sharing measures	Enhance the availability of risk exposure data (in collaboration with the World Bank)	Initiate stock-taking on the availability of risk exposure data*1	Complete stock-taking*4	Study on risk pooling among APEC Economies
3. Develop a roadmap and network of experts	Formalise an expert group	Invite core expert members*2	Broaden the geographical scope	Continue efforts to expand the network
	Contribute to the drafting of the roadmap		Initiate the drafting process	Complete the roadmap

*1 Design a template for stock-taking (ideally through a face-to-face meeting of the DRFI SS experts, to be held by year-end)

*2 APFF's DRFI Sub-stream has so far received support from OECD, the World Bank, the Geneva Association, ASEAN Natural Disaster Research and Works, Citi, Munich Re, Swiss Re and Tokio Marine

*3 To be worked out in conjunction with the 2nd deliverable "deepen insurance penetration" and its identification process of economies and perils of priority (ideally through a workshop-style meeting with the presence of finance ministry officials from the economies prone to natural disasters, to be held by first-half of 2017)

*4 Completing the template for stock-taking (ideally through a workshop-style meeting as indicated above, to be held by first-half of 2017)

- Domestic catastrophic risk pooling should be considered part of a comprehensive disaster risk management package, including contingent credit lines and other forms of finance. Where insurance penetration is immature, making the most of existing community networks, such as that of lenders and relevant regulatory offices, can be effective. While data collection is of fundamental importance, parametric features could facilitate a quick implementation in some jurisdictions. The central government's role is crucial in establishing and managing effective DRFI schemes. However, practical expertise accumulated in private sector entities such as insurance companies, banks and risk modelers should be harnessed.

- While risk profiles and social and fiscal conditions may differ across jurisdictions, a comprehensive DRFI scheme needs to be designed and organized as a component of a disaster risk management system in each jurisdiction, involving awareness raising, risk assessment, risk reduction and sharing of data.

APFF also joined a working group together with eight economies, the World Bank and OECD that will develop methodologies for data gathering on public assets exposure and develop good quality insurance databases. APFF will bring the private sector's perspective in helping to build these methodologies. Finance ministry officials expressed their interest in advancing the implementation of DRFI with the support of international organizations and APFF.

Recommendations

- ***APEC member economies are encouraged to identify economies and perils of priority as an initial step in promoting private disaster insurance schemes as envisaged under the Cebu Action Plan (CAP). This may be undertaken through a workshop in early 2017 with broad participation from finance ministries and related public sector stakeholders, multilateral institutions and the private sector through APFF.***

- ***It is proposed that the Finance Ministers' Process complete the stock-taking on availability of risk exposure data as a step toward the development of regional risk-sharing measures. This may be undertaken through the aforementioned workshop in conjunction with the previous recommendation.***

- ***It is proposed that the drafting of an APEC roadmap for DRFI be initiated as envisaged under the CAP, involving experts from the public and private sectors and multilateral institutions.***

Microinsurance

Effective risk management through microinsurance is critical for low income individuals, micro- and small enterprises, and developing economies. About three billion people globally are potential microinsurance customers who can generate an estimated USD30 billion in insurance premiums - a substantial market for many developing economies. New developments in mobile insurance, disaster risk management and public-private partnerships are helping to expand inclusive insurance while also requiring a paradigm shift for regulators, insurers, and others in the insurance value chain.

Microinsurance is an important financial product for developing economies that are exposed to frequent natural disasters. It plays a key role in disaster risk financing, where the underdevelopment of capital markets hinders the use of instruments such as natural catastrophe bonds. An example is the Philippines, where (as of 2014 Insurance Commission data) 31 percent of the entire population has a coverage through Microinsurance products.

Microinsurance has proven very effective in helping promote recovery, in particular after the devastation caused by Typhoon Haiyan in 2013.[15] Microinsurance forms a key part of many micro- and small enterprises' strategy for ensuring business continuity after a risk event. It enhances their ability to access loans by mitigating lenders' risk concerns, reducing the need to seek additional loans and divert capital, and helping create risk-aware environments as more people begin to recognize the link between insurance premiums and risk levels.

Scale is an important driver of growth for the industry, allowing the cost of microinsurance products to be reduced as more insurers and clients are involved. It also allows the quality of insurance products to be improved. Technology provides an opportunity to achieve scale. While microinsurance coverage in most developing economies amounts to around 5 percent of the total population, their mobile penetration rates typically reach about 70 percent or more. This gap represents an opportunity for insurance providers to reach a much larger portion of the population through mobile products. [16]

In the context of financial inclusion, it is important to recognize that products such as savings, credit, insurance and payments should not be considered separately from each other. There is a need for greater recognition among stakeholders that these products can be integrated to increase impact and overall effectiveness in achieving financial inclusion. As an example, in the event of a crisis, a household would potentially use a variety of financial products to recover including their savings, micro-loans and insurance cover. By integrating multiple products, new solutions can be found to provide better value for customers and more effectively achieve an environment of financial inclusion which is not limited to a single product.

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15 In November 2013 Typhoon Haiyan hit the Philippines with the highest wind speeds ever recorded on land. It impacted over 16 million people impacted and displaced nearly 4.1 million. It resulted in over 6,000 lives lost and an estimated USD 700 million in damage to agriculture and infrastructure. Following the typhoon, 126,363 microinsurance claims were made with payments from insurers totaling USD 12 million. The average payment to microinsurance clients was USD 108 (PHP 4,777) which was used for either housing repairs (50 percent) or restarting livelihoods (50 percent). In terms of timing, 27 percent of claims were paid within the first 4 ½ weeks of the typhoon, with 60 percent being paid by March 2014. *Source: GIZ*

16 Around 5.2 percent of the total market in Asia, Africa and Latin America are currently covered by microinsurance. This shows that much more needs to be done to increase access. There are nearly 1,000 microinsurance products currently being offered by more than 500 insurers. Currently, the primary microinsurance product is a life product, followed by an accident product. Far down the list are health insurance products. *Source: GIZ*.

Finance Ministers incorporated microinsurance in the CAP under the pillar of enhancing financial resilience. The main objectives as presented in the CAP are to deepen insurance penetration with high quality products, develop a roadmap for expanding microinsurance coverage and create a public-private dialogue. The dialogue should help bring the different stakeholders together to work collectively in understanding the issues and providing better risk management tools for low-income individuals and households. More specifically, the initiative aims to enhance financial education and facilitate better understanding of microinsurance products, strategies to promote proportional regulation and public-private partnerships.

This is also of significant relevance to MSMEs, which are highly vulnerable to the shocks of natural catastrophes. When natural disasters occur, the damage to MSMEs can have significant impacts on the wider economy and value chains. As such, analytical tools and methodologies to look at specific needs of MSMEs are likely to provide useful information for policy makers and other stakeholders and help enhance the quantity and quality of insurance products available to MSMEs.

Recommendation

- ***It is proposed that stakeholders in the APEC Finance Ministers' Process undertake activities in 2017 to complete the roadmap for expanding microinsurance coverage as envisioned under the CAP. Discussions on the roadmap may include the following elements: (a) adoption of the toolkit developed by the Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia (RFPI Asia) of the GIZ for integrating insurance into DRFI mechanisms to help insurers develop products that are appropriate for MSMEs;[17] (b) development of policy frameworks for establishing risk pools and other DRFI instruments, provision of incentives, use of technologies, and mechanisms for public-private sector cooperation; (c) creation of the legal basis for the provision of mandatory insurance coverage to MSMEs; (d) capacity building for public and private stakeholders regarding product development, distribution and promotion of MSME insurance; (e) development of data management on catastrophic events; (f) establishment of central business registries with hazard mapping and catastrophe coverage for enterprises; (g) proportionate regulation to support a wide range of insurance products designed for MSMEs; (h) mechanisms for public-private dialogue in developing products and solutions for responses to and mitigation of disaster risk; and (i) implementation, financing and coordination.***

[17] The toolkit highlights four steps: risk assessment, disaster risk management mapping, identification of gaps and exploration of disaster risk options. Throughout these steps, the framework supports the integration of microinsurance as a key part of broader disaster risk strategies.

EXPANDING THE REGION'S LONG-TERM INVESTOR BASE

Retirement Income and Long-Term Investment

Long-term investors such as insurers and pension funds play critical roles in the development of capital markets and financing of infrastructure projects, in addition to the important functions that they play in providing financial security. With the progressive aging of the region's societies, their roles will become even more important going forward in channeling long-term liabilities into long-term assets that can provide adequate returns to meet future emergency and retirement needs.

In order to support the CAP's initiative to promote long-term investment in infrastructure, the APFF created the Retirement and Long-Term Investment Working Group under its Insurance and Retirement Income Work Stream and has worked on the promotion of policies to address those three gaps. Participants include experts from the insurance, pension, banking and securities industries, academic specialists, consultants, regulators and international and regional organizations, such as the ADB and OECD.

As noted in the 2015 APFF Progress Report, efforts to encourage or even compel mandatory retirement savings in emerging APEC economies offer the opportunity to address the inter-related challenges of increasing the number of investable projects, developing capital markets and providing alternative means of disaster risk financing through the mobilization of large pools of patient, long-term capital in the form of retirement savings.

Mobilization of such large pools of long-term capital would represent a "triple win" for consumers, the financial sector and APEC member economies.

1. Consumers receive high, stable returns for long-term savings.
2. The financial sector is able to access deeper capital markets.
3. Governments obtain relief from large contingent fiscal liabilities.

This "triple win" could be achieved by addressing three gaps that are profoundly limiting the development of both insurance and pension coverage and capital market development in APEC economies.

- ***Pension/Protection Gap***: Data provided by Oliver Wyman, Swiss Re, OECD and others document a large and growing protection gap in APEC economies.[18] In sum, Asian households do not have adequate long-term savings or protection

[18] See for example Swiss Re, *Asia-Pacific 2015 Mortality Protection Gap* (http://www.swissre.com/publications/Mortality_Protection_Gap_Report__AsiaPacific_2015.html); OECD, *Pensions in Asia/Pacific: Ageing Asia must face its pension problems* (https://www.oecd.org/finance/private-pensions/46260941.pdf); Christian Edelman and Christian Pedersen (Oliver Wyman), *The Financial Threat to Asian Economic Progress: Underdeveloped Capital Markets Could Crimp the Region's Growth* (http://www.oliverwyman.com/content/dam/oliver-wyman/global/en/2014/dec/RJ2014%2003_Financial%20Threat_Ipad.pdf)

for retirement. This represents a large, contingent fiscal liability for Asian governments.

- ***Infrastructure/Investment Gap***: Data provided by the ADB and others notes a large infrastructure and investment gap in APEC economies.[19] Failure to mobilize Asian savings into long-term investment leaves Asian economies vulnerable to the middle income trap.

- ***Regulatory/Accounting Gap***: APEC economies, and emerging economies in particular, have been constrained by regulatory and accounting regimes that have been designed for mature economies with slow economic growth (e.g. Solvency II in EU). The regulatory and accounting framework should take account of the above two gaps in pensions/protection and infrastructure/investment, and promote a sustainable regulatory and accounting regime that encourages both retirement savings and infrastructure/long-term investments within the context of high-growth economies.[20]

Pensions/Protection Gap

The need to promote long-term savings on the part of consumers is the engine that will drive the "triple win" of provision for retirement, deepening capital markets and relieving governments of contingent fiscal liabilities for unfunded retirement protection. The 2015 APFF Progress Report listed high-level recommendations to facilitate the growth of retirement savings demand as well as retirement income product supply. This can be achieved through measures that promote the development of retirement income system and ensure adequate retirement savings as well as adequate lifetime retirement incomes. Among those measures, we note in this report the three key means to address the pensions/protection gap: (a) mandatory provision for retirement savings at a sufficient replacement rate to fund retirement; (b) tax relief to promote long-term savings products; and (c) product innovation and financial awareness.

- ***Mandatory provisions***: In the US, retirement savings and pension funds account for 50 percent of the capital market. In term of GDP, the largest economies in Asia ex-Japan, such as China, Indonesia, India, have long-term retirement savings of less than 10 percent of GDP, compared to the 70 percent in OECD countries. In most Asian emerging markets, less than half of the labor force is covered by current retirement systems. Retirement assets remain small relative to mature economies, while Asia expects an increase of 2 to 2.5 times in the proportion of retirees over the next few decades. Given the speed of aging in

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[19] See Georg Inderst (ADB), *Infrastructure Investment, Private Finance, and Institutional Investors: Asia from a Global Perspective* (http://www.adb.org/sites/default/files/publication/179166/adbi-wp555.pdf)

[20] An example of an effort toward this end is the development of the China Risk Oriented Solvency System (C-ROSS) regime in China.

Asia and the current relatively small retirement asset pool, APEC economies will need to establish mandatory and scalable retirement savings systems in order to effectively channel savings from short-term bank deposits into longer-term institutional investments and productive assets. Canada provides an example of reforms that address mandatory pension and equitable access to a sustainable pension. The Canadian government reached initial agreement in July 2016 with the majority of provinces on the reform of the Canadian Pension Plan. From 2019 to 2023, pension premium payments will be raised for workers, together with the mandatory contribution from employers.

- ***Tax incentives***: Tax incentives have been the most important policy lever in successful markets. Potential short-term reductions in tax revenues would be justified by bigger reductions in the long-term social costs of a growing portion of the population not having sufficient retirement income. Tax incentives to encourage the insurers to develop long-term products would have a follow-through effect on the capital market through increased demand for long-term funding vehicles. As tax incentive is a key tool for a scalable retirement saving system, APFF has prepared a comparison of tax incentives by economy. (See Appendix 2.)

- ***Product innovation and financial awareness***: In a majority of Asian economies, most retirement benefits are drawn as lump sums, and traditional annuities have not yet proven to be popular. However, new retirement income products such as variable annuities are emerging. Fintech and longevity risk pooling can also provide alternatives to traditional insurance solutions. In the US and UK, a number of plan sponsors are offering to transfer pension risk or liabilities risk to insurance companies (de-risking) for defined benefit plans. It may be another way for insurers to contribute to retirement security. The scale and success of retirement income solutions would depend on consumer education as well as public awareness programs targeting financial advisors, policymakers, regulators and other government bodies.

Life Insurance Association of Japan's Recommendations on Pension Reform

In February 2016, the Life Insurance Association of Japan (LIAJ) published a recommendation that proposes a core policy to establish a sustainable social security system with appropriate coordination of public and private retirement scheme. This initiative is consistent with the APFF recommendations on retirement savings and income.

Key issues identified are:

- Rapid aging with swelling public debt, the current public pension scheme needs crucial reforms to ensure sustainability. The need to prepare retirement with complementary pension scheme.

- Under the low interest rate environment, the capacity of both public and private pensions to provide lifetime retirement income is decreasing, even as the risk of outliving retirement savings grows.

The LIAJ's recommendation: Establish a new whole life private pension scheme "Longevity

Pension" that is easy to understand and provides a stable lifetime income.

In responding to those issues, the LIAJ recommends to establish "Longevity Pension" -- a new whole life private pension scheme to complement the public pension scheme. This new voluntary pension system, which is subsidized by the government and modeled after the Riester Pension Scheme in Germany, would provide a stable lifetime payout, starting at the same time with the public pension and lasting for a lifetime. It would be accessible to everyone and offset the shrinking "pay-as-you-go" public pension income to support retirement security. The LIAJ believes that the appropriate balance of the public and private pension schemes would make the social security system more sustainable, provide peace of mind for the society, and empower people to better enjoy life.

(*Source: LIAJ*)

Recommendation

- ***APEC economies should consider the establishment of mandatory and scalable retirement systems. A mandatory system provides the scale necessary to effectively channel the region's huge savings currently concentrated in short-term bank deposits into longer term institutional investments and productive assets. Retirement savings can help professionalize the financial system through deeper domestic capital markets and expanded roles of long-term investors such as insurers and pension funds. Scalability is provided by implementing strong tax incentives to encourage higher levels of retirement savings. Altogether the system promotes public financial awareness, ensuring a diverse range of retirement income products and improved financial security for the region's rapidly growing number of retirees.***

Infrastructure/Investment Gap

Asian savings rates are traditionally high, but these savings are generally short-term in nature. Asians put their savings into bank deposits, rather than longer-term savings vehicles. One reason for this is the relatively under-developed nature of capital markets in Asia. The price of capital – expressed in interest rates – has fallen due to excess Asian savings (supply of capital) and insufficient Asian investment project (demand for capital). The low interest rate policies of central banks in the developed economies have accentuated this downward pressure on global rates. The Asian "vice of savings" and dearth of investable assets have inhibited both the global recovery from the 2008 crisis as well as the Asian effort to escape from the "middle income trap" and move on to the next stage of economic development.

In its 2014 Interim Report, the APFF identified market issues, such as underdeveloped long-term capital markets, the small number of available bankable projects, lack of infrastructure financial instruments, lack of market instruments (i.e. derivatives, hedging tools) to manage portfolio risk, constraints on long-term insurance business (both demand side and supply side), operational issues, such as weakness in credit rating, lack of experience, and uncertainty in legal framework (i.e. creditor rights, resolution).

We note in this report the following possible solutions, which are related and complementary, to addressing the dearth of investable assets in Asia, particularly in infrastructure: (a) promotion of infrastructure as a defined asset class; (b) increased fiscal spending by Asian sovereigns within macroeconomic parameters suitable for developing economies; and (c) adoption of various financing vehicles, with a broader public-private partnership framework to promote long-term infrastructure investment.

Infrastructure as a Defined Asset Class: The ADB, OECD and IIF have all identified inadequate infrastructure investment as an impediment to economic growth and capital market development in APEC economies. The IIF in particular has identified 10 impediments to infrastructure investment,[21] which are:

- underdeveloped infrastructure asset class;
- lack of transparency and information flow;
- mismatch between available infrastructure investment options and investors' risk profile;
- policy uncertainty (including concerns about investor/creditor rights);
- banking sector adjustments (both regulatory and industry developments);
- lack of alignment between long-term investors' risk profile and policy measures designed to encourage investment;
- high capital charges on infrastructure investment;
- short-term focus of institutional investors, prompted in part by certain regulatory policies and initiatives;
- lack of standardization in debt instruments; and
- underdeveloped capital markets.

Infrastructure assets are generally long-term in nature. Current regulatory treatment of infrastructure assets is largely focused on the form of the instrument rather than the underlying substance, i.e., it is determined by whether the investment is in fixed income, equity or some form of private placement. A holistic approach to the asset class does not really exist. Typically, infrastructure investment will have diverse sources of funding at both the construction and operating phase. Varied regulatory treatment and the lack of a holistic approach have constrained private sector willingness to make such long-term investment. Promotion of infrastructure investment as a defined asset class – in coordination with increased government spending and adoption of PPP financing vehicles will go a long way in promoting long-term infrastructure investment.

Increased Fiscal Spending: Asian economies should be encouraged to expand government spending on infrastructure projects both as direct fiscal outlays and as part of public-private partnerships (PPPs). The post-1997 "Washington Consensus" solution to the Asian crisis is out of date and should be replaced with active encouragement of increased infrastructure spending. An appropriate balance to

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21 Institute of International Finance, *Top 10 Impediments to Long-Term Infrastructure Financing and Investment* (https://www.iif.com/system/files/CAIM_Top_10_Impediments_to_LT_Investment_1.pdf).

increased fiscal spending and sound public debt management should be adopted. The European Monetary Union's "Maastricht criteria" of a 3 percent limit on the fiscal deficit and a 60 percent of GDP cap on public debt could be a good place to start. The Maastricht criteria were observed largely in the breach in Europe, but most Asian sovereigns are prudently well below the criteria.

Increasing Asian investment, while keeping Asian public finances within the Maastricht 3 percent and 60 percent limits, offers a potential solution to the dearth of investable assets in Asia. In addition, arguably a distinction could perhaps be made between deficit spending which does not build up assets - for instance social security spending - and deficit spending which does such as infrastructure. While both have value, the former increases net debt where the latter does not, although this would require governments and rating agencies to at least qualitatively take into account not just the liability side of an economy but its asset side as well.

PPP Financing Vehicles: Increasing fiscal spending will not, by and of itself, increase investment ratios in Asia or deepen capital markets. The APFF identified a series of financing vehicles that can help mobilize long-term retirement savings into investable assets to provide long-term retirement savings returns to consumers as well as propel economic growth to the next stage of development. The 2015 APFF Progress Report identified the following financing vehicles: infrastructure funds, business trusts, guarantees, build-operate-transfer (BOT), securitization, and co-financing with multilateral development banks.[22]

For example, guarantees for construction risks is an example of an effective tool to facilitate cost efficient financing by long-term investors. Infrastructure financing needs long-term debt funding from insurers and pension funds. However, according to the feedback from long-term fund managers, construction risks are typically a key bottleneck for long-term investors. The Credit Guarantee & Investment Facility's (CGIF) Construction Period Guarantee (CPG) covers 100 percent of the principal and interest payments until the project is completed. It would allow long-term investors to participate from the inception of the project. With CPG, the greenfield project bond's rating should not be constrained by construction risks. CGIF looks forward to syndicating to other guarantors (banks) to participate in the future.

Recommendation

- ***APEC economies should promote infrastructure investment as a defined asset class to facilitate more holistic regulatory treatment that can encourage more private sector infrastructure investment. Inadequate infrastructure investment has been a long-standing issue in emerging Asia (outside of China), as documented by the ADB and others. At the same time, Asia's huge savings are still being mostly channeled into short-term bank deposits and government***

[22] See pages 41-42 of the 2015 APFF Progress Report to the APEC Finance Ministers (https://www2.abaconline.org/assets/2015/APFF%20Progress%20Report%20and%20Appendices%202015-08-25.pdf).

securities in mature markets. Promotion of infrastructure as a defined asset class will help bridge the gap between Asian savings and investable long-term assets.

Construction Period Guarantee by CGIF

On 1 July 2016, the Credit Guarantee & Investment Facility (CGIF), a trust fund of the ADB, announced the launch of its Construction Period Guarantee (CPG), a new guarantee product aimed at addressing concerns of construction risks from conservative long-term investors about greenfield infrastructure projects.

Besides assuring investors of the completion of construction works, CPG is designed to frame the boundaries of risks during the construction period to acceptable levels. This assessment framework that underpins CGIF's CPG product is envisaged to drive the quality of the regions' projects to higher levels in particular with respect to mitigating construction-related risks.

CGIF is now in search of a suitable project in the ASEAN region to roll out a pilot implementation of CPG. While it will still take considerable effort to conclude the first CPG supported project bond from this point, the benefits anticipated from its success will accrue for many years to come. This will represent a significant milestone for the development of project bonds and local currency bond markets not only in CGIF's focus countries but globally as well.

(Source: CGIF)

Regulatory/Accounting Gap

In an environment with adequate supply and access to long-term investments, there are hurdles to invest in these assets from the regulatory and accounting perspectives. Key issues include:

- lack of coordination between pension policy and tax and securities regulations;
- investment policies that lack sustainability and risk management measures to achieve adequate returns;
- the incentives and disincentives that arise from regulatory and accounting regimes with respect to insurers and pension funds' engagement in providing retirement and longevity solutions;
- impact of economic accounting and the choice of measures on pension funds and products to serve the needs of aging societies; and
- how regulatory requirements may take into account, in coordination with the private sector, the diversity of social security systems, needs and consumer behavior and development stages across the Asia-Pacific region.

In its 2014 Interim Report, the APFF identified regulatory and accounting issues and high-level recommendations to implement approaches in promoting long-term investment and longevity solutions by insurers and pension funds. The APFF also supported ABAC in drafting a comment letter to the IAIS on the global risk-based Insurance Capital Standards (ICS) on 20 January 2015, a comment letter to the IASB/FASB on insurance contracts on 10 October 2013 and a comment letter to the IASB on the Conceptual Framework for Financial Reporting.

Address by the Honorable Tharman Shanmugaratnam, Deputy Prime Minister and Chairman, Monetary Authority of Singapore, Global Insurance Forum on 13 June 2016

As the host of International Insurance Society (IIS)'s Global Insurance Forum that took place in Singapore on 13 June 2016, the Honorable Tharman Shanmugaratnam delivered the welcome address and highlighted infrastructure financing as one of the three major opportunities for the insurance sector: infrastructure financing, catastrophic insurance and cyber insurance.

The following is the part of his speech regarding infrastructure financing:

First, infrastructure financing. It is a huge opportunity in Asia. Whichever infrastructure you look at – transportation, communication and power links, water and environmental sustainability – in every area the needs are growing, the need to remove bottlenecks to economic growth and social development are growing.

Traditionally, it has been a sector that has been financed by governments and banks. Governments will be constrained in the future, across the region. Although banks currently have ample liquidity, they too will over time become more constrained. So that combination of governments and banks isn't going to be able to cope with the rapid growth in financing for infrastructure in the future.

This is why institutional investors – insurers, pension funds and other long-term investors – have become very important. For insurers, infrastructure is an attractive asset class. It is attractive as a potential diversifier of assets, and has the potential to provide reliable inflation-linked returns over time, and with low correlation to other conventional assets.

But we need quality data for infrastructure to take off as an asset class for long-term investors. We need quality data for reliable performance benchmarks to be constructed, and to allow long-term investors to perform asset allocation on a reasonably reliable basis. That quality data doesn't yet exist but it is being put together by the EDHEC Infrastructure Institute in Singapore. By the end of this year they expect to have usable performance benchmarks, including for unlisted infrastructure debt and equity. The data has not been transparent, especially for privately-held investments, it has not been put together, and this is what EDHEC is doing. So that's one dimension of it. Getting the data together to allow institutional investors to allocate a desired portion of funds to infrastructure as an asset class.

Second, the regulatory treatment for insurers has to evolve so as to make possible long-term investments, including infrastructure investment. Some rethinking is already underway globally on the design of capital frameworks for insurers. It has to be aimed first of all at ensuring that individual insurers are on a sound prudential footing, not just for the short term but for the long term. It should also support efforts to ensure that our economies are able to grow and to remain healthy, which is also in the interests of every player. This means we have to support long-term investment.

The European regulators are already in close consultation with the industry, on providing some measure of capital relief for long-term investments. Globally too we have to do this. We need lower risk charges for equity held by insurers for the long term, including infrastructure. I hope globally regulators will arrive at an understanding that makes this possible. Here in Singapore, MAS is engaging closely with the industry in this regard. We will be having another round of public consultation at the end of this month on our risk-based capital framework for insurers (or "RBC 2"). The aim is to finalize our proposals for providing capital relief for long-term assets which match the cash flows of the liabilities. We will also be raising questions, as part of this review, on the merit of having a different set of risk charges for infrastructure in particular.

(*Source: Monetary Authority of Singapore*)

Based on the list of identified issues and recommendations, the APFF has continuously engaged in active outreach and dialogue to exchange views on regulatory and accounting matters with policymakers, international and regional institutions such as the IAIS, International Accounting Standards Board (IASB), OECD, ADB, ASEAN, as well as various insurance regulatory authorities in the Asia-Pacific.[23] In particular, the ASEAN Insurance Council (AIC) contributed to the APFF's effective and efficient communication with the ASEAN Insurance Regulators and Industries. The APFF also coordinates closely with OECD and ADB on related initiatives.

The main regulatory issues identified by the APFF, in particular for insurance companies and corporate pension funds, are the following:

- ***Bank-centric regulations***: Insurance Capital Standards 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 may discourage insurers to provide such investments. Regulation should be designed in a way to promote and incentivize insurers' roles to help stabilize the financial system and their ability to 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 future long-term direction, Insurance Capital Standards should avoid introducing 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" model***: International standards should be principles-based and aim to achieve comparable outcomes by taking into account the region's diversity. Due to the differences in business models and existing regulatory frameworks, the application of prescriptive international standards would not ensure the overall comparability or level playing field in the region.

Regulators are now generally aware of the issues and considering various measures to mitigate their negative impact on long-term business and investments. They have noted the relevance of APFF's recommendations in tackling the challenges of the current low-interest rate environment that a number of APEC economies are facing. The APFF was requested by a number of regulators in the region to provide inputs.

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[23] These include authorities in Indonesia, Japan, China, Singapore, Malaysia, Brunei, Mexico, Chile, Peru, USA, Canada, Korea, Chinese Taipei, Thailand, Vietnam and Hong Kong.

Some examples of regulatory measures in APEC economies (e.g. C-ROSS in China), appear largely in line with the APFF recommendations.

Key messages from Dr. Zhao Yulong, Deputy Director, China Insurance Regulatory Commission (CIRC) in Hong Kong on 13 July 2016

During the APFF Insurance and Retirement Income Work Stream Meeting that took place in Hong Kong on 13 July 2016, Dr. Zhao Yulong, Deputy Director General of Finance and Accounting, Solvency Department, CIRC, made a presentation on the China Risk Oriented Solvency System (C-ROSS), which was implemented in China in January 2016.

The following are some key messages from his presentation:

C-ROSS is not aiming to be an advanced solvency regime but a suitable one for China's current market development stage.

Differences stemming from fundamental institutional characteristics of jurisdictions are difficult to overcome with a one-size-fits-all approach. Global regulatory convergence can begin with regional convergence among jurisdictions having similar market features.

There is no best solvency system but only the most suitable solvency system for:

- the current stage of market development;
- business models to fulfill insurance needs and long-term finance needs; and
- level of maturity of associated markets.

(Source: CIRC)

The ABAC comment letter urged the IAIS to take the necessary time to develop high quality standards rather than compromise on quality to meet an ambitious deadline, noting that it may allow the IAIS to benefit from experience of numerous regulatory changes implemented or developed in the EU, USA and many other economies in the Asia-Pacific. The IAIS has subsequently revised the timeframe and is now taking sufficient time and several steps in developing ICS. The APFF intends to monitor its development and assist them as appropriate in standard setting and implementation to reflect perspectives from the Asia-Pacific region.

The issues above are also relevant to accounting standards. Additional comments on accounting by the APFF included the following:

- ***Volatility in balance-sheet***: Under the accounting regime based on the current market, short-term volatility tends to be significant for long-term business and may not provide useful information for long-term investors, who wish to determine such investments that are good in the long run, rather than appear good at a given moment. Valuation should reflect the long-term nature of business activities. In particular, the interaction between assets and liabilities should be properly reflected. The scope of contracts for which the insurance liabilities and the related assets are consistently measured and presented, reflecting the assets-liabilities interaction could be expanded to include all contracts, including those where all or part of the cash flows are dependent on returns from underlying items. Choice of discount rate should be reflective of the business model of the issuers of the contracts.

- ***Volatility in income statement***: 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. A wider use of Other Comprehensive Income (OCI) both in assets and liabilities should be permitted to better reflect the long-term nature of the business. Nevertheless, the use of OCI should be optional taking into account different business models, in order to avoid accounting mismatch between assets and liabilities.

- ***Business activities***: Financial statements are more relevant if standards reflect how an entity conducts its business in terms of (a) the unit of account, (b) the selection of a measurement basis for an asset or a liability and related income and expenses, and (c) presentation and disclosure, including items of income and expenses in OCI. Consideration of business model may provide a faithful representation of the economic reality and result in more relevant information.

- ***Consistency and transition requirements***: 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. The retrospective measurement of Contract Service Margin (CSM) for existing and past long-duration contacts would be extremely burdensome and costly and often practically impossible due to lack of data, and may have significant financial impact. Flexibility should be given in adopting transition requirements to reduce operational difficulties and minimize financial impact at transition. One solution may be to take a full prospective approach.

- ***Complexity and presentation***: In order to avoid practical burdens and costs on preparers, unnecessary complexities should be removed. It would improve understandability for users. One measurement for all insurance contracts should be used without bifurcation of cash flows, in order to reflect how contracts are designed and managed. As for presentation, the metric should be comparable to conventional accounting practice to maintain comparability and avoid competitive disadvantage for insurers using the International Financial Reporting Standards (IFRS). The metric should reflect the needs of general users.

The APFF held bilateral meetings with some IASB Board Members and Staff to exchange views on insurance contracts as well as conceptual framework. The IASB welcomed the opportunity to share perspectives with institutions from the Asia-Pacific region and engage in constructive discussions on key issues, since it may ultimately facilitate the implementation of IFRS in the region. As a result, we observed some improvements in the proposed IFRS.

- The IASB is revising IFRS4 Phase I to allow insurers under certain conditions to defer applications of IFRS9 to address the mismatch between assets and liabilities, arising from the different effective dates of IFRS9 and IFRS4. This change would be in line with the APFF recommendation to promote consistent measurement of assets and liabilities. The final standard is expected to be issued in September 2016.

- The IASB is also working on the IFRS4 Phase II on insurance contracts. After the Board has completed key decisions, it is now in the drafting phase. Field testing with some selected insurers is planned this summer. The final standard is expected to be issued in early 2017.

- Through Board discussions and dialogue with stakeholders, the IASB has made changes from the 2013 Exposure Draft, including the permission of optional OCI, a measurement model for participating contracts under some conditions where changes in the estimate of the future fees that an entity expects to earn from participating contract policyholders are adjusted against the CSM (so-called "variable fee approach"), and alternative approach for CSM at transition. A number of requirements were streamlined. These changes would address some of the issues identified by the APFF.

Remaining key issues include unit of account, and scope for variable fee approach. While the IASB made some favorable changes on these two points, there are some technical issues yet to be addressed. The APFF intends to be involved in drafting and implementation process, in cooperation with the European and North American industry representatives, who share similar concerns, and assist the IASB in delivering the final standards to reflect economic reality and long-term nature of the business, and not dis-incentivize insurers' long-term investments and business.

Lastly, the APFF identified regulatory issues other than insurers' solvency regime, such as investment regulations and pension funds, and securities and capital market regulations that may affect the ability of the insurers and pension funds to undertake long-term investments. For example, restrictions or excessive reserve requirements for derivatives may be an important constraint for long-term investment in infrastructure. These problems are often beyond the responsibility of insurance regulators, and the coordination with other financial sector regulators and industry (i.e. banking, securities) would be crucial to address this topic more holistically.

Participation in conferences and seminars

In addition to the above-mentioned dialogue with stakeholders, APFF contributed or plan to contribute in 2016 to a number of events by providing speakers and panelists and helping in the design of the agenda[24].

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[24] 2016 Conferences on the Insurance and Pension Topics contributed or to be contributed by the APFF:

- OECD/ADBI Roundtable on Capital Market and Financial Reform, Tokyo, 22-23 March
- G20/OECD Roundtable on Institutional Investors and Long-Term Investment, Singapore, 25 April
- Workshop & Dialogue with Trade and Financial Officials & Experts on Islamic Infrastructure Investment

Annual Indonesia Infrastructure Finance Conference, Jakarta on May 24

The APFF provided speakers for the 2nd Annual Indonesia Infrastructure Finance Conference organized by Euromoney in Jakarta on May 24. The objective was to make the case on the panel and in meetings around the conference to regulators and members of the Indonesian government regarding:

- the need for long-dated investment opportunities for Indonesian pension funds and insurers which would enable them to construct and sell long-dated retirement solutions - long dated policies can only be prudently sold if long dated matching assets exist;
- the attractiveness of Indonesian infrastructure projects for international pension funds and insurers who already invest globally in infrastructure and have a similar need for long-dated assets;
- the benefits for Indonesian infrastructure projects of having both domestic and international long-term patient capital in their financing mix; and
- recommendations on how the above may be achieved.

The APFF has found the economy-by-economy approach to be effective, and intends to coordinate with external bodies, including IIF, and will follow this case up through the ASEAN Insurance Council.

While APFF undertook numerous dialogues with insurance regulators in 2015 and 2016, it is clear that the circle of stakeholders that influence the adoption of recommendations is much wider. Which stakeholders are the most influential (e.g. trade bodies, regulators, infrastructure investors, central banks) will vary, but APFF will try to reach as many of them as possible in the future.

Recommendations

- ***APEC economies should adopt accounting, solvency, investment, and securities standards supportive of the development of retirement savings and infrastructure investment. To encourage insurers and pension funds to engage in***

Platform, Kuala Lumpur, 10 May
- Indonesia Infrastructure Finance Conference, Jakarta, 23-24 May
- Global Insurance Forum, Singapore, 12-15 June
- OECD/ADBI Roundtable on Insurance and Retirement Saving, Tokyo, 22-23 June
- APFF Symposium Public-Private Collaboration to Develop APEC Financial Markets –Achievements and Way Forward, Shenzhen, 1 August
- NAIC Asia-Pacific International Forum, San Diego, 23-25 August.
- APIC ASEAN+JAPAN Pension Funds and Social Security Systems Summit, Manila, 21 September
- IIF International Colloquium on International Insurance Regulatory Issues, Basel, 22-23 September
- East Asian Insurance Congress, Macau, 11-14 October
- APEC Finance Ministers' Meeting, Peru, 12-15 October
- IAIS Annual Conference, Asuncion, 10 November
- ASIFMA Annual Conference, Singapore, 17-18 November
- ASEAN Insurance Summit/ASEAN Insurance Regulators Meeting, Yogyakarta, 21-24 November.

long-term investments and retirement solutions, barriers of regulations and accounting should be removed, and policies that are suitable for long-term business should be promoted. Global solvency and accounting standards should be designed in a way to incentivize companies to improve risk management and adopt best practice.

- ***It is recommended that APEC Finance Ministers encourage the participation of all relevant public sector stakeholders in dialogues with the private sector to address barriers to long-term investment. APFF intends to promote active participation of the private sector in conferences organized by network members and to convene workshops in the region involving a wide range of stakeholders.***

Mobilizing Islamic Finance for Infrastructure Investment

Islamic finance has significant potential to meet long-term funding needs for infrastructure projects, which are suitable for its asset-based and risk-sharing nature. The global Islamic capital market has been growing in size and depth across jurisdictions, with a combined market capitalization of around USD23.2 trillion spread across 58 jurisdictions covered by the Dow Jones Islamic Market World Index (as of the time of this Report's writing).[25]

At the 2015 APEC Finance Ministers' Meeting hosted by the Philippines in Cebu, ministers and the private sector discussed the development of an Islamic Infrastructure Investment Platform (I3P), in order to facilitate the mobilization of capital in Islamic institutions to fund infrastructure across the region. In October 2015, the government of Brunei Darussalam hosted a workshop in collaboration with the APEC Business Advisory Council (ABAC) Brunei, the APIP and the APFF. In May this year, the government of Malaysia, in collaboration with ABAC Malaysia, hosted an APFF workshop to develop concrete proposals.

Participants in the workshop agreed on the following proposed features of I3P:

- I3P would provide a platform for collaboration among public, private, international and academic experts to address the key obstacles to the expansion of cross-border investment by Islamic financial institutions, especially long-term investment from takaful and Islamic pension funds, in infrastructure projects in APEC economies.

- I3P would be a pathfinder initiative involving initially Brunei, Malaysia and other interested APEC member economies, that can be open to participation by other APEC members as it develops. It is hoped that I3P's success in addressing key issues would lead to more cross-border investment in infrastructure among participating economies, as well as more investment from leading Islamic financial centers to the region.

[25] *Dow Jones Islamic Market World Index Fact Sheet* (https://www.djindexes.com/mdsidx/downloads/fact_info/Dow_Jones_Islamic_Market_World_Index_Fact_Sheet.pdf).

- I3P would be an initiative under the FMP to be championed jointly by Brunei, Malaysia, ABAC, and any other interested APEC economies. The pathfinder economies will also invite ADB and the World Bank Group to support the initiative. It would seek the collaboration of related FMP policy initiatives such as the APFF and APIP, both of which will mobilize experts from their respective networks, as well as other institutions such as the Islamic Development Bank and the Sustainable Infrastructure Foundation.
- I3P will have a small secretariat based in a location agreed upon by the pathfinder economies. The funding for the secretariat may be provided by the public or private sector or both, or may be shouldered by an existing organization.
- During the initial stage, a small APFF task force led by the Brunei private sector would play a provisional secretariat role, while undertaking activities and discussions leading to the establishment of the secretariat. The role of the secretariat would be mostly coordination and maintenance of a directory of experts participating in the initiative.
- Actual work would be undertaken by public, private, international and academic experts on a volunteer basis, organized around a number of work streams led by volunteer Sherpas agreed upon by the pathfinder economies.
- Activities would be undertaken on a self-funded basis. Participating organizations will be encouraged to host activities. Participants will be responsible for financing their own travel and accommodation through their own institutions or sponsors. Funding may be solicited from appropriate sources for projects that require significant dedication of time and effort, such as research projects or surveys.
- During the initial stage, I3P would have the following work streams to address key issues identified during the first two workshops: (a) development of common definitions of Sharia-compliant infrastructure projects and financial instruments acceptable in all pathfinder economies, taking into account the proposals to define infrastructure and real assets and their incorporation in an enabling Islamic investment infrastructure environment referred to later in this report; (b) development of Islamic hedging instruments; (c) development of financial instruments suitable for infrastructure investment from Islamic pension funds and takaful; (d) identification of discriminatory tax policies in pathfinder economies and actions to address them; (e) development of a virtual place to coordinate directory of experts, definitions, funders, participating economies, qualifying infrastructure projects to help progress various initiatives under this platform; and (f) collaboration with the International Infrastructure Support System (IISS) in developing project preparation tools for participating economies.

Recommendation

- ***APEC should establish an Islamic Infrastructure Investment Platform (I3P) as a pathfinder initiative to provide a platform for collaboration among public, private, international and academic experts to address the key obstacles to the expansion of cross-border investment by Islamic financial institutions, especially long-term investment from takaful and Islamic pension funds, in infrastructure projects in APEC economies. I3P should address in its work the definitions of infrastructure and financial instruments, Islamic hedging instruments, financial instruments for pension funds and takaful and discriminatory tax policies. It should also create a directory of experts, definitions, funders, participating economies and qualifying infrastructure projects, and collaborate with the International Infrastructure Support System (IISS).***

DEEPENING THE REGION'S CAPITAL MARKETS

The APFF's information in capital markets self-assessment templates have been a useful tool for the Philippines to assess how easy it is for investors to access information about our market. We look forward to using them in discussions with investors in the future and support this initiative toward building transparency across the Asia-Pacific.

Ephyro Amatong -- Commissioner, Securities and Exchange Commission, Republic of the Philippines

We welcome the support of the APFF and would see APFF involvement as an important signal that the industry in the region is very much engaged and supportive of the Asia Region Funds Passport initiative.

A senior official of the Australian Treasury

Promoting Liquid Repo and Derivatives Markets

Capital markets, particularly local currency bond markets, are of crucial importance for the region's financial stability, economic growth, and the efficient channeling of long-term savings to investment in long-term assets like infrastructure. Various initiatives have successfully brought about 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 sustained growth and development of the region's capital markets.

Last year, Finance Ministers decided to include the development of capital markets as one of the deliverables under the CAP. The APFF has organized its work program in line with the Ministers' direction to promote the development of liquid repo markets, legal and documentation infrastructure facilitating risk mitigation, transparency of capital markets (issuer disclosure, bond market data, investor rights in insolvency), and a regional securities investment ecosystem to promote cross-border investment in capital markets. APFF stakeholders are engaging with regulators in individual member economies as well as with the ASEAN+3 Bond Market Forum (ABMF), the ASEAN Capital Markets Forum (ACMF) and the Pacific Alliance.

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 collaboration in the development of classic repo markets in Asia. This collaboration allows public and private sector stakeholders to share international best practices and develop new lines of communication that may not otherwise exist. As a result, this enables participants to identify and address impediments in legal architectures, improve market infrastructure, 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

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:

- deep bond market liquidity;
- sound legal framework that protects creditors' rights in bankruptcy and insolvency proceedings;
- robust investor participation;
- neutrality in tax treatment; and
- efficient and interoperable market infrastructures to support cross-border repo markets.

In August 2015, the Asia Securities and Financial Markets Association (ASIFMA) and the International Capital Markets Association (ICMA) launched their ASIFMA-ICMA Guide on Repo in Asia.[26] APFF also continues to engage with domestic regulators and governments to encourage the further development of classic repo markets and increasing secondary market liquidity in the region. In particular, APFF is providing 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.

Over the counter (OTC) derivatives play critical roles in capital markets, as they are used by firms to manage balance sheet liabilities and cash flows as well as hedge various economic risks, including interest rate and foreign exchange risks. A number of new regulations introduced to improve transparency, mitigate systemic risk and prevent market abuse are changing the landscape for these instruments, including in ways not intended but posing challenges in terms of their impact on hedging

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[26] The report is divided into two sections: Section I on "Laying the Policy and Regulatory Foundation for Efficient Asian Repo Market Development" and Section II by ASIFMA and ICMA "Best Practices across the Repo Trade Lifecycle". It takes a comprehensive view of all aspects of repo market development in Asia and addresses three key issues: 1. Why is it important to develop the repo market in Asia? 2. What are the main challenges facing the repo market in Asia? 3. What is best practice in the repo market - and how can it be implemented?

costs, bid-offer spreads and ease of trading. Emerging Asia faces additional risks of growing fragmentation with the emergence of a multiplicity of clearing systems handling relatively small transaction volumes.

The sub-stream dealing with these issues aims to help policy makers and regulators identify and address key issues that affect the effectiveness and connectivity of OTC derivatives clearing houses in the region. An important focus of this work is the legal and documentation infrastructure required to support safe, efficient markets. Contractual legal certainty and protection of collateral rights are vital building blocks that allow capital markets to facilitate capital investments, extend credit and provide business risk mitigation hedging tools.

The International Swaps and Derivatives Association (ISDA) assisted Bank Negara Malaysia (BNM) in the drafting of proposed legislation that culminated in the Netting of Financial Agreements Act which was enacted on March 30, 2015 to ensure legal enforceability of close-out netting arrangements. This brought to an end a period of netting unenforceability that had begun following the Asian Financial Crisis in 1998 and showed the efficacy of public-private collaboration.

More recently in May 2016, the Parliament of Australia passed the Financial System Legislation Amendment (Resilience and Collateral Protection) Bill 2016. Amendments to Australian law were necessary to ensure that termination/close-out rights under derivative arrangements can be exercised and to stabilize the financial system with more certainty provided to the operation of financial market infrastructure. The amendments also removed legal uncertainty in relation to security enforcement to support access to international markets and liquidity by Australian regulated entities and life companies. Cooperation between the Australian Council of Financial Regulators, King & Wood Mallesons and ISDA were crucial to the success of this legislation.

One driver behind this legislation is the looming implementation (September 2016 for the biggest global banks and March 1, 2017 for all other significant global financial institutions) of mandatory margining for non-cleared OTC derivatives under guidelines and timelines set out by the Basel Committee on Banking Supervision/ International Organization of Securities Commissions (BCBS-IOSCO), though subject to national regulators' interpretations. These margin regulations will have tremendous impact on pricing in the less liquid APEC derivatives markets, which makes enforceability of close-out netting and collateral rights crucial to containing costs and continued market viability.

ISDA has been engaged in a series of road shows across the Asia-Pacific region to highlight to both local regulators and market participants what the new margin requirements are and what the impact will be. Last year's APFF forum in Manila in collaboration with ABAC, ADB and ASIFMA was one such presentation. This year, ISDA has already made presentations in 9 Asia-Pacific economies and by year end, will have presented in 12 or more economies.

ABAC has been collaborating with the ADB, ASIFMA and ISDA to assist the Philippines and Indonesia in the development of their repo and derivatives markets, using the APFF platform. An APFF workshop on the Philippines' repo and derivatives markets was held last November in Manila, while another workshop on Indonesia's repo market was held last April in Jakarta. Discussions are ongoing to hold workshops in China on bond, repo and derivatives markets and in Indonesia on its derivatives market later.

A topic that may be added to future APFF work is the impact of Basel capital rules on APEC financial markets. Basel III rules were a necessary response to the financial crisis, but what the cumulative impact of other capital rules in the pipeline, including Fundamental Review of the Trading Book (FRTB), Net Stable Funding Ratio (NSFR), the Standardized Approach for Measuring Counterparty Credit Risk (SA-CCR), and the leverage ratio will not be easily quantified, though it is expected that the impact will be disproportionately felt in the less developed financial markets.

Recommendation

- ***Member economies are encouraged to collaborate with APFF in undertaking workshops on development of classic repo and derivatives markets to enable the effective use of hedging instruments and improve bond market liquidity. The APFF also welcomes collaboration from other interested organizations in financing and convening these activities.***

Information for Capital Market Investors

Trust is the cornerstone of a sound capital market. It enables investors to put their resources for use by others who can help build and grow the economy. The quality, comparability and availability of information are key ingredients in bringing together buyers and sellers of both debt and equity. Policy makers and regulators can help expand investor activity in their capital markets by collaborating with the private sector to identify the information that investors need.

The APFF 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 broadly align with information that may be relevant to successive phases of the investment process: initial purchase, secondary market trading, and rights in the event of default.

The Philippines' Securities and Exchange Commission supports the templates and has filled them out internally. They continue to work with representatives from APFF and see the templates as a worthwhile initiative. The templates have been sent to the Deputies Chair of the ASEAN Capital Markets Forum and will be tabled as an agenda item at the Deputies' Meeting in September. There will be immediate follow-up with regulators from Malaysia, Vietnam, Thailand and Indonesia after the ACMF Deputies' Meeting in September.

Recommendation

- ***More member economies should engage with APFF in using the self-assessment templates on information for capital market investors to help expand the investor base.***

Supporting the Asia Region Funds Passport (ARFP) Initiative

The ARFP is a program aimed to provide a multilaterally agreed framework to facilitate the cross-border marketing of managed funds across participating economies in the region. The APFF Sub-Stream on the ARFP was established to support its successful launch. The channels for public-private collaboration created under the APFF has allowed the ARFP sub-stream to facilitate a discussion on the early enlargement of ARFP to include a critical mass of participating jurisdictions, as well as the interoperability of ARFP with other regional mutual recognition frameworks.

In 2015, the 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. Among the views that garnered agreement are the following:

- *Enlargement of the ARFP*: The flexibility of the ARFP to enlarge is critical to its impact and success. 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*: Member economies should works toward according equivalent priority to promoting ARFP funds so that they are treated on a basis that is comparable to domestic funds. This spirit of reciprocity will allow the ARFP to facilitate greater financial integration.

- *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. 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.

- *Dispute resolution*: In the European funds passport arrangement – the Undertakings for Collective Investment in Transferable Securities (UCITS), mechanisms exist to the European Securities and Markets Authority (ESMA) resolves disputes over issues such as the interpretation of UCITS directives and 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.
- *Standardization of fees and performance figures*: It is suggested that rules on the method of calculation of and disclosure of performance figures and fees in the prospectus of Passport ARFP Funds be established in order to ensure investors are able to conduct a fair comparison of the available ARFP Funds.
- *International Recognition of ARFP funds*: It is suggested that APFF begin engaging with non-member regulators with a view to facilitating the cross-border distribution of Passport ARFP Funds beyond the member economies. ARFP Funds should eventually be permitted to be offered into non-member economies the same way UCITS funds may be distributed in non-EU jurisdictions.

The APFF welcomed the signing of the Statement of Understanding for the ARFP in Cebu last September by six economies and the signing of the Memorandum of Cooperation early this year by Australia, Japan, Korea, New Zealand and Thailand. Discussions among industry representatives in the APFF concluded that, with the decision by Japan in 2015 to join the original members of the scheme, the ARFP has made significant progress. APFF collaborators conducted informal discussions with regulators in Hong Kong, Singapore and Chinese Taipei and spoke at an Industry-Regulator Dialogue in Sydney to encourage other member economies to join the ARFP.

The APFF also established a Tax Task Force that completed an assessment of the key tax metrics in actual and potential ARFP participating jurisdictions to help regulators understand the detailed tax implications of ARFP and made this assessment available to regulators in participating jurisdictions.[27] Based on this

[27] A detailed summary of the tax metrics for ARFP economies can be found in http://www.ey.com/Publication/vwLUAssets/EY-update-asia-region-funds-passport-the-state-of-tax/$FILE/EY-update-

assessment, the Tax Task Force makes the following key observations, which it recommends be taken into consideration in the implementation of the ARFP:

- While there seems to be consensus that the absence of a permanent establishment (PE) created by either the passported fund or the foreign fund manager or both would generally limit adverse tax implications for either the passported fund or foreign fund manager or both, the challenge would be to align the rules and guidelines on what would constitute a PE.
- There are obvious differences in local tax rules. It is not practical to expect the alignment of tax treatment of funds in different economies under the ARFP regime. Instead, a reasonable task could be alignment within each participating economy of the tax treatment of domestic versus passported funds.
- In economies in which there are likely to be mismatches in tax treatment between domestic and passported funds, the task force looks forward to the local authorities revisiting and changing the rules to achieve tax neutrality for resident investors.

Recommendations

- ***More member economies should join the Asia Region Funds Passport (ARFP) by signing the Memorandum of Cooperation. APFF also welcomes opportunities and invitations to provide private sector resource persons to dialogue with regulators and industry in economies that decide to consider joining the ARFP.***
- ***It is recommended that participating regulators continue to engage the private sector on the implementation of the ARFP.***

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asia-region-funds-passport-the-state-of-tax.pdf. The APFF thanks EY for permission to reproduce the tax information contained in their EY Tax Alert dated 8 August 2016.

MODERNIZING THE ASIA-PACIFIC FINANCIAL MARKET INFRASTRUCTURE

Enabling Regional Securities Investment Ecosystem

Facilitating flows of capital across the region's markets is a key factor for economic growth in the region. The APFF's work on FMI[28] 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 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.

Three significant issues pose major challenges to cross-border portfolio flows in the region:

- a relatively high volume of change, across different economies, in different focus areas and at different paces;
- the focus on later-stage market development (T+2) rather than the pre-requisites and enablers (standards, automation and harmonization of platforms); and
- increasing KYC focus that introduces more opportunities to improve efficiency and new issue areas are emerging from cross-border tax compliance reporting, data privacy and security concerns

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

28 Financial market infrastructure (FMI) covers the recording, clearing and settlement of payments, securities, derivatives and other financial transactions.

industry utilities for a centralized KYC/AML electronic depositary; and (c) minimum standards for data privacy, protection and security and cross-border flows.

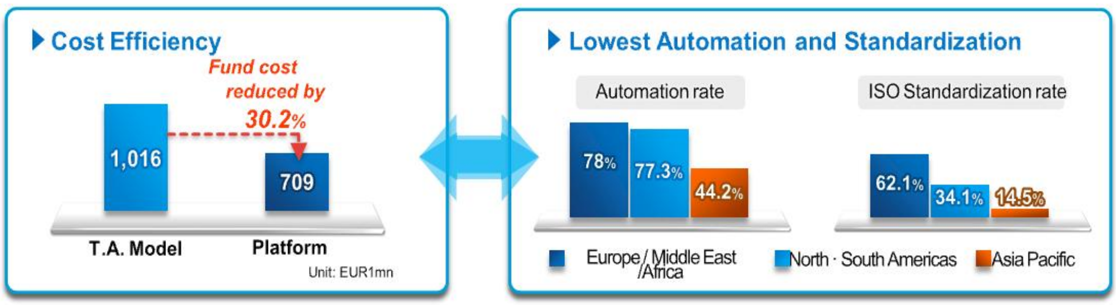
This year, APFF has also started discussions on increasing the operational efficiency and automation level of fund services. This is an important post-trade industry segment that supports the flow of investments into funds and cross-border fund passport initiatives such as the ARFP. Through higher levels of industry standardization and harmonization, including the establishment of industry utilities, APFF is seeking to address the highly manual processing prevalent in the funds servicing industry today that deploys valuable resources in areas that can be readily replaced by outsourcing or offshoring where permitted. Where outsourcing and offshoring does not take place, the fund management industry can suffer from uncompetitive avoidable operational costs.

Table 3: Fund servicing activities and challenges

After an investor has invested; fund servicing activities		Challenges (selected)
Transfer Agent	Facilitates investors' investments [handles cash flow, regulations like KYC/AML/CRS/FATCA]	Transfer Agent (T.A.): Manual, non-straight thru flows per asset manager. Flows include: • KYC/AML/CRS/FATCA investor due diligence • Physical forms; subscription, redemption and switching • Payments; cheques, foreign currencies,
Middle Office	Interfaces trade, post-trade and reconciliations	
Fund Accountant	Reports the investments' value [valuation and accounting focus]	
Custodian	Safe-keeps invested assets [maintain efficient and effective linkages with FMIs]	Non-standardized message formats Non-standardized fund information

Hence, the focus of the work would be how to reduce the costs of investment processing and promote greater skills specialization. Standardization of funds information can improve transparency of fund information that can facilitate financial literacy, lower the cost of financial inclusion, permit more efficient cross-border funds investments and indirectly encourage capital market activity. Industry-level use of "algorithmic advisors" that search across many different funds to fit investors' risk-return needs can become possible as a result of standardization of funds information and messaging infrastructure.

Figure 1: Value released from greater automation



APFF hopes to engage central securities depositories (CSDs) in the region that are either actively promoting greater automation of funds servicing and industry utilities or investigating these possibilities. Having formed a regional forum called the Asia Fund Standardization Forum (AFSF), they are seeking to align their work more with regional funds passport initiatives like ARFP, as well as to form a more complete ecosystem to include regulators and asset managers that can drive a more holistic agenda.[29]

Recommendation

- ***APFF proposes to convene a regional symposium in 2017 on the development of a roadmap for improving the regional financial market infrastructure. Discussions could focus on (a) the harmonization of market access and repatriation practices; (b) improving the inter-operability, liquidity and connectivity of domestic and cross-border financial markets; (c) reducing systemic risks; and (d) creating a securities investment ecosystem that can promote cross-border portfolio investment flows across member economies.***

Facilitating innovation in financial market infrastructure

The growing role of Fintech raises new opportunities and risks with respect to the development of the region's FMI, which is also particularly important in promoting cross-border operations of MSMEs. As governments begin to grapple with the issues that Fintech raises, government-industry collaboration will be important to understand the impact of developments and determine appropriate regulation that allows innovation while protecting the consumer and limiting systemic risk. Inter-agency cooperation will be particularly important as issues go across government departments. Cooperation between governments will also be important to reduce the risk of different standards developing across APEC economies.

Fintech is affecting a large number of traditional financial services offerings. Regulators continue to have the responsibility of learning from the problems of the past and addressing issues in traditional financial services and service providers. The rise of Fintech brings a new challenge for financial regulators to create a regulatory regime that is adaptable and flexible enough for the present and the future, given the rapid rate of change in technology.

The APFF can provide a platform for industry, public sector and multilateral stakeholders to help policy makers and regulators identify approaches and ways forward to address issues in three key areas. These cut across Fintech developments in APEC and where we believe early work and progress can be made

[29] Led by the Korea Securities Depository (KSD), the AFSF has a core membership of about 13 CSDs from the region and five advisory participants.

under the APFF process – cybersecurity, Know-Your-Customer (KYC) rules and electronic payments (e-Payments) – through a series of workshops.

- *Cybersecurity*: Fintech has the potential to leverage data and new risk modeling techniques to lower security risks. Cybersecurity remains a major risk as Fintech evolves, but better technology that can properly combat new risks raised in a digital world could provide a solution. Robust cybersecurity can ensure that high levels of security are maintained and enhanced at the economy level even amidst increasing cross-border data flows. Discussions will focus on best practices and opportunities and risks involved in various policy options.[30]

- *KYC*: Identity is critical for people to bank and transact. However, mobile phones and data are powering new ways to open up access and participation. In order to provide effective, safe, and secure products, service providers need to be able to easily and reliably identify consumers. Technology can help to provide better forms of identity using biometrics, transaction details, or physical tokens (i.e. mobile phones). Discussions will focus on the myriad of KYC regulations across the region, creating interoperable baseline standards for KYC, exploring new ways of identity verification as well as tiers of KYC appropriate to the type and value of transactions.[31]

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30 Specific work and deliverables for the next 12-36 months under the Cybersecurity agenda item include:

- Conduct at least three workshop sessions exploring how Fintech represents both a challenge and opportunity for enhanced cybersecurity
- Convene at least two workshop sessions focusing on how Fintech can be a risk management tool that promotes healthy lending to consumers and SMEs to enhance inclusive growth in APEC
- Convene at least two workshop sessions on Fintech tools for private sector and regulators to monitor and manage risks of complex products such as synthetic securities and derivatives
- The FMI Fintech Substream will aim to hold all workshop sessions in one comprehensive workshop.
- Agenda setting and planning shall take place by ABAC I or II, with the workshop to be held around the time of ABAC II or III each year.
- Produce during the first 12-18 months 'best practices' aimed at APEC developing economies that will promote benefits of improved cybersecurity.
- During the subsequent 19-36 months FMI Fintech Substream participants will identify and carry out work with APEC developing economies to translate best practices into practical and beneficial outcomes.

31 Specific work and deliverables for the next 12-36 months under the KYC agenda item include:

- Conduct at least three workshop sessions that examine how current KYC practices can be an obstacle to inclusive growth in APEC
- Convene at least three workshop sessions focusing on how innovation in Fintech and related technology, such as smartphones, offers new ways to conduct KYC
- Hold at least two workshop sessions exploring how traditional financial institutions can benefit from use of Fintech-based KYC to accelerate benefits of innovation and inclusive growth within APEC
- Convene at least two workshop sessions that examine how a more flexible KYC, for example a tiered approach based on transaction size and type, can promote Fintech that benefits APEC
- The FMI Fintech Substream will aim to hold all workshop sessions in one comprehensive workshop.
- Agenda setting and planning shall take place by ABAC I or II, with the workshop to be held around the time of ABAC II or III each year.
- Produce during the first 12-18 months 'best practices' aimed at APEC developing economies that will promote benefits of improved methods of KYC.
- During the subsequent 19-36 months FMI Fintech Substream participants will identify and carry out work with APEC developing economies to translate best practices into practical and beneficial outcomes.

- *e-Payments*: E-Payments have a major impact by lowering transaction costs, increasing transparency, and making transfers of money faster and more efficient. Restrictions on e-Payments, including amounts that can be processed, the type of entity that can engage in processing, location of processing facilities, or the technology that can be used will impact growth, equity, and innovation. Cross department cooperation is also important. Drawing on the latest APEC e-Payment Readiness Index,[32] discussions will explore conditions under which economies can promote healthy disruption and encourage firms and consumers into the e-Payments infrastructure, and how e-Payments systems can make compliance with AML and CTF rules, and identification and payment of taxes and other processes easier, less costly, less time-consuming and more transparent.[33]

Recommendation

- ***Policy makers and regulators should participate in APFF workshops on cybersecurity, Know-Your-Customer (KYC) rules and e-Payments to facilitate innovation in the region's financial market infrastructure.***

[32] The report may be downloaded from https://www2.abaconline.org/assets/2016/3%20Shenzen/Resource_Material_-_Fintech_E-payment_Readiness_Index_20161.pdf.

[33] Specific work and deliverables for the next 12-36 months under the E-Payments agenda item include:

- Update data findings of the 2015 APEC Fintech E-Payment Readiness Index for 2016
- Conduct at least three workshop sessions exploring the results and learnings of the APEC Fintech E-Payment Readiness Index
- Convene at least two workshop sessions focusing on innovation and healthy disruption in E-Payments
- Hold at least two workshops that promote adoption by APEC SMEs of E-Payments
- The FMI Fintech Substream will aim to hold all workshop sessions in one comprehensive workshop.
- Agenda setting and planning shall take place by ABAC I or II, with the workshop to be held around the time of ABAC II or III each year.
- Produce during the first 12-18 months 'best practices' aimed at APEC developing economies that will promote benefits of E-Payments.
- During the subsequent 19-36 months FMI Fintech Substream participants will identify and carry out work with APEC developing economies to translate best practices into practical and beneficial outcomes.

HARNESSING FINTECH TO ACCELERATE THE DEVELOPMENT OF FINANCIAL MARKETS

Tremendous changes are sweeping today's financial landscape. The growing use of Fintech, which includes mobile money, shared ledger technology[34] (including block chain), big data, artificial intelligence, electronic platforms, advanced analytics and automated processes, among others, is challenging established business models. New players are entering markets long dominated by traditional financial service providers as the latter are now embracing new technologies to help them face the threat of disintermediation.

Innovations such as mobile and agent banking and peer-to-peer lending have already demonstrated the power of technology to help unbanked individuals and small businesses gain access to finance. New applications are enhancing business processes such as clearing and settlement, compliance, risk management and fund administration. Technologies such as block chain and artificial intelligence have potential applications that could revolutionize financial service firms' efficiency and responsiveness to customer needs.

Policy makers and regulators have begun to respond to these developments, in compliance with mandates to promote financial stability, protect consumers and privacy and maintain the integrity of financial systems. However, for the APEC Leaders' and Finance Ministers' aspirations to make financial systems more inclusive, efficient and responsive to the region's vast financing needs to be met, a balanced and coherent approach that maximizes the benefits of innovation while adequately addressing emerging risks and concerns will be required.

Traditional financial institutions have long been unable to serve the financing needs of large numbers of businesses and individuals across the developing region. Technological developments have spurred innovations that are being harnessed to serve these needs, first in mobile and agent banking. As the development and convergence of new technologies and improvements in broadband infrastructure accelerated in recent years, a new wave of innovation has started to sweep the financial industry, challenging traditional business models.

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[34] While the terminology in this space continues to evolve and various publications use "distributed ledger", "shared ledger" and "block chain" interchangeably, this report uses terms based on the following definitions offered by the UK Government Chief Scientific Adviser in the report *Distributed Ledger Technology: beyond block chain* (link: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/492972/gs-16-1-distributed-ledger-technology.pdf):

- Shared ledger (the most generic and catch-all term for this type of technology): any database and application shared by an industry or private consortium or that is open to the public.
- Distributed ledger: a type of database spread across multiple sites, economies or institutions, where records are added when participants reach a quorum and stored one after the other in a continuous ledger, rather than sorted into blocks.
- Block chain: a type of database that takes multiple records and arranges them in a block, where each block is chained to another using a cryptographic signature. Block chains may be *permissioned* (participants are pre-selected) or *unpermissioned* (open to everyone). Bitcoin is an example of an unpermissioned ledger.

The Fintech landscape, however, is a very large and complex one that is affecting financial services across payments, insurance, deposit-taking, lending, capital raising, investment management and financial market infrastructure. It also represents an extensive digital realm where traditional financial institutions, start-ups, e-commerce, Information and communications technology (ICT) companies, market infrastructure players, investors, accelerators, incubators, and consumers intersect with each other.

The development of Fintech is being driven by front-end technologies (e.g., open application programming interface or API, mobile money), front-end financial services (e.g., peer-to-peer or P2P lending), back-end technologies (e.g., block chain, big data and predictive analytics, artificial intelligence, identity management and advanced fraud and security) and back-end financial services (e.g., faster payments, alternative underwriting). These have created disruptions in various parts of the financial sector. Examples include:

- *Lending*: emergence of new non-bank lenders, rise of marketplace lending; merchant advances; supply chain and internet finance; enhanced credit underwriting and decisioning; integrated platforms for consumer financial empowerment.

- *Fund/asset transfers and payments*: rise of electronic (mobile, cards) payments for the unbanked; faster payments initiatives; rise of virtual commerce globally; advanced fraud and security methods; potential of block chain/distributed ledger technology; and rise of P2P and cross-border transfer platforms.

- *Insurance*: rise of insurance for the unbanked through mobile access; use of new technologies to drive down operational costs; ecosystem partnerships and new business models; enhanced analytics for better risk decisioning.

The currently predominant Fintech firms are still powered by technologies that have already been around for some time. These include digital platforms and applications, use of wider data sets to customize financial services and products (including locational, personal consumption, payment and income data), and algorithms that enable rapid interpretation of data and more efficient transactions. While newer technologies, such as distributed ledger technology and block chain and artificial intelligence, are attracting much attention due to the huge potential for disruption, their commercialization is still limited and involves a relatively very low volume of financial transactions.

Fintech presents enormous opportunities to promote financial inclusion, especially in emerging Asia and Latin America, which all together continue to host a significant portion of the world's unbanked population, not to mention those who are underbanked. Moving from paper-based transactions to retail and Government-to-Public (G2P) payments, e-commerce, cross-border remittances and MSME collections to digital payments, for example, is estimated to result in as much as USD 400 billion in annual benefits.[35]

At the same time, the introduction of new technologies into financial services is now raising some questions related to regulatory issues. These include consumer protection, particularly in the case of new service providers; identity management; data management and data protection with respect to the use of big data and algorithms; network and system stability and cyber security and cyber risk. Regulatory approaches across the region are varied and continue to evolve. Nevertheless, regulators are being encouraged to take a light regulatory touch for new Fintech start-ups to support innovation.

Technologies are emerging that enable financial market players to respond more effectively to regulatory requirements. Participants discussed the incorporation of regulatory requirements into technology protocols that is promoting the automation of the regulatory process, the evolution of regulatory models and how industry, policy makers and all relevant regulators can collaborate to build a robust and coherent ecosystem for inclusive financial innovation.

Beyond this, however, is the broader question of how policies and regulations should respond to the rapid development of Fintech. As innovation gives rise to a new ecosystem of financial institutions, services and market infrastructure, policies and regulations will also need to evolve. In addition to striving toward the critical regulatory goals of financial stability, cyber security, data privacy, consumer protection and the fight against crime and terrorism, they will also need to promote a coherent policy and regulatory environment that allows the financial sector to support broader goals, including financial inclusion, continued innovation and the growth of trade and investment across the region.

In particular, Fintech raises a number of key issues for government and regulatory agencies.

- Digital data and advanced systems need to be managed by highly-trained professionals backed up by reliable IT infrastructure. This requires introduction of advanced IT education and investment in IT and basic infrastructure.

- Data collected needs to be effectively utilized by businesses to enhance competitiveness and efficiency while ensuring privacy of individuals. Data can help firms better meet customer needs as well as improve their management and growth through better analysis of performance against targets. This needs to be balanced by protection of personal information, which is a key concern for citizens, governments and firms. However, where the balance between data access and privacy protection lies may be perceived differently in emerging markets, where a large portion of the population are financially excluded, compared to advanced markets, where the majority of the population have

[35]Menekse Gencer (PwC), *The Fintech Landscape* (based on data from Citi-Imperial College Digital Money Index).

access to formal financial services.

- Data needs to be secured against fraud, criminal activity and natural disasters in an increasingly complex and interconnected world. There is a need to strengthen digital systems against fraud, cyberattacks by domestic and international criminal actors, and natural disasters. Regarding natural disasters, banks are diversifying risks through establishment of offshore back up centers.

- Cross-border data transfer for processing and storage leads to discussions about onshore versus offshore activities. Benefits of data transfer include enabling round-the-clock provision of service, early release of cutting-edge products, cost reduction and greater efficiency. Security would require the establishment of highly-protected and well-staffed and equipped data centers. Harmonization of data definitions would also be needed to enable accurate interpretation across markets.

- A level regulatory playing field is needed for both incumbents and new entrants to manage risks across the system and equalize costs. One way to promote this is by rethinking current regulatory approaches that focus on institutions rather than functions and considering the regulation of a product or service in the same way regardless of provider. It is also important to encourage firms to innovate and assist products and services being brought to market through light touch regulation with intervention whenever it becomes necessary to achieve broader regulatory goals.

- Regulators need to focus on means of permitting automation of processes that are currently manual in order to lower costs sufficiently and permit wider financial inclusion.

As financial services move more rapidly into the digital space and cybercrime evolves from methods like phishing that target human risk factors to complex malware coded to exploit gaps in technology and process, more areas of vulnerability will emerge, from client access applications and communication tools to technology partnerships. Collaboration between regulators and industry is key to increasing awareness of cyber security, reducing financial and reputational damage and serving clients. Firms are currently approaching this on three fronts.

- The first is through partnerships within the Fintech ecosystem to collaborate, perform due diligence and provide transparency to ensure visibility and control of the end-to-end chain of product and service offerings.
- The second is through technology, controls and training and awareness within the firm to protect the confidentiality, integrity and availability of client data and its information assets.
- The third is providing technical advisory, training and tools to enable customers to better protect themselves.

The potential of Fintech to drive inclusive growth is huge, but technological innovations can also magnify the potential for harm to consumers, the economy and financial systems. This increases the burden on regulators to keep pace with the innovations in the market, which will enable them to make regulations more effective in enhancing stability and enabling innovation and growth, and to strike the right balance between adapting to the local contexts across different markets and developing a regulatory model that can be applicable in many markets and thus able to contain compliance costs and provide seamless scale.

These factors are driving the need for new models of business partnerships, including between regulators and industry. The challenge in developing regulatory tool sets for these new models is that it is difficult to expect regulators to be able to model and forecast developments and trajectories, while we are still in the early stages of Fintech development and the private sector is still learning what works. The lack of coherent and well thought-out regulatory responses to Fintech may expose financial systems to significant risks. One approach to addressing this issue is the use of "sandboxes," establishing areas where experimentation can occur and regulators and policy makers can participate or freely observe and better understand new technologies and business models, thus reducing the risks of curtailing innovation through premature regulation.

In addition, there is the possibility of a few successful players becoming too dominant as finance and technology come together to reach more deeply into all aspects of the economy and society and underpin growth and social development. In this case, we may face a new digital divide, where the gap between those who are able to participate in this market and those who are unable to do so could grow very quickly and which could be more subtle and different in nature from previous dichotomies of haves against have-nots. Preventing this from occurring will need to involve not just updated regulatory frameworks, but also consumer education and protection as well.

Most importantly, proportional and more flexible regulatory approaches will be needed to enable strong growth and continued innovation. This could take the form of recognizing fundamental areas where benchmark standards for such areas as privacy, security and AML may be required, and regulating these more strictly and aligned across the region, while employing light-touch (e.g., "watch and wait") regulatory approaches in areas where risks of systemic damage are low, in order to enable more cross-border trade. Key enabling factors for this would include the valuation of data (including understanding the importance of open data and the potential for self-sovereign data), the need for data categorization; and the fundamental importance of measurements and frameworks for measuring digital trade and Fintech.

To discuss how APEC can harness Fintech to build bigger, robust and inclusive financial markets, ABAC convened two APFF Roundtables on both sides of the Pacific. The first Roundtable was hosted by PayPal on 24 February 2016 in its corporate campus in Silicon Valley, and the second was co-organized on 15 July 2016 with ASIFMA and hosted by the Hong Kong Monetary Authority (HKMA). The

Roundtables brought together policy makers and regulators, experts and practitioners from major financial institutions, Fintech start-ups, consulting firms, multilateral institutions and academe. Both events concluded that for APEC member economies to benefit from Fintech, all these stakeholders need to agree on a shared vision and work closely together.

Recommendation

- ***It is recommended that APEC Finance Ministers establish a regional platform to bring together stakeholders from the public and private sectors to address in close collaboration with each other key issues arising from the development of Fintech. Through this platform, they could identify concrete ways to help member economies harness financial innovation to build bigger, robust, inclusive and integrated financial markets. These stakeholders should include representatives from the industry (Fintech startups and major financial institutions, related service providers, associations and experts), public sector (government and regulatory agencies, relevant APEC fora) and major international organizations.***

FOSTERING CONTINUED DIALOGUE AND RESEARCH ON THE FUTURE OF FINANCIAL REGULATION

> *I have found the APFF to be an effective organisation to engage with financial services stakeholders and welcome their role in providing opportunities for regulatory and business dialogue.*
>
> ***Gerard Fitzpatrick – Senior Executive Leader, Investment Managers and Superannuation, Australian Securities and Investments Commission (ASIC)***

The rapid and continuing evolution of financial markets and ongoing efforts by Asia-Pacific economies to modernize their financial systems pose major challenges to policy makers and regulators. In the context of APEC Finance Ministers' aspirations to develop inclusive and efficient financial markets that can support strong, sustainable and balanced growth, financial regulatory reforms will need to be based on up-to-date and accurate assessments of market conditions, as well as deep insights on how policy and regulatory measures will affect the behavior of market players and the direction of market developments.

APFF continues to provide a platform for research and discussions on the present conditions and future directions of financial markets and regulations, which help authorities and industry deepen their knowledge of markets and anticipate emerging issues. Since the last report of activities, five major developments have been undertaken by members of the work-stream, as follows:

23rd March 2016 – The Asia-Pacific Financial Forum Industry/Regulator Dialogue – Progress on the Asia Region Funds Passport and Regional Financial market Integration – convened in Sydney and included Australian policy makers, regulators and senior representatives from the Australian and regional finance industry. The forum provided an opportunity to update participants on developments in APFF in regard to the ARFP, repos, derivatives, hedging tools and cross-border securities investment ecosystems.

The Forum noted:
- that Australia, Japan, Korea, New Zealand and Thailand would sign the Memorandum of Agreement in April;
- possibilities for extending ARFP over time with others;
- the value of APFF in providing data and advice on taxation arrangements in the region as they impact on ARFP;
- the importance to further integration of capital markets using management risk reform and of system liquidity based on repo markets through open market operation – however, some regional repo markets are relative small;
- capital market reforms should avoid leading to the fragmentation of markets;
- hedging and netting reduced exposure to country and systemic risk and synchronized financial standards are important in reducing frictional costs;
- corporate debt markets in the region are generally underdeveloped and action

is required on bail in/bail out;

- community attitudes have changed on tax avoidance and governments will need to coordinate to handle base erosion and profit sharing and multinational tax avoidance;
- the need for a stronger Asian voice in the Financial Stability Board; and
- business needs to clearly identify the costs and benefits of reforms in proposing reforms to governments.

10th May – Workshop on Developing an Islamic Infrastructure Investment Platform (13P) – convened in Kuala Lumpur and included participants from Islamic banks, regional regulators and financial advisors.

Of particular interest was the expansion of the role of Islamic finance in cross-border funding of infrastructure. Issues discussed included the importance of infrastructure for economic development, social services, and trade and investment and the potential for Islamic finance to expand its role in the financing of infrastructure in the region and beyond, and the challenges in doing that arising from differing interpretations of that which constitutes Sharia compliance arising from contrary established practices in and among jurisdictions.

Recommendations arising from consideration of work completed by APFF participants and developed in conjunction with Harvard University that would help overcome the problems arising from differing interpretations of Sharia compliance, as noted at the workshop, are as follows:

(a) define infrastructure as "facilities, structures, equipment, or similar physical assets – and the enterprise that employ them – that are vitally important, if not absolutely essential, to people having the capabilities to thrive as individuals and participate in social, economic political, civic or communal households or familial, and other roles in ways critical to their own well-being and that of their society, and the material and other conditions which enable them to exercise those capabilities to the fullest";

(b) a Real Asset for the purpose of providing asset-backed Islamic investment is defined as: "An asset that has a physical presence and a tangible economic purpose, for example, roads, sea ports, airports. Power utilities, or has an underlying asset base which is physical and has a tangible economic purpose, for example, a concession agreement to operate or a lease on a physical asset";

(c) that infrastructure as defined in recommendation a) is deemed to be a Real Asset as defined in recommendation b) that investments in infrastructure and in accordance with fairness, with sharing of risks, and benefits, with the principle of materiality, with no *riba*, and with exclusion of activities prohibited by Sharia laws are deemed to be Sharia compliant;

(d) that an enabling environment for Islamic investment in infrastructure be developed.

The publication of a paper "Getting Real about Islamic Finance" by Harvard University and a member of the APFF Work Stream, Dr. Allan Wain, of CP2.[36]

28th June 2016 - A workshop on Regional Financial Regulatory Collaboration - convened by a group represented on the APFF work-stream from the Melbourne University research team with the Reserve Bank of Australia, the Commonwealth Treasury, the Australian Prudential Regulatory Authority and the Australian Securities and Investment Commission.

This workshop provided an opportunity for the Melbourne research group to outline the research work it is undertaking and which is a major piece of work being developed under the Linkages and Structural work stream. The Coordinator of the work-stream also participated and outlined the work and the role of the APFF. Australian policy makers and regulators exchanged views on the issues under consideration by the research team.

The following main points were discussed at the workshop:

- collaboration between financial regulators in the Asia-Pacific region and challenges;
- collaboration between Australian financial regulators and Asian regulators
- impact of technological advances;
- relationship between global integration and regional integration;
- relationship between the Asia Region Funds Passport and multinational agreements;
- developments on ASEAN banking integration framework;
- assessing regulatory harmonization and collaboration; and
- the role of APFF and its reporting responsibilities to ABAC and to the APEC Finance Ministers' processes.

The discussions noted the following key points:

- Challenges to increased collaboration include tensions between sharing regulatory control and retaining sovereignty; the need to increase mutual trust between regulators and disparities of development and lack of resources impact on the depth and extent of regulatory collaboration with some developing economies in the region.

- However, there are strong relationships developing at regulatory level in the region and the exchange of information between them is important and more emphasis is being placed on capacity building in the region by Australian regulators.

- Fintech and distributed ledger technology cross-border disputes will need to be

36 The web-link to the paper is: http://www.law.harvard.edu/programs/lwp/pensions/publications/GETTING%20REAL%20ABOUT%20ISLAMIC%20FINANCE%20FINAL%2043016.pdf.

managed by a higher power that is ultimately responsible when disputes or problems occur.

- Issues about whether technology can provide efficiencies on a commercial scale.
- There is a strong Asian influence on technology developments in the fintech space.
- While there is greater inclusion of Asian economies in global standard setting platforms there remains a US/European domination over decision-making.
- There is a level of complementarity between the funds ARFP and regional/global trade agreements.
- There is a sense that the ARFP will build trust between the parties involved and create an incentive for others to join the regime.
- The APFF is a useful mechanism in advancing the importance of the work of the ARFP.
- The ASEAN banking and integration framework could face difficulties over deposit insurance and deposit preference arrangements.
- There are opportunities to further consider Basel liquidity requirements and their application in Asia.
- Difficulties in quantifying cost/benefits of harmonization and collaboration beyond the theoretical premise about the merits of non-distorted markets; however, obvious benefits arising from collaboration over institutional failures and the belief that coordination will reduce the risks of failures emerging.

On-going work by the Melbourne University Research Group – This is focused on examining from a multi-disciplinary perspective the regional architecture for financial regulation in Asia and, in particular, on the various ways in which regional coordination and integration can be strengthened.

The workshop noted above was an important part of the research program with the objectives of developing better understanding for academic research participants of processes, experiences and issues in regional financial regulatory collaboration; the identification of potential research areas arising from the experience of Australian regulators in cross-border collaboration and to provide Australian regulators with insights on regulation harmonization being developed by the Melbourne research group.[37]

The Research team is planning a conference on 7 December 2016, hosted by the

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[37] Working papers and journal articles have been published and are available on the research project web-site: https://government.unimelb.edu.au/financial-regulation-in-asia.

Singapore Management University in Singapore "Finance in Asia: Integration and Regional Coordination".

Recommendations

- ***It is recommended that APEC Finance Ministers encourage policy makers and regulators involved in the region's financial markets to participate in dialogues and programs organized by academic and research institutions together with the financial industry to further the work of APFF on regional financial architecture and regulations.***
- ***It is recommended that APEC Finance Ministers welcome the APFF's work on definitions of infrastructure and real assets in the context of developing an enabling environment for investment by Islamic financial institutions in infrastructure and encourage their adoption.***

CONCLUSION

The acceleration of reforms to enable the Asia-Pacific region to more effectively finance growth, especially in emerging markets, has acquired even greater importance and urgency in light of most recent developments. While a return to sustained economic dynamism that has characterized the region over the past decades remains elusive in spite of massive fiscal and monetary stimulus, the fragile recovery is under threat on several fronts.

Stagnating growth in major emerging markets, continued weakness of consumer demand in developed economies and heightened uncertainties due to the combined impact of a spike in terrorist activities, raging conflicts in the Middle East, the refugee crisis, the UK's decision to leave the EU, lingering unease about the health of Southern European economies, and the growing unpredictability of US and European politics have made investors more cautious than ever before in recent memory.

Emerging markets in APEC can help avert economic stagnation and spark an optimistic change in mood if they are able to unlock the potential of their huge populations, resources and savings and unleash greater investment and consumption among a broader base of households and enterprises. Just as inadequate financial systems and services have been seen as the main barrier to the growth of small enterprises, supply chains, consumption and infrastructure, serious reforms to create more inclusive and efficient financial markets will be the key to the next stage of development of the region's emerging markets.

Modernizing the region's financial systems will involve addressing a wide range of challenges. These include small businesses' and low-income households' lack of access to finance, difficulties in attracting long-term funding for infrastructure, the lack of deep and liquid capital markets and long-term institutional investor base, and continued vulnerability of communities and supply chains to the impact of natural disasters, among others.

An important issue is the deficiency of legal systems within the region in supporting trade and investment and a strong business environment. Considerable divergence of legal frameworks and regulatory practices is a major obstacle to cross-border business. In many economies, significant legal and regulatory reforms and improvements in transparency, enforcement and capacity of the judiciary and legal professionals are needed to enable the effective delivery of financial services, especially in the context of today's digital economy.

The Asia-Pacific region needs bigger, robust and inclusive financial markets to enable its economies to leap across the middle-income trap and join the ranks of affluent economies. The pathway forward over the next few years has been indicated by the Finance Ministers in the CAP – a collection of tangible key objectives that require close public-private sector collaboration to be met. The APFF provides a platform for collaboration in several of these initiatives.

Building on its 2014 Interim Report and 2015 Progress Report to APEC Finance Ministers, the APFF this year advanced its work on several initiatives, through a number of roundtables, workshops and conferences across the region, work stream discussions, and collaboration with APEC finance officials. This year, the APFF supported the Finance Ministers' efforts to begin implementing the initiatives implementation of the CAP. The APFF also continues to undertake activities assigned by the CAP in the areas of capital market development, financial infrastructure for MSMEs and trade and supply chain finance.

To accelerate the progress of these initiatives, this report recommends the following to the Finance Ministers:

- It is recommended that APEC member economies work with FIDN to develop modern full-file and comprehensive credit information systems and regionally consistent legal and institutional frameworks for secured transactions and insolvency that can facilitate the use of movable assets as collateral. These will help expand MSMEs' access to finance and enable them to increase their contributions to regional integration. This effort should involve: (a) the convening of workshops in individual economies bringing together public and private sector stakeholders and experts; (b) advisory activities and seminars to support legal and policy reform and modernization of collateral and credit registries; (c) outreach activities to educate MSMEs, lenders and other market participants on how they can benefit from these opportunities; and (d) support for the pathfinder projects on cross-border sharing of commercial and consumer credit reports among credit bureaus within existing legal and regulatory frameworks, the development of the credit information data dictionary and the baseline analysis of credit information sharing in APEC member economies.
- It is recommended that APEC member economies collaborate with APFF in holding public-private dialogues across all relevant agencies and stakeholders on regulatory issues and emerging facilitators of trade and supply chain finance. These should aim to promote effective and regionally consistent implementation of capital and liquidity standards, greater awareness of Know-Your-Customer, Counterparty Due Diligence and Anti-Money Laundering rules. They should also focus on the expanded use of technology including 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.
- APEC member economies are encouraged to identify economies and perils of priority as an initial step in promoting private disaster insurance schemes as envisaged under the CAP. This may be undertaken through a workshop in early

2017 with broad participation from finance ministries and related public sector stakeholders, multilateral institutions and the private sector through APFF.

- It is proposed that the Finance Ministers' Process complete the stock-taking on availability of risk exposure data as a step toward the development of regional risk-sharing measures. This may be undertaken through the aforementioned workshop in conjunction with the previous recommendation.

- It is proposed that the drafting of an APEC roadmap for DRFI be initiated as envisaged under the CAP, involving experts from the public and private sectors and multilateral institutions.

- It is proposed that stakeholders in the APEC Finance Ministers' Process undertake activities in 2017 to complete the roadmap for expanding microinsurance coverage as envisioned under the CAP. Discussions on the roadmap may include the following elements: (a) adoption of the toolkit developed by the Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia (RFPI Asia) of the GIZ for integrating insurance into DRFI mechanisms to help insurers develop products that are appropriate for MSMEs;[38] (b) development of policy frameworks for establishing risk pools and other DRFI instruments, provision of incentives, use of technologies, and mechanisms for public-private sector cooperation; (c) creation of the legal basis for the provision of mandatory insurance coverage to MSMEs; (d) capacity building for public and private stakeholders regarding product development, distribution and promotion of MSME insurance; (e) development of data management on catastrophic events; (f) establishment of central business registries with hazard mapping and catastrophe coverage for enterprises; (g) proportionate regulation to support a wide range of insurance products designed for MSMEs; (h) mechanisms for public-private dialogue in developing products and solutions for responses to and mitigation of disaster risk; and (i) implementation, financing and coordination.

- APEC economies should consider the establishment of mandatory and scalable retirement systems. A mandatory system provides the scale necessary to effectively channel the region's huge savings currently concentrated in short-term bank deposits into longer term institutional investments and productive assets. Retirement savings can help professionalize the financial system through deeper domestic capital markets and expanded roles of long-term investors such as insurers and pension funds. Scalability is provided by implementing strong tax incentives to encourage higher levels of retirement savings. Altogether the system promotes public financial awareness, ensuring a diverse range of retirement income products and improved financial security

[38] The toolkit highlights four steps: risk assessment, disaster risk management mapping, identification of gaps and exploration of disaster risk options. Throughout these steps, the framework supports the integration of microinsurance as a key part of broader disaster risk strategies.

for the region's rapidly growing number of retirees.

- APEC economies should promote infrastructure investment as a defined asset class to facilitate more holistic regulatory treatment that can encourage more private sector infrastructure investment. Inadequate infrastructure investment has been a long-standing issue in emerging Asia (outside of China), as documented by the ADB and others. At the same time, Asia's huge savings are still being mostly channeled into short-term bank deposits and government securities in mature markets. Promotion of infrastructure as a defined asset class will help bridge the gap between Asian savings and investable long-term assets.

- APEC economies should adopt accounting, solvency, investment, and securities standards supportive of the development of retirement savings and infrastructure investment. To encourage insurers and pension funds to engage in long-term investments and retirement solutions, barriers of regulations and accounting should be removed, and policies that are suitable for long-term business should be promoted. Global solvency and accounting standards should be designed in a way to incentivize companies to improve risk management and adopt best practice.

- It is recommended that APEC Finance Ministers encourage the participation of all relevant public sector stakeholders in dialogues with the private sector to address barriers to long-term investment. APFF intends to promote active participation of the private sector in conferences organized by network members and to convene workshops in the region involving a wide range of stakeholders.

- APEC should establish an Islamic Infrastructure Investment Platform (I3P) as a pathfinder initiative to provide a platform for collaboration among public, private, international and academic experts to address the key obstacles to the expansion of cross-border investment by Islamic financial institutions, especially long-term investment from takaful and Islamic pension funds, in infrastructure projects in APEC economies. I3P should address in its work the definitions of infrastructure and financial instruments, Islamic hedging instruments, financial instruments for pension funds and takaful and discriminatory tax policies. It should also create a directory of experts, definitions, funders, participating economies and qualifying infrastructure projects, and collaborate with the International Infrastructure Support System (IISS).

- Member economies are encouraged to collaborate with APFF in undertaking workshops on development of classic repo and derivatives markets to enable the effective use of hedging instruments and improve bond market liquidity. The APFF also welcomes collaboration from other interested 0rganizations in financing and convening these activities.

- More member economies should engage with APFF in using the self-assessment templates on information for capital market investors to help expand the investor base.

- More member economies should join the Asia Region Funds Passport (ARFP) by signing the Memorandum of Cooperation. APFF also welcomes opportunities and invitations to provide private sector resource persons to dialogue with regulators and industry in economies that decide to consider joining the ARFP.

- It is recommended that participating regulators continue to engage the private sector on the implementation of the ARFP.

- APFF proposes to convene a regional symposium in 2017 on the development of a roadmap for improving the regional financial market infrastructure. Discussions could focus on (a) the harmonization of market access and repatriation practices; (b) improving the inter-operability, liquidity and connectivity of domestic and cross-border financial markets; (c) reducing systemic risks; and (d) creating a securities investment ecosystem that can promote cross-border portfolio investment flows across member economies.

- Policy makers and regulators should participate in APFF workshops on cybersecurity, Know-Your-Customer (KYC) rules and e-Payments to facilitate innovation in the region's financial market infrastructure.

- It is recommended that APEC Finance Ministers establish a regional platform to bring together stakeholders from the public and private sectors to address in close collaboration with each other key issues arising from the development of Fintech. Through this platform, they could identify concrete ways to help member economies harness financial innovation to build bigger, robust, inclusive and integrated financial markets. These stakeholders should include representatives from the industry (Fintech startups and major financial institutions, related service providers, associations and experts), public sector (government and regulatory agencies, relevant APEC fora) and major international organizations.

- It is recommended that APEC Finance Ministers encourage policy makers and regulators involved in the region's financial markets to participate in dialogues and programs organized by academic and research institutions together with the financial industry to further the work of APFF on regional financial architecture and regulations.

- It is recommended that APEC Finance Ministers welcome the APFF's work on definitions of infrastructure and real assets in the context of developing an enabling environment for investment by Islamic financial institutions in infrastructure and encourage their adoption.

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 achieving concrete results in advancing the various initiatives under the CAP.

Asia-Pacific Financial Forum

2016 Progress Report to the APEC Finance Ministers

APPENDICES

Asia-Pacific Financial Forum
2016 Progress Report to the APEC Finance Ministers

APPENDIX 1
APFF and the Cebu Action Plan

31 August 2016

APFF and the Cebu Action Plan

<table>
<tr><th>Cebu Action Plan Initiatives and Deliverables</th><th>APFF Actions and Plans</th></tr>
<tr><td colspan="2">PILLAR I: PROMOTING FINANCIAL INTEGRATION</td></tr>
<tr><td>1A. Promote an enabling financing environment for MSMEs, including trade, supply chain and alternative financing mechanisms.</td><td></td></tr>
<tr><td>Draw the support of ABAC, the SME Finance Forum, the World Bank Group and the OECD and other international organizations by establishing a Financial Infrastructure Development Network as a specialized subgroup within the APFF. The Network will facilitate workshops, dialogues and studies in consultation with the relevant APEC Working Groups, to support interested APEC economies to:
■ Establish legal frameworks for Credit Information Systems (CIS) based on the World Bank's General Principles of Credit Reporting
■ Reform and develop secured transactions systems and insolvency frameworks.</td><td>ACTIONS:
2015-09-22, Iloilo, Philippines: Co-organized with APEC SMEWG the APEC SME Finance Forum
2015-09-23/24, Iloilo, Philippines: Co-organized with IFC/WBG the APFF Roundtable on Lending Infrastructure for MSMEs
2015-11-12, Manila, Philippines: Co-organized with Philippine Department of Finance and IFC/WBG the formal launch of FIDN and the Conference Reforming the Asia-Pacific Financial Infrastructure
2016-03-14/15, Manila, Philippines: Co-organized with Philippine Department of Finance and IFC/WBG the FIDN Conference on Credit Infrastructure
2016-03-14/15, Manila, Philippines: Co-organized with Philippine Department of Finance and IFC/WBG the FIDN Conference on Credit Infrastructure
2016-08-24/25, Bangkok, Thailand: Co-organized with Bank of Thailand and Thai Bankers' Association the APFF/FIDN Conference on Credit Infrastructure
PLANS:
Convening of a third FIDN conference in 4Q 2016 on credit infrastructure to be hosted by the Philippine Department of Finance and in collaboration with IFC/WBG.</td></tr>
<tr><td>■ Develop model language for regulations governing the sharing of public data with CIS among participating economies.
■ Evaluate the benefits of and pathways to a common data format/dictionary for APEC based on the data collected by CIS.
■ Evaluate the benefits and challenges of linking</td><td>ACTIONS:
2016-04-08, Tokyo, Japan: Establishment of a Steering Committee (ABAC, IFC/WBG, PERC, APCC, CDIA, BIIA, ARCA, Lexis-Nexis, D&B, Experian, Transunion) and a work plan to advance the following:
• Consumer credit information data dictionary
• Commercial credit information data</td></tr>
</table>

Cebu Action Plan Initiatives and Deliverables	APFF Actions and Plans
the CIS databases of APEC members, forming a regional credit information network, and the use of credit information to support cross-border trade and investment.	dictionary • Implementation of cross-border consumer credit information sharing pilot • Implementation of cross-border commercial credit information sharing pilot • Baseline study on consumer and commercial credit information sharing practices and laws. Experian and PERC/APCC agreed to lead the work on the Consumer Credit Data Dictionary. CDIA agreed to share a copy of Metro 2 for use in generating a regional template data dictionary for consumer credit data. BIIA agreed to lead the work on the Commercial Credit Data Dictionary; already collected more than a dozen data formats and guidebooks from member economies; enlisted partners for peer review; and started a comparative analysis of data formats. ARCA, D&B and PERC agreed to lead the work on the Cross-Border Consumer Credit Information Sharing Pilot, to focus on Australia, New Zealand and Pacific Island economies. IFC/WBG and BIIA agreed to lead the work on the Cross-Border Commercial Credit Information Sharing Pilot, to focus on economies in the Mekong region. 2016-07-4/5, Bangkok, Thailand: Co-organized with IFC/WBG and BIIA the *First Meeting on the Mekong Credit Information Sharing* involving credit reporting services providers from China, Thailand and Vietnam and 2 non-members (Cambodia and Laos). Participants agreed on principles and next steps to create a framework for sharing of credit information for the purpose of trade, investment and cross-border employment. PERC agreed to lead the work on the Baseline Research on Credit Information Sharing within APEC; drafted terms of reference and budget; and initiated discussions with potential sources of funding for the research. **PLANS:** Draft Consumer Credit Information Data Dictionary to be completed by end-2016 for discussion and finalization in mid-2017. Draft Commercial Credit Information Data Dictionary to be completed by end-2016 for discussion and finalization in mid-2017. Work on Cross-Border Consumer Credit

Cebu Action Plan Initiatives and Deliverables	APFF Actions and Plans
	Information Sharing Pilot is scheduled to begin in 2017. Follow-up on the Cross-Border Commercial Credit Information Sharing Pilot to set up bilateral and reciprocal arrangements among participating CRSPs. Baseline Research on Credit Information Sharing expected to be completed at the end of 2017.
■ Pursue good practices and internationally accepted principles on secured transactions legislation. ■ Establish and develop effective modern collateral registries single, central, online notice filing systems; and comprehensive coverage of security interests on movable assets within the economy.	**ACTIONS:** Establishment of a Secured Transactions Reform Committee supported by ABAC, IFC/WBG and a network of experts from industry, academe, international organizations, public sector and the APEC Economic Committee's Strengthening Economic Legal Infrastructure (SELI) group. Formation of three core groups focusing on the following: • Legislation and model laws: Core group member institutions are IFC/WBG, UNCITRAL, USAID, National Law Center, Harvard University School of Law. • Collateral registry development: Core group member institutions are AFSA, Ministry of Economy of Mexico, LRA under Philippine Department of Justice • Training and capacity building: Core group member institutions are CFA, FCI/IFG, IFC/WBG 2016-03-17, Brunei Darussalam: Provided advice to the Monetary Authority on the implementation of the new Secured Transactions Order and the establishment of a new collateral registry. 2016-05-21/22, Nanjing, China: Co-organized with IFC/WBG, PBOC, Nanjing University of Finance and Economics, and the China Society for Civil Law Research International the *Conference on Secured Transactions Legal Reform* 2016 Aug 2, Shenzhen, China: Organized the *APFF Collateral Registry Roundtable*
■ Develop regionally consistent legal, institutional and operational structures to facilitate the financing and expansion of cross-border trade and supply chain finance. ■ Expand the use of electronic supply chain management platforms ■ Facilitate digital, mobile and innovative working capital management techniques such as Bank	**ACTIONS:** 2016-07-08, Singapore: Organized the *APFF Workshop on Trade and Supply Chain Finance* **PLANS:** Convening of a supply chain and trade finance symposium in Ho Chi Minh City, Vietnam in 4Q 2016.

Cebu Action Plan Initiatives and Deliverables	APFF Actions and Plans
Payment Obligations. ■ Enable the effective use of regional currencies in trade settlement.	
■ Promote the development of new financial instruments for MSMEs ■ Address regulatory barriers to digital, mobile and innovative financing, including the impact on de-risking ■ Develop policy frameworks for alternative finance. ■ Pursue policy initiatives to spur equity-based financing to invest in small businesses and related enabling regulations	**ACTIONS:** 2016-02-24, San Jose, USA: Organized (with support from IFC/WBG) the *APFF Roundtable on Financial Innovation I* 2016-07-15, Hong Kong, China: Co-organized with ASIFMA and Hong Kong (with support from IFC/WBG) the *APFF Roundtable on Financial Innovation II* **PLANS:** Convening of a roundtable on financial innovation to establish the regional platform for collaboration among regulators, established financial institutions, Fintech start-ups and experts from academe, international organizations, public sector and business. Convening of a workshop on cybersecurity, KYC and e-Payments either in 2Q or 3Q 2017, and development of best practices in these three areas for the benefit of developing member economies.
1B. Expand Financial Inclusion and Literacy	
■ Promote financial inclusion and literacy through the Asia-Pacific Financial Inclusion Forum. ■ Adopt domestic strategies that promote financial inclusion and literacy.	**ACTIONS:** 2016-04-7/8, Tokyo, Japan: Organized with ADB Institute and FDC and in cooperation with Citi Foundation and IFC/WBG various sessions of the *2016 Asia-Pacific Forum on Financial Inclusion* **PLANS:** Active support for the convening of the 2017 Asia-Pacific Forum on Financial Inclusion in Vietnam in 2017 in collaboration with ADB Institute, FDC and IFC/WBG.
1F. Asia Region Funds Passport (ARFP) The Passport is a voluntary initiative that will facilitate the cross-border offering of funds across participating economies in the Asia region. The potential benefits of the passport include more choice for investors, lower fees, a more	

Cebu Action Plan Initiatives and Deliverables	APFF Actions and Plans
competitive Asian asset management industry, deeper financial markets and improved access to capital and improved regulatory standards across the region.	
■ Issue the Statement of Understanding by participating APEC Finance Ministers. ■ Sign the Multilateral Memorandum of Cooperation by participating APEC financial regulators. ■ Increase the number of participating APEC Economies in the Asia Region Funds Passport.	**ACTIONS:** Holding of informal discussions with regulators in Hong Kong, Singapore and Chinese Taipei on ARFP. 2016-03-23, Sydney, Australia: Encouraged more member economies to join the ARFP at the *APFF Industry/Regulator Dialogue* Establishment of a Tax Task Force and completion of an assessment of detailed tax implications of ARFP in actual and potential ARFP participating jurisdictions. **PLANS:** Convening of workshops on ARFP in interested economies to facilitate industry and regulators' support for joining ARFP. Collaboration with interested economies in addressing tax implications of ARFP.
PILLAR III: ENHANCING FINANCIAL RESILIENCY	
3B. Disaster Risk Financing and Insurance Assess needs from private insurance companies, collect disaster data, and study the possibility of constructing disaster risk data base, including collaboration with other stakeholders, such as ABAC and APFF. Research on the status of development of disaster risk data and insurance systems among economies , share information about economies' progress and assist capacity building by public sector (collaborating with ASEAN+3, the World Bank, OECD and ADB). Encourage APEC economies to establish private disaster insurance systems among economies, based on efforts to consolidate data, as above. Development of Disaster Risk Exposure Models and Disaster Risk Insurance Facilities for APEC Economies. The Risk Insurance Facilities will cover the	

Cebu Action Plan Initiatives and Deliverables	APFF Actions and Plans
various specific arrangements for the central and local government levels as well as for the individual level (i.e. microinsurance). Risk Exposure Models and Insurance Protection can help governments anticipate and thereby quickly respond to the effects of disasters. At the same time, these can reduce the need for governments to reallocate/borrow funds to cover the costs of disasters. - Fund (Mexico) - CAT Bonds - Contingent Credit Lines	
■ Establish and promote private disaster insurance schemes, through the collaboration and exchange of information and experience among economies, international organizations, and private sector in the medium term.	**ACTIONS:** 2016-02-13/14, Lima, Peru: Supported the APEC Workshop on Disaster Risk Financing & Insurance and initiated discussions with officials on the promotion of private disaster insurance schemes. **PLANS:** Completion of identification of economies and perils of priority, possibly through a workshop-style meeting in the first half of 2017.
■ Deepen insurance penetration within their economies and develop regional risk sharing measures.	**PLANS:** Initiation of the stocktaking on the availability of risk exposure data by discussing with experts and designing a template for stocktaking by end-2016. Completion of the template for stocktaking in conjunction with the workshop-style meeting planned for the first half of 2017.
■ Develop a roadmap and network of experts through the support of APFF for expanding the coverage of microinsurance and disaster risk finance in member economies.	**ACTIONS:** Establishment of the network of experts in DRFI, to also include experts from industry. So far, core members include experts from the Geneva Association, ANDREWS, Citi, Munich Re, Swiss Re and Tokio Marine. Various catastrophe modellers were also engaged in the Lima workshop. **PLANS:** Broaden the geographical scope of the membership of the network of experts in 2017. Initiation of the drafting process for the APEC roadmap for DRFI through a workshop-type meeting in 2017.

Cebu Action Plan Initiatives and Deliverables	APFF Actions and Plans
	Completion of the APEC roadmap for expanding microinsurance coverage in 2017.
3C. Capital Market Development The development of local currency bond markets in APEC economies will promote risk-transfer, financial stability, MSMEs and infrastructure financing. The development of a roadmap to improve regional financial infrastructure and assist APEC economies develop their capital markets.	
■ Support the improvement of capital market depth and liquidity by participating in the work of the Asia-Pacific Financial Forum. This may include workshops and dialogues to promote the development of liquid repo markets, legal and documentation infrastructure facilitating risk mitigation, transparency of capital markets (issuer disclosure, bond market data, investor rights in insolvency), and a regional securities investment ecosystem to promote cross-border investment in capital markets.	**ACTIONS:** 2015-11-16, Manila, Philippines: Co-organized with ADB, ASIFMA and ISDA the APFF Repo and Derivatives Market Workshop for the Philippines 2016-04-19, Jakarta, Indonesia: Co-organized with ADB, ASIFMA and Indonesia the APFF Repo Market Workshop for Indonesia Advised the Philippines' Securities and Exchange Commission on the use of the APFF self-assessment templates on disclosure, bond market information and investor rights in insolvency. **PLANS:** Convening in cooperation with industry and regulatory bodies a workshop on bond, repo and derivatives markets in China. Convening in cooperation with Indonesia OJK a workshop on derivatives in Indonesia. Continue advising the Philippines on the development of its repo market. Discussion of the APFF self-assessment templates on disclosure, bond market information and investor rights in insolvency at the ACMF Deputies' Meeting and follow up with regulators from Malaysia, Vietnam, Thailand and Indonesia after the meeting. Convening of a public-private sector Fintech roundtable focused on capital markets.
■ Explore and promote the development of a roadmap to improve regional financial infrastructure to enhance resiliency.	**ACTION:** Convening of a regional symposium in Seoul, Korea in 2017 on the development of a roadmap

<table>
<tr><th>Cebu Action Plan Initiatives and Deliverables</th><th>APFF Actions and Plans</th></tr>
<tr><td></td><td>for improving the region's FMI.</td></tr>
<tr><td colspan="2">PILLAR IV: ACCELERATING INFRASTRUCTURE DEVELOPMENT AND FINANCING</td></tr>
<tr><td>4E. Long-term Investment in infrastructure

Improving PPP knowledge, models and expertise will assist in further attracting private capital into infrastructure investment. Developing infrastructure as an asset class for institutional/long-term investors will help mobilize regional savings into infrastructure investment.</td><td></td></tr>
<tr><td>■ Exchange experiences through existing public and private sector forums, including APFF, for facilitating long-term investment in infrastructure and encouraging increased pension and insurance industry investment in infrastructure.</td><td>ACTIONS:

<u>2015-10-27, Brunei Darussalam</u>: Co-organized with Brunei Darussalam the Workshop on Developing an Islamic Infrastructure Investment Platform (I3P)

<u>2016-05-10, Kuala Lumpur, Malaysia</u>: Co-organized with Malaysia the APFF Workshop on Developing an Islamic Infrastructure Investment Platform (I3P)

Held meetings with IASB Board members and staff to communicate APFF views on the impact of accounting standards on long-term investment activities by insurers. IASB agreed to revise IFRS4 Phase I and is considering the inputs in the drafting of IFRS4 Phase II on insurance contracts. IASB also revised the 2013 exposure draft, particularly permission of optional OCI and streamlining of certain requirements.

Helped in design of agenda, provided speakers and participated in the following activities:
• OECD/ADBI Roundtable on Capital Market and Financial Reform, Tokyo, 22-23 March
• G20/OECD Roundtable on Institutional Investors and Long-Term Investment, Singapore, 25 April
• Workshop & Dialogue with Trade and Financial Officials & Experts on Islamic Infrastructure Investment Platform, Kuala Lumpur, 10 May
• Indonesia Infrastructure Finance Conference, Jakarta, 23-24 May
• Global Insurance Forum, Singapore, 12-15 June
• OECD/ADBI Roundtable on Insurance and Retirement Saving, Tokyo, 22-23 June</td></tr>
</table>

Cebu Action Plan Initiatives and Deliverables	APFF Actions and Plans
	• APFF Symposium Public-Private Collaboration to Develop APEC Financial Markets –Achievements and Way Forward, Shenzhen, 1 August • NAIC Asia-Pacific International Forum, San Diego, 23-25 August. **PLANS:** Convene a workshop to establish the I3P and its provisional secretariat, constitute its work streams, and initiate activities. Convene workshops in 2017 to discuss proposals on mandatory and scalable retirement systems, promotion of infrastructure investment as a defined asset class, and regulatory standards supportive of investment by insurers and pension funds in infrastructure. Providing further advice in cooperation with other industry representatives to IASB on technical issues related to unit of account and scope for variable fee approach in finalizing standards that are friendly to long-term investment in infrastructure. Collaboration with capital market participants to help securities regulators address capital market regulations that affect ability of insurers and pension funds to undertake long-term investments. Providing inputs to agenda and speakers for the following activities: • APIC ASEAN+JAPAN Pension Funds and Social Security Systems Summit, Manila, 21 September • IIF International Colloquium on International Insurance Regulatory Issues, Basel, 22-23 September • East Asian Insurance Congress, Macau, 11-14 October • Executive Dialogue with APEC Finance Ministers, Lima, Peru, 12-15 October • IAIS Annual Conference, Asuncion, 10 November • ASEAN Insurance Summit/ASEAN Insurance Regulators Meeting, Yogyakarta, 21-24 November.
	CROSS-CUTTING ACTIVITIES These are actions and plans that are aimed at advancing work under two or more CAP Pillars.

Cebu Action Plan Initiatives and Deliverables	APFF Actions and Plans
	ACTIONS: 2016-03-23, Sydney, Australia: Organized the *APFF Industry/Regulator Dialogue* 2016-08-01, Shenzhen, China: Organized the *APFF High-Level Symposium: Public-Private Collaboration to Develop APEC Financial Markets – Achievements and Way Forward* Ongoing research and conference programs by the Melbourne University Research Group in collaboration with other partners in APFF on the regional architecture for financial regulation in Asia. **PLANS:** Convening of a conference on *Finance in Asia: Integration and Regional Coordination* in Singapore on 7 December 2016.

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APPENDIX 2

Research Findings on Retirement Savings Tax Incentives

31 August 2016

Economy	Retirement Savings Tax Incentive	Target Audience	Calculation Method	Currency Unit	Local Currency	US$	FX Rate	Remarks & Sources	
China				RMB			2014		
China	Up to 4% of annual pay exempt from income tax for purchase of enterprise annuities (EA) and occupational annuities (OA). Investment return exempt from income tax. Benefit payments from EA and OA plans subject to income tax.	Employees	Incentive capped at 300% of city average earnings for previous year and calculation based on 4% of annual average income of urban, private sector employee. Then converted to USD equivalent.		1455.6	236.49	0.162467	http://www.usforex.com/forex-tools/historical-rate-tools/yearly-average-rates. http://www.chinadaily.com.cn/china/2015-06/16/content_21020693.htm	https://www.towerswatson.com/en/Insights/Newsletters/Global/global-news-briefs/2014/01/china-new-tax-incentives-may-spur-interest-in-retirement-savings https://www.swisslife.com/content/dam/id_corporateclients/downloads/ebrm/China.pdf "
China	Employer contributions up to 8.3% of employee's annual pay will be exempt from income tax.	Companies	Calculation based on 8.3% of annual average income of urban, private sector employee. Then converted to USD equivalent.		3020.37	490.71	0.162467	http://www.usforex.com/forex-tools/historical-rate-tools/yearly-average-rates. http://www.chinadaily.com.cn/china/2015-06/16/content_21020693.htm	
Hong Kong, China				HK Dollar			2014		
	MPF contribution at 5% of monthly income, matched by employer, with maximum deduction at HKD18.000.	Employees	Annual limit then converted to USD equivalent		18000	2321.19	0.128955	http://www.usforex.com/forex-tools/historical-rate-tools/yearly-average-rates	
	MPF contribution of 5% of employee's monthly income	Companies	Calculation derived from 2014 average monthly income X 5%; extrapolated for 12 months and then converted to USD		8741.4	1127.25	0.128955	http://www.pwccn.com/webmedia/doc/635290458481999793_budget2014_tax_facts_figures.pdf	http://www.tradingeconomics.com/hong-kong/wages
Korea				Won			2014		
	Tax deductible contributions for social security and private benefit plans up to maximum allowance.	Employees	Calculation based on maximum monthly pension contribution paid by an employee, currently KRW 183,600.		2203200	2093.04	0.00095	http://www.usforex.com/forex-tools/historical-rate-tools/yearly-average-rates	https://www.swisslife.com/content/dam/id_corporateclients/downloads/ebrm/Korea.pdf
	Tax deductible contributions for social security and private benefit plans up to maximum allowance.	Companies	Calculation based on maximum contribution of KRW 4 million per annum		4000000	3800	0.00095		
Indonesia				Rupiah					
	Tax deductible contributions for social security and private benefit plans. 3.7% of the employee's monthly salary paid by the employer.	Employees	Calculation based on 2014 average per capita income X 3.7% of the employee's monthly salary paid by the employer for 12 months; then converted to USD.		19,187,143	1611.72	0.000084	http://www.ssek.com/download/document/Pensions_Guide_Indonesia_109.pdf	http://data.worldbank.org/country/indonesia
	Tax deductible contributions for social security and private benefit plans. 2% of the employee's monthly salary paid by the employee	Companies	Calculation based on 2014 average per capita income X 2% of the employee's monthly salary paid by the employer for 12 months; then converted to USD.		10,371,429	871.2	0.000084	http://www.ssek.com/download/document/Pensions_Guide_Indonesia_109.pdf	

Economy	Retirement Savings Tax Incentive	Target Audience	Calculation Method	Currency Unit	Local Currency	US$	FX Rate	Remarks & Sources	
Malaysia				Ringgit			2014		
Employees	Tax deductible contributions for social security and private benefit plans up to maximum allowance.	Employees	Up to RM9000 for life insurance and retirement funds, education & medical premiums;		9000	2751.61	0.305734	http://www.usforex.com/forex-tools/historical-rate-tools/yearly-average-rates	http://www.krinstitute.org/February_2015-@-How_much_do_Malaysians_Earn.aspx
Companies	Tax deductible contributions for social security and private benefit plans up to maximum allowance.	Companies	Up to 19% of employee annual renumeration. Calculation based on 2014 average per capita income X 19%; then converted to USD		3830.4	1,171	0.305734	https://www.pwc.com/my/en/assets/publications/2015-malaysian-tax-business-booklet.pdf	
Philippines				Peso			2014		
	Only medical insurance premiums are tax deductible	Employees	Up to PHP2400 per year for health insurance premiums when family income is less than PP 250,000; then converted to USD.		2400	54.06	0.022527	https://www.swisslife.com/content/dam/id_corporateclients/downloads/ebrm/Philippines.pdf	
		Employees	Mandatory contributions to government insurance programs deductible up to PHP 1038 per month X 12 months; then converted to USD		12456	280.60	0.022527	http://www.ey.com/Publication/vwLUAssets/Worldwide_Personal_Tax_Guide_2013-2014/$FILE/2013-2014%20Worldwide%20personal%20tax%20guide.pdf	
	Tax deductible contributions for social security and private benefit plans	Companies	Maximum monthly contribution by employer for employee is PHP 1209 X 12 months; then converted to USD		14508	326.82	0.022527	http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-philippineshighlights-2015.pdf	
Singapore				Dollar			2014		
	Life Insurance tax relief only for those whose total compulsory CPF contributions in 2014 was less than SGD 5000. Life insurance premiums are deductible but subject to certain conditions, and the total deduction (i.e. contributions to the CPF and life insurance premium) is restricted to SGD 5,000.	Employees	Maximum annual ceiling X USD exchange rate		5000	3946.97	0.789394	https://www.iras.gov.sg/irashome/Individuals/Locals/Working-Out-Your-Taxes/Deductions-for-Individuals/Life-Insurance-Relief/	http://www.adko.hu/01_files/offshore/singapore/singapore-egyen.pdf
	Employers who make cash top-ups for employees' CPF Minimum Sums on their behalf will enjoy an equivalent amount of tax deduction for such top-ups, up to SGD 1500.	Companies	Maximum annual ceiling X USD exchange rate		1500	1184.09	0.789394	https://www.iras.gov.sg/irashome/Businesses/Companies/Working-out-Corporate-Income-Taxes/Business-Expenses/Tax-Treatment-of-Business-Expenses/#title19	
	Voluntary cash contributions made by eligible companies to the CPF Medisave accounts of Self-Employed Persons (SEPs) are tax-deductible, up to SGD 1500.	Companies	Maximum annual ceiling X USD exchange rate		1500	1184.09	0.789394		

Economy	Retirement Savings Tax Incentive	Target Audience	Calculation Method	Currency Unit	Local Currency	US$	FX Rate	Remarks & Sources	
Chinese Taipei				New Taiwan Dollar	Dollar		2014		
	Premiums paid by or for the taxpayer, his/her spouse and lineal dependents for life insurance, labor insurance, national annuity and insurance for military personnel, public servants or teachers are deductible up to NT$24,000 per person per year. However, there is no limit on the amount of premium paid for national health insurance.	Employees	Annual limit then converted to USD equivalent		24,000	789.192	0.032883	http://indigo.com.hk/retirement_centre/tax/taiwan_tax.html	http://investtaiwan.nat.gov.tw/eng/show.jsp?ID=56
	TBC	Companies	TBC		TBC	TBC	0.032883	http://www.pensionfundsonline.co.uk/content/country-profiles/taiwan/100	
Thailand				Baht			2014		
	Up to 300,000 Baht on pension life insurance policy; up to 100,000 Baht on regular life insurance. A regular life insurance policy - Deduction for premiums up to THB100,000 per year. The policy must be contributed to for a minimum of five years with 10-year coverage. A Pension Life Insurance Policy - Deduction for premiums up to THB 200,000 per year under certain condictions. Amount claimed for this deduction must not exceed 15% of the taxpayer's annual assessable income. The sum of the Pension Life Insurance premium and any contributions to either: a provident fund, government pension fund, welfare fund under the private school law and/or any investment in the Retirement Mutual Fund (RMF) must not exceed THB 500,000 in any calendar year. If a taxpayer does not fully claim a regular life insurance deduction up to a maximum of THB 100,000 they may claim up to a maximum of 300,000 baht tax deduction on contributions to a Pension Life Insurance policy.	Employees	Maximum annual deduction then converted to USD equivalent		300000	9236.7	0.030789	http://www.usforex.com/forex-tools/historical-rate-tools/yearly-average-rates	http://www.bnppresearch.com/?E=cjehjkbfjga
	Contributions made to a company level provident fund (PF) are treated as a personal deductible allowance for the employee, subject to a cap of THB 300,000 per annum and must not exceed 15% of the annual wage or salary.	Employees	Maximum annual deduction then converted to USD equivalent		300000	9236.7	0.030789	http://www.nationmultimedia.com/business/Insurance-Commission-may-again-propose-tax-cut-for-30268081.html	

Economy	Retirement Savings Tax Incentive	Target Audience	Calculation Method	Currency Unit	Local Currency	US$	FX Rate	Remarks & Sources	
	Contributions made to the Social Security Fund are tax deductible to both employees and the employer for purposes of the annual income tax computation. Yearly contributions are treated as a personal deductible allowance for the employees in their annual personal income tax computation.	Employees			500000	15394.5	0.030789	http://www.dfdl.com/images/stories/IBFD_Asia_Pacific_Tax_Bulletin_-_DFDL_article_-_Social_Secuity_and_Pensions_Systems_Thaialnd.pdf	
	Up to 15,000 Baht annual deduction for premiums for spouse or spousal parents' health insurance	Employees			15000	461.84	0.030789	https://www.pwc.com/th/en/publications/2013/thai-tax-2013-booklet.pdf	
	Tax deductible contributions for social security and private benefit plans. For the employer, the contributions made to the SSF are treated as deductible corporate expenses for purposes of their annual income tax computation. Social security: tax deductible subject to a maximum of THB 750 per month. Private benefit plans: For retirement plans deductible up to 15% of salary, if various conditions are met. Other contributions / premiums are deductible.	Companies	THB 750 X 12 months; then converted to USD equivalent		9000	277.10	0.030789	http://www.pattayamail.com/moneymatters/how-thai-life-insurance-can-reduce-personal-income-tax-in-thailand-33623	
		Companies	15% of average annual income (THB 13591X12); then converted to USD equivalent		24463.8	753.22	0.030789	http://www.tradingeconomics.com/thailand/wages	
Vietnam				Dong			2014		
	Tax deductible contribution to voluntary pension products	Employees	Maximum annual deduction then converted to USD equivalent		12000000	564	0.000047	https://www.towerswatson.com/en-VN/Insights/Newsletters/Global/global-news-briefs/2014/03/vietnam-voluntary-pension-funds-framework-rewards-retirement-saving	
	Tax deductible contribution to voluntary pension products	Companies	Maximum annual deduction then converted to USD equivalent		12000000	564	0.000047	"	
								http://www.manulife.com/public/news/detail/0,,lang=en&artId=147709&navId=630002,00.html	

Economy	Retirement Savings Tax Incentive	Target Audience	Calculation Method	Currency Unit	Local Currency	US$	FX Rate	Remarks & Sources	
United Kingdom				British Pound					
United Kingdom	Employee contributions to government-approved unit-linked pensions are tax deductible. (Contributions to mutual funds, by contrast, aren't.) When a unit-linked pension policyholder is ready to retire, he or she may receive 25% of the value of the insurance contract as a tax-free lump sum. The rest is generally put into an annuity, the income from which is taxed like normal income -- but because many people fall into a lower tax bracket upon retirement (because they're no longer earning their full-time income), the annuity income will likely be taxed at a lower rate. How big a difference does the tax break make for an investor? Consider a single male U.K. resident putting money away each month between the ages of 30 and 65 and getting an average annual return of 5% (after all costs). According to the advisory firm Chase de Vere Financial Solutions PLC, the tax break is the difference between having GBP 100 ($180 or EU 150) to invest every month (into an ordinary mutual fund, say) and having GBP128 -- or even GBP 151, for someone in a high tax bracket. And after 35 years, the break makes the difference between GBP 110,846 and GBP 142,116, or even GBP 167,688. But the tax advantage for unit-linked investments varies by country.	Employees						http://www.wsj.com/articles/SB108205210868183877	
India				Rupee					
	ULIPS or unit linked insurance plan: Investment in ULIPS is also allowed as a deduction under Section 80C of [xx]. This includes contributions to Unit Linked Insurance Plan of LIC Mutual Fund e.g. Dhanraksha 1989 and contributions to Other Unit Linked Insurance Plan of UTI.							http://profit.ndtv.com/news/your-money/article-income-tax-deductions-available-to-nris-783008?site=full	

Economy	Retirement Savings Tax Incentive	Target Audience	Calculation Method	Currency Unit	Local Currency	US$	FX Rate	Remarks & Sources	
	A common perception is that the entire life insurance premium qualifies for tax deduction. However, that is not the case. Any amount paid towards life insurance premium for yourself, your spouse and children qualify for deduction under Section 80C. However, premium paid by you for parents/siblings/in-laws is not eligible. Tax deduction is subject to an overall ceiling of Rs 1.5 lacs under Section 80C.Any amount paid towards life insurance premium for yourself, your spouse and children qualify for deduction under Section 80C. However, premium paid by you for parents/siblings/in-laws is not eligible. Please note tax deduction is subject to an overall ceiling of Rs 1.5 lacs under Section 80C. Not all life insurance premium paid is tax deductible. If the policy is issued on or before March 31, 2012, annual premium up to a maximum of 20% of the Sum Assured is tax deductible. In case the policy is issued on or after April 1, 2012, annual premium up to a maximum of 10% of Sum Assured is tax deductible. An additional relaxation of 5% (i.e. up to 15% of Sum Assured) is available to person suffering from disability or sever disability (as specified under Section 80 U) or to those suffering from a disease or ailment as specified under Section 80DDB. For a life insurance policy, Sum Assured is the minimum amount assured to the nominee (of the policyholder) in the event of death of the policy holder. Let's consider an example. If you purchase an insurance policy with a sum assured of Rs 8 lacs and an annual premium of Rs 1 lacs, only Rs 80,000 (10% of Sum Assured) is tax deductible. You won't get any tax benefits for the balance premium. Any premium in excess of the aforesaid limit (10% of Sum Assured for the new policies) shall not qualify for tax deduction under section 80C of the Income Tax Act.							http://www.business-standard.com/article/pf/all-you-need-to-know-about-life-insurance-and-its-tax-implications-115052800737_1.html	

Economy	Retirement Savings Tax Incentive	Target Audience	Calculation Method	Currency Unit	Local Currency	US$	FX Rate	Remarks & Sources	
Sweden				Krona					
	While contributions to private pensions are tax deductible, capital gains on unit-linked investments are taxed annually. For ordinary mutual funds, by contrast, the purchase isn't tax deductible, but capital gains remain untaxed until they're realized. (In essence, then, the question of whether to buy a unit-linked product or a mutual fund comes down to when you want to be taxed.)							http://www.wsj.com/articles/SB108205210868183877	
Italy/ Germany				Euro					
	Unit-linked investments must be held for 15 years to qualify for tax breaks, and no more than half of the accrued benefits can be taken in the form of a lump sum. In Germany, the minimum duration is currently 12 years.							http://www.wsj.com/articles/SB108205210868183877	
United States				USD					
	Generally called "qualified plans" because they qualify for specific tax treatment. Typically referred to by the section of the Internal Revenue Code that governs the type of plan: 401(k): Corporations and "private" employers and their unionized workforces – by far the most common arrangement; 403(b): Not-for-profit, such as hospitals or education; 457: Government; "Individual Retirement Arrangements" (IRAs) also qualify for similar tax treatment and have many similar rules. Typically offered by a single employer. Some "multiple-employer" plans currently exist, typically associated with unions where all plan participants are members of the same union. Employers may have more than one plan, such as: Union/non-union ("Hourly"/"Salaried"). After mergers and acquisitions, legacy plans may or may not always be combined. The retirement plan is a discrete legal entity, separate from the sponsoring employer or union. The employer or union typically is called the "plan sponsor". Individuals are typically called "participants" to reflect the fact that each employee is not necessarily required to participate in the plan (and that union members typically do not consider themselves to be "employees" of the unions sponsoring their plans).	Employer, Union			$18,000 in 2015-16; $6000 catchup contribution room for those 50+	$18,000 in 2015-16	1		

Economy	Retirement Savings Tax Incentive	Target Audience	Calculation Method	Currency Unit	Local Currency	US$	FX Rate	Remarks & Sources	
	Two variations: “traditional” and “Roth” (generally as either only “traditional” or both “traditional” and Roth together). “Traditional” - Contribution amounts are deducted from taxable income. Distributions are taxed as ordinary income. Roth - Contribution amounts are not deducted from taxable income. Distributions are not taxed as ordinary income. Common attributes for both “traditional” and Roth - Investment earnings are tax-deferred. Annual limits apply to contributions ($18,000 in 2015-16). “Highly compensated employees” may be subject to lower contribution limits. Additional “catch-up” contributions of $6,000 are allowed for individuals age 50+. Excise taxes apply to early distributions (pre-59 ½). Minimum distributions are required (starting at the later of age 70 ½ or “separation from service” (effectively, “at retirement”)). It may be possible to “convert” existing balances from “traditional” to Roth and vice versa, although this has specific tax consequences and is not common. Other types of contributions Employers can make “matching contributions,” which typically are intended as incent participants to join and contribute. Matching contributions and the associated earnings typically are not included in taxable income when contributed, investment earnings attributed to them are tax deferred, and they are fully taxable as ordinary income when distributed from the plan. Matching contributions can be made subject to a vesting schedule (participant contributions generally are considered to be fully vested immediately). Participants may also be able to make optional “after-tax contributions”. Contribution amounts are not deducted from taxable income when contributed, and investment earnings attributed them are tax deferred. At distribution, the return of contribution amounts is not taxable, but investment earnings attributed to them are fully taxable as ordinary income.	Employee (IRA - individual retirement account)		USD	$5,500 for 2015-2016. $1000 catchup contribution room for those 50+	$5,500 for 2015-2016			

Economy	Retirement Savings Tax Incentive	Target Audience	Calculation Method	Currency Unit	Local Currency	US$	FX Rate	Remarks & Sources	
	Very specific and highly technical rules govern the retirement plans' "qualification" for the special tax treatment. Include reporting, governance and oversight requirements - violations of those requirements often are considered "prohibited transactions" and subject to severe penalties. Within those requirements, plans generally have a notable amount of flexibility to define the specific terms and provisions that apply to the plan and its participants. The rules governing the specific plan are required to be documented in a "plan document". Often includes testing to ensure "non-discrimination". Primary controlling legislation is the Employee Retirement Security Act of 1974 (ERISA), as amended. Primary regulator is the U.S. Department of Labor. Different components may also be governed by additional laws and regulators (e.g., mutual funds and the Securities and Exchange Commission (SEC), insurance products and the relevant state insurance departments). Individuals charged with oversight of plans are considered fiduciaries. Under ERISA, fiduciaries are required to act "solely in the interest of plan participants and their beneficiaries and with the exclusive purpose of providing benefits to them". General standard is "carrying out their duties prudently". Specific circumstances or requirements, called "safe harbors" and established by the U.S. Department of Labor, can provided clarity on how to satisfy "prudence" in certain specific situations. ERISA fiduciaries have personal financial liability for breaches of their fiduciary duty. Certain plans (particularly certain 403(b)s or 457s) are not subject to ERISA, but they generally look to ERISA as a reference and definition of prudence. Certain service providers (e.g., administrators, investment managers) may be considered fiduciaries in some circumstances. The U.S. Department of Labor has proposed revised regulations governing the definition of who is and is not a fiduciary and this topic is currently the subject of much ongoing discussion and interaction.	DC and SIMPLE plans			Annual employee contribution for SIMPLE plans, $12,500.	$53,000 annual limit for combined employer - employee contributions to a defined contribution plan		http://www.pensionrights.org/publications/fact-sheet/retirement-plan-contribution-and-benefit-limits	

Economy	Retirement Savings Tax Incentive	Target Audience	Calculation Method	Currency Unit	Local Currency	US$	FX Rate	Remarks & Sources	
Canada				CAD					
	Registered retirement savings plan (RRSP)	Employees	Annual limit then converted to USD equivalent		25,370	19,535	0.77	http://www.cra-arc.gc.ca/limits/	
	Defined Benefit Pension Plan (DB)	Employees, Employers			2,890	2,225			
	Defined Contribution Pension Plan (DC); known in Canada as a Money Purchase Pension Plan (MP)	Employees, Employers			26,010	20,028			
	Tax Free Savings Plan (TSFA)	Employees			5,500	4,235			
	Deferred Profit Sharing Plan (DPSP)	Employers			13,005	10,014			
Australia				AUD					
	Superannuation contribution cap	Employees <49			30,000	22,200	0.74	https://www.ato.gov.au/Rates/Key-superannuation-rates-and-thresholds/	
		Employees 49+			35,000	25,900			
	Non-concessional contribution cap, where a person's personal contributions do not result in a income tax deduction.	Employees			500,000	370,000		http://www.superguide.com.au/boost-your-superannuation/super-rates-and-thresholds	* Up from AUD 180,000 on 3 May 2016

Asia-Pacific Financial Forum
2016 Progress Report to the APEC Finance Ministers

APPENDIX 3
List of Abbreviations

31 August 2016

LIST OF ABBREVIATIONS

ABAC	APEC Business Advisory Council
ABMF	ASEAN+3 Bond Market Forum
ACMF	ASEAN Capital Markets Forum
ADB	Asian Development Bank
AFSF	Asia Fund Standardization Forum
AIC	ASEAN Insurance Council
AML	Anti-Money Laundering
ANDREWS	ASEAN Natural Disaster Research Works Sharing
APCC	Asia-Pacific Credit Coalition
APEC	Asia-Pacific Economic Cooperation
APFF	Asia-Pacific Financial Forum
APIP	Asia-Pacific Infrastructure Partnership
ARCA	Australian Retail Credit Association
ARFP	Asia Regional Funds Passport
ASEAN	Association of South East Asian Nations
ASIC	Australian Securities and Investments Commission
ASIFMA	Asia Securities Industry & Financial Markets Association
BAFT	Bankers' Association for Finance and Trade
BCBS	Basel Committee on Banking Supervision
BIIA	Business Information Industry Association
BOT	Build-Operate-Transfer
BPO	Bank Payment Obligation
C-ROSS	China Risk Oriented Solvency System
CAP	Cebu Action Plan
CDD	Counterparty Due Diligence
CDIA	Consumer Data Industry Association
CFA	Commercial Finance Association
CGIF	Credit Guarantee and Investment Facility
CIC	Credit Information Corporation (of the Philippines)
CIRC	China Insurance Regulatory Commission
CIS	Credit Information Sharing
CPG	Construction Period Guarantee
CRS	Common Reporting Standard
CRSP	Credit reporting service provider
CSD	Central securities depository
CSM	Contract Service Margin
CTF	Counter Terrorist Financing
DRFI	Disaster Risk Financing and Insurance
E-Payments	Electronic Payments
E-commerce	Electronic commerce
E2E	Everyone to everyone
EBA	Euro Banking Association
EDHEC	Ecole des Hautes Etudes Commerciales du Nord
ESMA	European Securities and Markets Authority

EU	European Union
FATCA	Foreign Account Tax Compliance Act
FCI	Factors Chain International
FIDN	Financial Infrastructure Development Network
FMI	Financial Market Infrastructure
FRTB	Fundamental review of the trading book
Fintech	Financial technology
G20	Group of 20
G2P	Government-to-public
GDP	Gross Domestic Product
GIZ	(Deutsche) Gesellschaft für Internationale Zusammenarbeit
HKMA	Hong Kong Monetary Authority
I3P	Islamic Infrastructure Investment Platform
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
ICC	International Chamber of Commerce
ICMA	International Capital Market Association
ICS	Insurance Capital Standards
ICT	Information and Communications Technology
IFC	International Finance Corporation
IFG	International Factors Group
IFRS	International Financial Reporting Standards
IIS	International Insurance Society
IISS	International Infrastructure Support System
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
ISDA	International Swaps and Derivatives Association
ISO	International Organization for Standardization
ITFA	International Trade and Forfaiting Association
KSD	Korea Securities Depository
KYC	Know-Your-Customer
KYCC	Know-Your-Customer's-Customer
LIAJ	Life Insurance Association of Japan
LRA	Land Registration Authority (under Philippine Department of Justice)
MAS	Monetary Authority of Singapore
MSME	Micro-, Small and Medium Enterprise
NSFR	Net Stable Funding Ratio
OCI	Other Comprehensive Income
OECD	Organization for Economic Co-operation and Development
OTC	Over-the-counter
P2P	Peer-to-peer
PBOC	People's Bank of China
PE	Permanent establishment
PERC	Policy and Economic Research Council
PPP	Public-Private Partnership
RFPI	Regulatory Framework Promotion of Pro-Poor Insurance Markets
RMB	Renminbi
SA-CCR	Standardized approach for measuring counterparty credit risk

SELI	Strengthening Economic Legal Infrastructure
STRC	Secured Transactions Reform Committee
T+2	Transaction date + 2 days
UCITS	Undertakings for Collective Investment in Transferable Securities
UNCITRAL	United Nations Commission on International Trade Law
USA	United States of America
USAID	United States Agency for International Development
WB / WBG	World Bank / World Bank Group

Asia-Pacific Financial Forum

2016 Progress Report to the APEC Finance Ministers

APPENDIX 4

About the APFF

31 August 2016

ABOUT THE APFF

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 ABAC and adopted by the APEC Finance Ministers at their 2013 annual meeting in Bali as one of their official policy initiatives. The management of APFF was entrusted by Ministers to the APEC Business Advisory Council (ABAC). The APFF pursues undertakings in key areas of financial markets that are critical to the region's economic aspirations: (a) credit 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.

APFF CHAIR
Hiroyuki Suzuki, Nomura Research Institute

APFF Coordinator: Julius Caesar Parreñas, Nomura

CAPITAL MARKETS
Classic Repo Markets
- *Sherpa*: Mark Austen, ASIFMA
- *Support team*: Patrick Pang/ Katie Feng, ASIFMA
- *Collaborators*: Giacomo Giannetto/Mohd Sani Ismail/Steven Schuster, ADB

Derivatives
- *Sherpa*: Keith Noyes, ISDA
- *Alternate*: Melody Ma, ISDA

Information for Capital Market Investors
- *Sherpa*: Donough Foley, Moody's
- *Development Lead*: Michael Taylor, Moody's
- *Alternates*: Farisa Zarin/Eleni Himaras, Moody's
- *Lead, Issuer Disclosure*: Stephen Taylor, Deloitte Touche Tohmatsu Ltd
- *Lead, Bond Market Data*: Donghyun Park, ADB
- *Lead, Investor Rights in Insolvency*: Charles Booth, University of Hawaii

Asia Region Funds Passport
- *Co-Sherpas*: Hon Cheung/Steven Chan, State Street
- *Core Group*: Boon-Hiong Chan, Deutsche Bank * Eugenie Shen, ASIFMA * Rebecca Lentchner, BNY Mellon * Catherine Simmons, Citi * Qiumei Yang, ICI Global

FINANCIAL INFRASTRUCTURE DEVELOPMENT NETWORK
- ***Regional Steering Committee***: Julius Caesar Parreñas, NRI * Jinchang Lai, IFC * Chris Wohlert, Wells Fargo * Michael Turner, PERC/APCC * Boon-Hiong Chan, Deutsche Bank
- ***Philippine Pilot Project Steering Committee***: Jinchang Lai/Griselda Santos, IFC * Jaime Garchitorena, Credit Information Corporation (Philippines) * Ronaldo Ortile, Land Registration Authority, Department of Justice, Republic of the Philippines

Credit Information
- *Sherpa*: Michael Turner, PERC/APCC
- *Alternate*: Patrick Walker, PERC/APCC
- *Leader, Consumer Credit Information Data Dictionary Project*: Donna Smith, Experian * Michael Turner, PERC/APCC
- *Leaders, Commercial Credit Information Data Dictionary Project*: Joachim Bartels/Peter

Sheerin/Neil Munroe, BIIA

- *Leaders, Cross-Border Consumer Credit Information Sharing Pilot*: Damian Paull, ARCA * Steve Brown, D&B * Michael Turner/Patrick Walker, PERC/APCC
- *Leaders, Cross-Border Commercial Credit Information Sharing Pilot*: Jinchang Lai/Hung Hoang Ngovandan, IFC * Joachim Bartels/Peter Sheerin/Neil Munroe, BIIA
- *Leaders, Baseline Research on Credit Information Sharing*: Michael Turner/Patrick Walker, PERC/APCC

Secured Transactions

- *Sherpa*: Chris Wohlert, Wells Fargo
- *Legislation and Model Laws Core Group*: Spyridon Bazinas, UNCITRAL * Eugenio Briales Gomez-Tarragona, Harvard University School of Law * Michael Dennis, U.S. Department of State * Nicholas Klissas, USAID *Jinchang Lai, IFC
- *Collateral Registry Development Core Group*: Gavin McCosker/Peter Edwards/Andrew Sellars, AFSA * Ronaldo Ortile, Land Registration Authority, Department of Justice, Republic of the Philippines * Denise Carla Vázquez Wallach/Elsa Regina Ayala Gómez, Secretaría de Economía, Mexico
- *Training and Capacity Building Core Group*: Jinchang Lai, IFC * Lee Kheng Leong, FCI * Robert Trojan/Richard Kohn, CFA

Receivables/Warehouse Finance

- *Sherpa*: Boon-Hiong Chan, Deutsche Bank

FINANCIAL MARKET INFRASTRUCTURE

FMI/Cross-Border Practices

- *Core Group*: Boon-Hiong Chan, Deutsche Bank * Rebecca Lentchner, BNY Mellon* Beth Smits, Johns Hopkins University

FMI FinTech

- *Sherpa*: David Katz, PayPal
- *Collaborators*: Carlo Corazza, WBG * Matthew Gamser, IFC * Dilip Rao, Ripple (Asia-Pacific)

INSURANCE AND RETIREMENT INCOME

- *Overall Sherpa*: Makoto Okubo, Nippon Life

RETIREMENT AND LONG-TERM INVESTMENT

- Sherpa: Makoto Okubo, Nippon Life
- Vice Sherpa: Paul Lynch, Prudential Corporation Asia

Retirement Income

- *Leader*: Vanessa Wang, Citi

Long-Term Investment

- *Leader*: Brian Murray, AIA

Regulation and Accounting

- *Leader*: Makoto Okubo, Nippon Life

DISASTER RISK FINANCING AND MICROINSURANCE

- Sherpa: Douglas Barnert, Barnert Global Inc.

Disaster Risk Financing

- *Leaders*: Masaaki Nagamura/Hirofumi Kasai, Tokio Marine

Microinsurance

- *Leaders*: Antonis Malagardis/Dante Portula, GIZ * Michael McCord, Microinsurance Network

LINKAGES AND STRUCTURAL ISSUES

- *Sherpa*: Kenneth Waller, Australian APEC Study Centre

TRADE AND SUPPLY CHAIN FINANCE

- *Sherpa*: Boon-Hiong Chan, Deutsche Bank
- *Core Group:* Joanne Guo/Ho Wen Yiing, Singapore Business Federation * Alexander Malaket, OPUS Advisory Services International Inc.

APEC Business Advisory Council

2016 Report to APEC Finance Ministers

ANNEX B

Advisory Group on APEC Financial System Capacity Building

2016 Report on Capacity Building Measures to Strengthen and Develop Financial Systems

31 August 2016

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

2016 REPORT ON CAPACITY BUILDING MEASURES TO STRENGTHEN AND DEVELOP FINANCIAL SYSTEMS

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THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY BUILDING

2016 REPORT ON CAPACITY BUILDING MEASURES TO STRENGTHEN AND DEVELOP FINANCIAL SYSTEMS

Summary of Recommendations

For decades, the world's emerging markets looked to the Asia-Pacific in their search for ways to make the leap from poverty to prosperity. Today, however, the export- and investment-led growth model that provided the formula for success of the region's economies has reached its limit. Successfully shifting to a more balanced growth model with a greater role for domestic consumption in the economy will require the development of inclusive, efficient and robust financial systems.

The APEC Finance Ministers' Process (FMP) can significantly contribute to this effort by harnessing regional cooperation. One of APEC's major strengths is active participation of the private sector in its processes. As one of the components of the FMP, the APEC Business Advisory Council (ABAC) mobilizes the private sector to collaborate with international organizations, public sector bodies and academe through three policy initiatives – the Asia-Pacific Forum for Financial Inclusion, the Asia-Pacific Financial Forum (APFF) and the Asia-Pacific Infrastructure Partnership (APIP).

The Advisory Group on APEC Financial System Capacity Building is the mechanism through which ABAC coordinates the work of these policy initiatives. The Advisory Group meets regularly to discuss their progress and identify next steps, and reports this to the APEC Finance Ministers through ABAC. Building on its work of previous years, the Advisory Group proposes in this year's report a number of measures to strengthen capacity building efforts to develop the region's financial systems.

THE ASIA-PACIFIC FINANCIAL FORUM: PUBLIC-PRIVATE COLLABORATION TO DEVELOP APEC FINANCIAL MARKETS – ACHIEVEMENTS AND WAY FORWARD

Following its 2014 Interim Report and 2015 Progress Report to APEC Finance Ministers, the APFF this year advanced its work on several initiatives. This was accomplished through a number of roundtables, workshops and conferences across the region, work stream discussions, and collaboration with APEC finance officials. The APFF supported the implementation of initiatives of the Ministers' ten-year roadmap, the Cebu Action Plan (CAP). The APFF also continues to undertake activities specifically assigned to it by the CAP. These are in the areas of capital market development, financial infrastructure for MSMEs and trade and supply chain finance. This year, the APFF identified a number of recommendations to Finance Ministers that are presented in greater detail in its 2016 Progress Report.

The APFF identified undertakings in the following key areas of financial markets that are critical to the region's economic aspirations: (a) financial infrastructure, which is divided into credit information and secured transactions and movable asset finance systems; (b) trade and supply chain finance; (c) microinsurance and disaster risk financing and insurance (DRFI); (d) retirement income and long-term investment in capital markets and infrastructure; (e) capital markets and financial market infrastructure; (f) financial innovation; and (g) linkages and structural issues.

Recommendation

- ***The Advisory Group proposes that APEC Finance Ministers endorse the 2016 APFF Progress Report and its recommendations as described above.***

EXPANDING ACCESS TO FINANCE

Lack of access to a variety of financial services deprives many low-income households and individuals of the means to prepare for contingencies and retirement, and to maximize returns from their savings. It prevents them from investing in education, housing, health care and other needs, from making financial transactions more conveniently and at lower costs, and from starting businesses. At the same time, it negatively impacts economic growth by preventing the mobilization and efficient deployment of savings, impeding investment and consumption by a broad segment of the population, and limiting the development of the domestic financial services sector.

The *2016 Asia-Pacific Forum on Financial Inclusion*, held in Tokyo, Japan on 7-8 April 2016 provided an opportunity for stakeholders to review current trends, recent achievements, and ongoing challenges and opportunities facing financial inclusion in the digital age. Participants discussed how these developments are impacting different markets. Discussions addressed a range of topics including: (a) credit bureaus and credit information systems, (b) microinsurance, (c) cross-border payment systems, (d) savings, (e) digital finance infrastructure, (f) financial literacy, (g) digital finance and consumer protection and (h) insolvency.

Recommendation

- ***The Advisory Group recommends that APEC Finance Ministers encourage policy makers and regulators responsible for financial inclusion and MSME finance to study the report of the 2016 Asia-Pacific Forum on Financial Inclusion and to participate in the 2017 Forum.***

DEVELOPING A ROBUST PIPELINE OF BANKABLE INFRASTRUCTURE PROJECTS

The region's economies need massive investments in infrastructure to meet their economic goals. However, lack of capacity within the public sector to effectively structure deals has prevented investors from expanding their participation in the region's infrastructure projects. Addressing the lack of a pipeline of bankable infrastructure projects is a priority issue in APEC. Through workshops and dialogues with governments of member economies since its establishment in 2011, the APIP has identified the key issues in addressing this challenge. These key issues are: (a) effectively allocating risks between public and private sectors; (b) improving institutional capacity to promote PPPs; and (c) providing an enabling legal, policy and regulatory environment.

To continue assisting member economies in promoting more bankable infrastructure projects in the region, APIP is undertaking several activities this year. In addition, the

Urban Infrastructure Network (UIN), formed upon ABAC's proposal in 2014, completed its report setting out a framework of best practices and their application as a guide to economies in managing complex urbanization processes.

Recommendations

- ***The Advisory Group proposes that the APEC Finance Ministers' Process (FMP) more closely integrate and coordinate its various infrastructure initiatives under the FMP, including new initiatives introduced by the CAP and ongoing initiatives such as the Asia-Pacific Infrastructure Partnership (APIP) Dialogues, the APEC PPP Experts' Advisory Panel and the PPP Center Network, by using the PPP Experts Advisory Panel as the coordinating center.***

- ***The Advisory Group recommends expanded cooperation between the Global Infrastructure Hub (GIH) and the FMP, including early adoption by member economies of the GIH's online tools and resources as well as their participation in the International Infrastructure Support System (IISS).***

- ***The Advisory Group calls for the continuation of APIP dialogues among interested governments, the private sector and relevant international organizations in 2017. 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.***

- ***The Advisory Group recommends advancing the CAP's initiative to promote urban infrastructure development in collaboration with the Urban Infrastructure Network (UIN).***

IMPROVING VALUATION PRACTICES IN APEC

Valuations are central to decision making in the global economy and impact the public interest, economic growth and development of financial systems in a multitude of ways. The Advisory Group's work in this area focuses on (a) promoting region-wide convergence of valuation practices; (b) exploring the valuation landscape in Asia Pacific economies; (c) discussing model valuation architecture, associated best practice, the role of commonly accepted valuations standards and of valuation professional organizations (VPOs); (d) recording strengths, weaknesses and impediments to improving valuation practices and identifying where there is need to develop and/or reinforce valuation infrastructure; (e) prioritizing opportunities to enhance existing landscape and implementation challenges; and (f) outlining the development process for member economies that lack valuation infrastructure.

Stakeholders have since completed work on two documents, which are now both available online. The first is the audit of the valuation landscape in APEC's 21 member economies, covering various asset classes. The second is the template of best practices, which describes various options for establishing best practice landscapes for valuation practices in member economies. Roundtables have been convened in Malaysia in January and Papua New Guinea in April to discuss best practices. Discussions with other member economies are under way to hold other Roundtables and a Symposium.

Recommendation:

- ***The Advisory Group encourages APEC member economies to host discussions with ABAC, the International Valuation Standards Council (IVSC), valuation professional organizations (VPOs), experts from industry and other relevant bodies on improving the quality of valuation practices and professionals.***

The Advisory Group on APEC Financial System Capacity Building

2016 REPORT ON CAPACITY BUILDING MEASURES TO STRENGTHEN AND DEVELOP FINANCIAL SYSTEMS

INTRODUCTION

For decades, the world's emerging markets looked to the Asia-Pacific in their search for ways to make the leap from poverty to prosperity. Fueled by exports, investments in manufacturing capacity and the movement of labor from agriculture to industry, Japan, South Korea, Chinese Taipei, Hong Kong and Singapore achieved economic growth rates that propelled them to the ranks of affluent economies and leaders in technology and services. China followed this path, with its neighbors to the south moving next in line. Today, however, the export- and investment-led growth model that provided the formula for success of these economies has reached its limit.

On the demand side, the consumer markets of Europe and North America are not as vibrant as they once were. With huge and persistent trade deficits and the consequent political backlash in these economies against globalization, they cannot continue supporting the global trade imbalances that have enabled emerging economies to grow through exports and investments in export-oriented businesses. The aging population of developed Asian economies and the rapidly growing middle class of Asia-Pacific emerging markets, however, have not been able to fill the gap in demand, while large portions of the region's population continue to live in poverty.

On the supply side, the continued growth of manufacturing and services is being limited by the shortage of infrastructure and a challenging terrain for the growth of micro-, small and medium enterprises (MSMEs). Most of the region's emerging financial markets are unable to channel savings effectively to domestic infrastructure and business opportunities. Consequently, a large portion of savings in Asia-Pacific emerging markets are invested outside the region, with some of them being recycled back through global financial centers, often in the form of volatile short-term capital flows.

Successfully shifting to a more balanced growth model with a greater role for domestic consumption in the economy will require the development of inclusive, efficient and robust financial systems. The economic base needs to be broadened by addressing the critical barrier to growth of MSMEs, namely lack of access to funding and working capital. Infrastructure needs to be expanded to support the growth of business and extend supply chains beyond major production areas.

Individuals, communities and firms need access to insurance services to enhance their financial resilience. An effective retirement system combined with wider insurance penetration can reduce the need for excess savings and encourage more consumption. Deep and liquid capital markets are needed to channel domestic savings to finance infrastructure and enterprises, expand investment options, and create a more diverse and stable financial system. Market participants' ability to manage risks, their access to information, expanded cross-border investment flows and development of the region's long-term institutional investor base are critical to the growth of these markets.

The evolution of technology and continued innovation also provide opportunities for creating a more efficient, inclusive and stable economy. Financial technology (Fintech) has great potential to expand access to finance, lower the costs and improve the quality of financial services, and enhance financial stability and consumer protection. However, it also carries with it new risks that need to be better understood and appropriately addressed.

The development of financial systems is a complex task that involves many stakeholders working together. They include institutions responsible for the introduction of laws, policies and regulations. This task also involves the reform or creation of agencies and entities that will implement these measures, as well as the enabling of market participants to know how to fully benefit from them. The region's diversity means that reforms will need to be tailored to specific local conditions in each economy in order to succeed, while keeping in mind the need to achieve region-wide consistency, connectivity and inter-operability of systems in order to facilitate regional integration.

The APEC Finance Ministers' Process (FMP) can significantly contribute to efforts of Asia-Pacific emerging markets to develop their financial systems. Regional cooperation involving the sharing of experiences and knowledge among member economies with the active participation of international organizations is a powerful tool for providing the knowledge and capacity that policy makers need in undertaking reforms. Key institutions, such as the Asian Development Bank (ADB), Inter-American Development Bank (IDB), International Monetary Fund (IMF), Organization for Economic Co-operation and Development (OECD) and World Bank Group (WBG), including the International Finance Corporation (IFC), are participants in the FMP.

One of APEC's major strengths is the active participation of the private sector in its processes, through the APEC Business Advisory Council (ABAC). Within the FMP, ABAC mobilizes private sector firms, industry groups and experts to collaborate with international organizations, public sector bodies and academe. It does this through three policy initiatives – the Asia-Pacific Forum for Financial Inclusion, the Asia-Pacific Financial Forum (APFF) and the Asia-Pacific Infrastructure Partnership (APIP). These policy initiatives serve as platforms through which knowledge can be refined and shared to help interested economies design policy reforms to develop and integrate financial systems in the region.

The Advisory Group on APEC Financial System Capacity Building is the mechanism through which ABAC coordinates the work of these policy initiatives. The Advisory Group meets regularly to discuss their progress and identify next steps, and reports this to the APEC Finance Ministers through ABAC. Building on its work of previous years, the

Advisory Group proposes in this year's report a number of measures to strengthen capacity building efforts to develop the region's financial systems.

This report is divided into four sections: (a) promoting public-private collaboration to develop the region's financial markets 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: Public-Private Collaboration to Develop APEC Financial Markets – Achievements and Way Forward

Building on its 2014 Interim Report and 2015 Progress Report to APEC Finance Ministers, the APFF this year advanced its work on several initiatives. This was accomplished through a number of roundtables, workshops and conferences across the region, work stream discussions, and collaboration with APEC finance officials. The APFF supported the implementation of initiatives in the Ministers' ten-year roadmap, the Cebu Action Plan (CAP). The APFF also continues to undertake activities assigned to it by the CAP. These are in the areas of capital market development, long-term investment, financial infrastructure for MSMEs, disaster risk financing and insurance, and trade and supply chain finance.

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) financial infrastructure, which is divided into credit information and secured transactions; (b) trade and supply chain finance; (c) microinsurance and disaster risk financing and insurance (DRFI); (d) retirement income and long-term investment in capital markets and infrastructure, which includes the impact of regulation and accounting issues; (e) capital markets, which includes sections on classic repo and derivatives markets, information for capital market investors, support for the Asia Region Funds Passport (ARFP) initiative, and financial market infrastructure and cross-border practices; (f) financial innovation; and (g) linkages and structural issues.

This year, the APFF has identified a number of recommendations to Finance Ministers that are presented in greater detail in its 2016 Progress Report, which is a separate document that has also been submitted as Annex A to the 2016 ABAC Report to APEC Finance Ministers. These are as follows:

- APEC member economies should work with the Financial Infrastructure Development Network (FIDN) to develop modern credit information systems and regionally consistent legal and institutional frameworks for secured transactions and insolvency that can expand MSMEs' access to finance and enable them to increase their contributions to regional integration.

- APEC member economies should collaborate with APFF in holding public-private dialogues across all relevant agencies and stakeholders on regulatory issues and emerging facilitators of trade and supply chain finance.

- APEC member economies should identify economies and perils of priority as an initial step in promoting private disaster insurance schemes as envisaged under the CAP.

- APEC finance ministries should complete the stocktaking on the availability of risk exposure data.

- APEC finance ministries should initiate the drafting of the APEC roadmap for DRFI as envisaged under the CAP, involving experts from the public and private sectors and multilateral institutions.

- APEC finance ministries should undertake activities in 2017 to complete the roadmap for expanding microinsurance coverage as envisioned under the CAP.

- APEC member economies should consider the establishment of mandatory and scalable retirement systems that can effectively channel the region's huge savings currently concentrated in short-term bank deposits into longer term institutional investments and productive assets.

- APEC member economies should promote infrastructure investment as a defined asset class to facilitate more holistic regulatory treatment that can encourage more private sector infrastructure investment.

- APEC member economies should adopt accounting, solvency, investment, and securities standards supportive of the development of retirement savings and infrastructure investment, including removing regulatory and accounting barriers and promoting policies that are suitable for long-term business.

- APEC Finance Ministers should encourage the participation of all relevant public sector stakeholders in dialogues with the private sector to address barriers to long-term investment.

- APEC Finance Ministers should establish an Islamic Infrastructure Investment Platform (I3P) as a pathfinder initiative to provide a platform for collaboration among public, private, international and academic experts to address the key obstacles to the expansion of cross-border investment by Islamic financial institutions, especially long-term investment from takaful and Islamic pension funds, in infrastructure projects in APEC economies.

- APEC member economies should collaborate with APFF in undertaking workshops on development of classic repo and derivatives markets to enable the effective use of hedging instruments and improve bond market liquidity.

- APEC member economies should engage with APFF in using the self-assessment templates on information for capital market investors to help expand the investor base.

- More APEC member economies should join the Asia Region Funds Passport (ARFP) by signing the Memorandum of Cooperation and provide opportunities for private sector resource persons to dialogue with regulators and industry in economies that decide to consider joining the ARFP.

- Regulators from APEC economies participating in the ARFP should continue to engage the private sector on the implementation of the ARFP.

- APFF proposes to convene a regional symposium in 2017 on the development of a roadmap for improving the regional financial market infrastructure to discuss harmonization of market access and repatriation practices, improving the inter-operability, liquidity and connectivity of domestic and cross-border financial markets, reducing systemic risks, and creating a securities investment ecosystem that can promote cross-border portfolio investment flows.

- Policy makers and regulators should participate in APFF workshops on cybersecurity, Know-Your-Customer (KYC) rules and e-Payments to facilitate innovation in the region's financial market infrastructure.

- APEC Finance Ministers should establish a regional platform to bring together stakeholders from the public and private sectors to address in close collaboration with each other key issues arising from the development of FinTech, and identify concrete ways to help member economies harness financial innovation to build bigger, robust, inclusive and integrated financial markets.

- APEC Finance Ministers should encourage policy makers and regulators involved in the region's financial markets to participate in dialogues and programs organized by academic and research institutions together with the financial industry to further the work of APFF on regional financial architecture and regulations.

- APEC Finance Ministers should welcome the APFF's work on definitions of infrastructure and real assets in the context of developing an enabling environment for investment by Islamic financial institutions in infrastructure and encourage their adoption.

Recommendation

- ***The Advisory Group proposes that APEC Finance Ministers endorse the 2016 APFF Progress Report and its recommendations as described above.***

II. Expanding Access to Finance

The region is home to an estimated 694 million people who do not have access to a bank account or formal financial services.[1] This also involves a significant gender gap of 9 percent – only 50 percent of women in developing economies globally reported having an account, as compared to 59 percent of men. Many of those who have accounts are not yet fully benefiting from their use for payments services. In developing economies, only 9 percent of adults have borrowed from financial institutions, as compared to 18 percent in OECD economies. Only 40 percent of savers in developing economies have placed their savings in formal institutions, compared to more than 70 percent in OECD economies. Access of low-income individuals to insurance services is also very limited – only 4.3 percent in Asia and 7.6 percent in Latin America are covered by microinsurance.[2]

Lack of access to a variety of financial services – including savings, investments, payments, credit and insurance – deprives many low-income households and individuals of the means to prepare for contingencies and retirement and to maximize returns from their savings. It prevents them from investing in education, housing, health care and other needs, from making financial transactions more conveniently and at lower costs, and from starting businesses. At the same time, it negatively impacts economic growth by preventing the mobilization and efficient deployment of savings, impeding investment and consumption by a broad segment of the population, and limiting the development of the domestic financial services sector.

These are the issues that the Asia-Pacific Forum on Financial Inclusion seeks to address. The Forum has been convened annually since 2010 and is a policy initiative under the APEC Finance Ministers' Process (FMP). It provides an opportunity for policy makers and regulators to engage in high-level dialogue with representatives of the private sector to review the current trends, challenges and achievements in the region and provide recommendations to enhance regulatory frameworks in support of financial inclusion.[3]

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[1] Data are for East Asia/Pacific and Latin America/Caribbean. Source: World Bank Group, Global Findex Database (http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2015/10/19/090224b08315413c/2_0/Rendered/PDF/The0Global0Fin0ion0around0the0world.pdf).

[2] Source: MunichRe Foundation, The Landscape of Microinsurance in Asia and Oceania, 2013 (http://www.munichre-foundation.org/dms/MRS/Documents/Microinsurance/2013MILandscape/2013LandscapeofMIAsiaOceania_fullReport/The%20landscape%20of%20microinsurance%20in%20Asia%20and%20Oceania%202013%20-%20full%20report.pdf)

[3] More information and reports of previous forums are available for downloading from the financial inclusion page of the Business Resources section of the ABAC Online website: https://www2.abaconline.org//page-content/22611571/Financial%20Inclusion.

The *2016 Asia-Pacific Forum on Financial Inclusion*,[4] held in Tokyo, Japan on 7-8 April 2016 consisted of eight sessions that addressed a range of topics. These include: (a) credit bureaus and credit information systems, (b) microinsurance, (c) cross-border payment systems, (d) savings, (e) digital finance infrastructure, (f) financial literacy, (g) digital finance and consumer protection and (h) insolvency. The Forum was attended by 135 participants of which 30 were government representatives. The other 105 participants included representatives of the private sector, academic institutions and civic organizations.

The Forum provided an opportunity for stakeholders to review current trends, recent achievements, ongoing challenges and opportunities within the region facing financial inclusion in the digital age. Participants discussed how these developments are impacting different markets. Through these discussions, the Forum produced several recommendations for APEC policy makers and regulators in support of financial inclusion. A summary of the recommendations, which are presented in greater details in the Forum Report,[5] is as follows:

Credit Bureaus and Credit Information Systems: Participants agreed that governments should collect data of individuals with the underlying premise that individuals own and should have access to their respective data. Data generated by transactions with government franchises, utilities, and other services can have an impact on an individual's ability to have access to credit and other financial services, and should be contributed to registries or bureaus.

Discussions also highlighted the importance of efforts to allow these data to be combined to help MSMEs use them in accessing financial services.[6] Assuming alternative data have a lower cost of acquisition, use of alternative data in credit scoring should be considered for loans of smaller value, with close monitoring by regulators to protect borrowers from unscrupulous lenders and over-indebtedness.

Currently, most micro-borrowers are accessing loans based on their relationship with lenders, rather than on data. Lenders should be encouraged to engage borrowers to submit additional documentation over several renewals of the loan to help borrowers create their

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[4] The 2016 Asia-Pacific Forum on Financial Inclusion was organized by the APEC Business Advisory Council (ABAC), the Foundation for Development Cooperation (FDC) and the Asian Development Bank Institute (ADBI), which hosted the event, in partnership with Citi Foundation. Additional support for the Forum was provided by several organizations including the International Finance Corporation (IFC), the Consultative Group to Assist the Poor (CGAP), Japan International Cooperation Agency (JICA), the Policy and Economic Research Council (PERC), TRPC, The Australian APEC Study Centre, the Australian Centre for Financial Studies and the World Savings and Retail Banking Institute (WSBI). Through the collaboration of each of these partners the Forum contents were designed with the aim to facilitate discussion on financial inclusion that would result in action amongst stakeholders to address key issues.

[5] It may be downloaded from http://www2.abaconline.org/assets/2016/3%20Shenzen/2016_Asia-Pacific_Forum_on_Financial_Inclusion_Tokyo_Japan_7-8_April_2016_072716.pdf .

[6] Authorization by data subjects for data use should be the prime determinant of how data is used as long as there is full disclosure of uses of the data and a time period to the use. Also, revocation of right to use by third parties (which does not include government agencies in the context of policy creation and statistical analysis) should be unilateral.

financial footprint. Following this initial process of identity and repayment file creation, non-traditional data and borrowers' behavior can be used by lenders as transitional data for micro and no file borrowers, until such time as lenders are able to rely on traditional forms of data on borrowers.

Microinsurance: The discussions highlighted the critical role that proportionate regulation needs to play in allowing the market to support a range of insurance products developed specifically for MSMEs. In addition, digital delivery of products may entail supervision by several different departments and regulations. These highlight the need for relevant government ministries to align departmental policy and work together to provide appropriate and proportionate regulation for the microinsurance industry. There is substantial value in public-private dialogue, where policymakers and regulators engage with insurers as partners in developing products and solutions for responding to and mitigating disaster risk.

Participants also agreed with the observation that the mobile phone platform is an enabler, but not a complete solution to financial inclusion. Many financial services require a degree of human interaction to meet the needs of customers, including in the insurance market – especially in building trust and capacity of new clients. Policy makers need to understand that while mobile products are gaining traction, models providing human touch also require attention as insurance providers respond to the needs of different market segments.

Cross-Border Payments: Effective financial inclusion entails providing access to and use of a combination of products, with an increasing focus by providers on a holistic approach to meeting the needs of clients. This involves making the right financial products and services accessible, rather than relying on the traditional discrete products offered by individual providers. While the focus of policy has been on reducing the cost of remittances, convenience and trust are the other key factors migrant workers and their families consider in their remittance decisions. To increase transparency and foster competition, governments can facilitate participation of non-bank service providers in the financial services sector, as well as the provision of independent and objective information to remitters on the range of options available, specific to their main corridors.

Savings: Financial service providers employ a range of channels such as the use of agents to reach the farthest clients. Regulation needs to respond to channel-specific situations, such as clear designation of responsibility between agents and financial services providers. Financial education is essential for financial products, as it provides knowledge to consumers on how savings accounts can be used and provide meaningful benefits to customers. Financial inclusion and financial education should be seen as an ecosystem with government, financial services providers and other specialists working together to develop and implement effective programs.

Digital Financial Infrastructure: Participants agreed that APEC economies should prioritize the development of financial infrastructure, including operating infrastructure such as online receivables finance platforms and the digital marketplaces for supply chain documents that link up creditors, borrowers, services providers and regulators. Such developments would enable finance to happen in greater volumes and enable operators within the finance industry to achieve greater efficiency, transparency, innovations and convenience for both consumers and MSMEs. Financial infrastructure operators should also strive to use the latest technologies to upgrade their services to enhance the flexibility of financial infrastructure support. Lastly, regulators should note that MSME credit cannot be given in a vacuum and requires supporting services including financial infrastructure, some of which can be developed and provided by government agencies, some by the private sector, and some through industry associations

Financial Literacy: Adopting a domestic financial education program and strategy can better integrate the initiatives of financial service providers, government and other stakeholders to extend the benefit of financial inclusion from access to usage and impact. Financial education programs that integrate with domestic school curriculums have proven to be effective, especially where tailored for various age groups and when appropriate training is provided to educators to ensure its success. E-learning platforms are gaining popularity across a range of educational fields and have proven successful in different markets in providing a greater variety of ways to reach more people.

A Financial Health Check platform could be established which would allow individuals to monitor their cash-flow position and personal net worth. Such a platform would be particularly useful for individuals considering major purchases or borrowing as a way to be better informed of their financial position prior to making a decision.

Regulators and policy makers should consider ways in which individuals can more easily check their credit scores. Such a platform could also alert individuals to potential over-indebtedness if shown by indicators. Governments should consider providing a one-stop financial portal which can provide useful references on financial products for consumer comparison purposes.

Digital Finance and Consumer Protection: Consumer protection in digital finance presents different challenges to those in conventional finance as the customer is different, agents are an additional dynamic, the interface is technology based, and it is often unclear as to who in the delivery channel is responsible to the client for which issues. At present, the challenges are manageable, as digital finance represents a relatively small proportion of transactions, with one of the main challenges being reliability of service. However, as digital finance becomes more pervasive through the entry of more competitors and the introduction of interoperability, suitability of products for clients, privacy and data protection will become more significant challenges for policy makers and regulators.

The behavioral sciences and a consumer-centric approach should be applied, not only to product marketing but also to product design, diversification, consumer transparency and protection, as well as regulation and supervision. Supply-side innovations and initiatives to increase access to finance should be influenced by a demand-side focus on how to best serve poor clients. In the same way that financial technology (Fintech) is disrupting financial markets, regulatory technology (Regtech) provides opportunities for technology to ease compliance burdens and enable rapid consumer feedback and early detection of problems, and communication of messages back to consumers. In addition, in the context of APEC, a consumer protection agreement among member economies is needed to deal with the increasing availability of digital financial services across the region.

Insolvency: Sound insolvency and secured transactions regimes are essential for the effective redeployment of capital and assessment of risk by investors and lenders. Effective management of insolvency of SMEs is a question of balance: of the rights of debtors vis-à-vis creditors and investors; between liquidation and reorganization; and between the need for efficiency and the need for legal fairness. It is also important to have informal, out-of-court workout processes to restructure debts at an earlier stage.

Recommendation

- ***The Advisory Group recommends that APEC Finance Ministers encourage policy makers and regulators responsible for financial inclusion and MSME finance to study the report of the 2016 Asia-Pacific Forum on Financial Inclusion and to participate in the 2017 Forum.***

III. Developing a Robust Pipeline of Bankable Infrastructure Projects

The ADB estimates that Asia needs USD8 trillion in the decade to 2020 to bridge its infrastructure gap. The Economic Commission for Latin America and the Caribbean estimates that Latin American economies need to invest 6.2 percent of their GDP (around USD320 billion) annually on infrastructure development to meet their economic goals to 2020. Investors have plenty of appetite for infrastructure projects, but lack of capacity in the public sector to structure deals prevent them from making actual investment decisions. Addressing the lack of a pipeline of bankable infrastructure projects is a priority issue in APEC. Another related priority issue, promoting the expansion of long-term investment in infrastructure projects, is dealt with separately under the APFF and discussed in detail in its 2016 Progress Report.

Through various workshops and dialogues with governments of member economies since its establishment in 2011, the APIP has identified the key issues in addressing this challenge. These key issues have been discussed with finance officials in previous years and have underpinned some of the initiatives incorporated in the infrastructure pillar of the CAP. Among these are the following:

Effectively allocating risks between public and private sectors: An important element of successful PPP projects is finding a suitable allocation of risks between the public and private sectors. There is no single formula for risk allocation, and risks vary depending on the economic sector, the size of the project, the project cycle, the business model used and the number of parties that are involved. Where there is a disconnect between the price the public is willing to pay and the price available in the market, government can provide a solution by either putting money on the table or taking risks off the table. A good understanding of the risks that parties are able to bear is essential for designing well-structured projects.

Understanding that the private sector is capable of dealing with pure commercial risks but ill-equipped to deal with others, such as inability of the public sector to comply with obligations due to government or political actions or inaction, for example, is important for designing solutions, such as creating a guarantee fund that can expeditiously provide direct compensation to the private sector in such an event. Introducing incentives for both parties to avoid a default, such as through partial guarantees, can also be helpful.

A deeper understanding of which risks the different parties can more effectively manage, allocating each risk to the party best suited to manage or minimize it, and defining this clearly in agreements can help government attract more private sector participation in infrastructure project. Governments can attract more private investment in infrastructure through measures that help provide funding and address risks that need to be dealt with at the various stages of project preparation, bidding and construction.[7]

In successfully deploying fiscal and financial support to promote PPPs, it is important for the government to get sufficient inputs from industry, such as by holding pre-proposal, pre-bidding and pre-structuring conferences with the private sector. Where low-cost funding such as those from official development assistance is to be introduced to the project it is important that such funding and its terms is brought to the attention of the private sector early so that complementary terms and structures can be bid by interested private sector parties.

Improving institutional capacity to promote PPPs: The decision by APEC Finance Ministers in 2013 to develop a network of PPP Centers that is supported by the APEC PPP Experts Advisory Panel is an important milestone toward the strengthening of institutional capacity of governments to promote PPPs. As existing and new PPP Centers in member economies join the network and the Panel moves ahead to support these Centers, the Advisory Group reiterates its view, as set out in its 2014 Report, that efforts focus on improvement in the following critical areas:

- *Coordination across ministries/departments and relevant agencies.* Successfully developing a robust project pipeline depends on the success of efforts to coordinate involvement of multiple line ministries in project preparation, and coordination

[7] These could include funds to accelerate the land acquisition process during the preparation stage, viability gap funding (VGF) to help achieve financial viability of economically desirable projects and guarantees to cover policy risks during the bidding stage, and funding support during the construction phase where the market is unable to provide for the needs of the private sector (e.g., long term local currency financing). Public subsidies can also be factored into the bidding process. In addition, among other ways by which projects can be made bankable and risks shared in a balanced manner are: (a) continually re-assessing the risk profile of projects in reference to traditionally acceptable infrastructure risks carried by global banking institutions; (b) continually reviewing risk allocation to ensure risks are carried by entities that are in the best position to manage and mitigate them; (c) formulating clear terms of reference for each project as a basis for further assessment of risks by private sector partners and financial institutions; and (d) reviewing the timetable for the bidding process and benchmarking it to global best practices to ensure these are realistic and workable and to encourage wide participation.

among government units at different levels is an important pre-requisite of project readiness. Addressing the complexity of decision structures within government that could hamper expanded private sector engagement in PPP projects requires the creation of institutional arrangements that offer sufficient clarity, authority and predictability. An important element of such arrangements is a strong institutional home for the development of well-structured projects. Establishing a strong PPP unit and identifying a "champion" to lead projects and push things forward are possible ways of achieving this. To effectively bring all relevant parties together, such units need to have sufficient authority, and preferably legal authority.

- *Developing transactional capacity.* Building institutional capacity to deliver well-structured projects is an important key to success in promoting PPPs. Preparing complex infrastructure projects require technical expertise in addition to sufficient budget allocation. It is necessary to further build on existing skills and capacities in public agencies managing these transactions. Many governments in developing economies are very much affected by civil service rules, particularly in relation to compensation limits that make it difficult for them to attract and retain sufficient numbers of technical experts in legal, accounting, engineering and other relevant fields.

- *Developing long-term infrastructure planning capacity.* Developing capacity for long-term planning in infrastructure is important to promote private sector participation, given the long-term horizon of infrastructure investment. A key issue is the capacity of government planners to deal with complexity, which legislation cannot capture and must be dealt with during actual planning. Examples of areas where government officials could benefit from improved capacity include the following: (a) design of infrastructure to meet changing needs over time; (b) facilitating the transfer of knowledge across projects and the emergence of learning organizations through planning; (c) effective management of time, resources and collaboration of stakeholders in complex environments; (d) leadership in multi-disciplinary infrastructure planning for the whole economy; (e) deeper understanding of how infrastructure systems are affected by such factors as changes in land use and population density; and (f) developing evidence-based approaches in ensuring that infrastructure design meet government objectives.

- *Strengthening the project preparation process.* From investors' and lenders' perspectives, bankability is a pre-requisite for the success of projects. Being vital to demonstrating bankability, robust project preparation prior to bringing each one to the market is important. Strengthening this process will require adequate budgetary resources, particularly for line ministries to prepare projects to be market-ready and engage qualified transaction advisors. It may also be useful to develop a checklist and an administrative system that could indicate whether a project is ready to be brought out to the market. Management capacity in the government, particularly in contracting agencies, needs to be further developed to more effectively and efficiently bring projects forward to completion. PPP Centers can also play a role in promoting greater understanding within the public sector of the advantages of harnessing the expertise of outside consultants.

- *Communicating with the private sector.* An effective institutional framework is one that provides adequate and timely information and a straightforward, transparent and efficient approval process for PPPs. Global or regional firms that seek out opportunities across a number of markets can be attracted to an economy that provides adequate and detailed information to facilitate the undertaking of due diligence for bidding on projects. PPP centers can play an important role in meeting these needs of the private sector.

- *Building strong and credible public institutions.* Key to the success of economies in developing well-executed PPP projects in certain sectors has been the credibility of public institutions in these sectors, particularly their creditworthiness, which facilitates the engagement of private sector financial institutions and export credit agencies to provide financing and strong and clear government support for these institutions, preferably enacted into law. While arrangements in one sector cannot simply be replicated in other sectors due to their different characteristics, experiences of PPPs in the region highlight the key features that public utilities must have for successful projects: credibility, good credit, the authority to make decisions and capacity. PPP Centers can play a role in identifying and promoting legislation and policies to strengthen relevant public institutions.

- *Ensuring successful initial projects.* The private sector strongly supports the objective of ensuring the commercial, social and environmental viability of projects before being offered to investors. It is especially important that initial model projects succeed to build public and market confidence and avoid acute political backlash that could harm long-term business opportunities. However, governments must also avoid delays that can dampen initial enthusiasm among investors. It is important for governments that are at the initial stages of developing a project pipeline to strike a healthy balance between speedy roll-out of projects and proper preparation, avoiding the pitfall of over-analysis, and to prioritize doable over transformational projects, building a pipeline to follow the first successful project.

Providing an enabling legal, policy and regulatory environment: Clear and consistent policies and processes are very important in making the market attractive for the private sector. The enforceability of long-term contracts is a major concern for the private sector, which expects that covenants in such contracts are honored through leadership transitions at the economy, local and agency levels. Greater regulatory transparency and certainty have important bearings on investors' risk perceptions and the level of returns they will require.[8]

A clear master plan based on a coherent vision can help the private sector get a better sense of strengths, viability and potential impact of projects, and to gear up internal resources, including people, research, training and funding. Such a master plan would prioritize and harmonize projects at the economy and local levels, and clearly identify

[8] Features that the private sector considers important include, among others: (a) the ability of government to properly address at the onset project completion risks, right-of-way risks and other political and regulatory risks and to provide ample protection for project finance lenders to mitigate these risks; (b) the provision of clear information on the form of and risks related to government subsidies on projects made available for private sector participation; (c) appropriate protections for private sector proponents in case promised subsidies are withdrawn or when the project fails to gain legislative approval or appropriations; and (d) adequate protections for continuity of contracts over the long term.

how each project fits into the overall infrastructure plan and how resources will be allocated to each. The private sector will be able to more effectively participate in infrastructure development if it is regularly updated on the projects lined up for PPP and how each project fits into the larger plan and given an updated timetable.

The Advisory Group welcomes the Finance Ministers' initiatives under the CAP in response to the challenge of promoting a pipeline of bankable infrastructure projects in the region, particularly the creation of the APEC Knowledge Portal in collaboration with the Global Infrastructure Hub (GIH) and in coordination with the International Infrastructure Support System (IISS), expanded participation in the APEC PPP Experts' Advisory Panel, and promoting urban infrastructure development. The APIP supports these objectives through its active participation in these initiatives and the dialogues it holds with governments of individual economies.

To continue assisting member economies in promoting more bankable infrastructure projects in the region, APIP is undertaking several activities this year. One is an outreach event in September 2016 being organized by the Australian APEC Study Centre at RMIT University, which currently hosts the APIP Secretariat. This event is being held in conjunction with the University of Sydney and the John Grill Centre's Annual Infrastructure Dialogue. The second is a dialogue with the Government of Thailand, which will take place on 5 September 2016 in Bangkok. The third is the completion and publication of a research paper on *Success Factors in the Philippines' PPP Program* commissioned by the APIP Secretariat.[9]

Finally, the Urban Infrastructure Network (UIN), formed upon ABAC's proposal in 2014, completed its report setting out a framework of best practices and their application as a guide to economies in managing complex urbanization processes. It included action plans that relates to economies, provincial and municipal levels of government at different stages of capability in handling urban infrastructure challenges. Key recommendations including prioritization of urban funding transfers, ensuring that relevant Ministries work to coordinate financing with all levels of government and take measures proposed by UIN, and capacity building initiatives aimed at enabling developing economies enhance their urban development, planning and financing processes.

Recommendations

- ***The Advisory Group proposes that the APEC Finance Ministers' Process (FMP) more closely integrate and coordinate its various infrastructure initiatives under the FMP, including new initiatives introduced by the CAP and ongoing initiatives such as the Asia-Pacific Infrastructure Partnership (APIP) Dialogues, the APEC PPP Experts' Advisory Panel and the PPP Center Network, by using the PPP Experts Advisory Panel as the coordinating center.***

[9] The full report may be downloaded from https://www2.abaconline.org/assets/2016/3%20Shenzen/Resource_Material_-_Success_Factors_in_the_Philippines_PPP_Program.pdf.

- ***The Advisory Group recommends expanded cooperation between the Global Infrastructure Hub (GIH) and the FMP, including early adoption by member economies of the GIH's online tools and resources as well as their participation in the International Infrastructure Support System (IISS).***

- ***The Advisory Group calls for the continuation of APIP dialogues among interested governments, the private sector and relevant international organizations in 2017. 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.***

- ***The Advisory Group recommends advancing the CAP's initiative to promote urban infrastructure development in collaboration with the Urban Infrastructure Network (UIN).***

IV. Improving Valuation Practices in APEC

Valuations are central to decision making in the global economy and impact the public interest, economic growth and development of financial systems in a multitude of ways. Specifically, valuation plays an important role in relation to the following:

- 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.
- 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.
- Valuation is an integral part of the merger and acquisition 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.
- 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.
- 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.

- 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.

In the light of the impact of valuation on a wide range of matters as described above, 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 welcomes the support that Finance Ministers have expressed in their 2014 and 2015 Joint Ministerial Statements for our work in this field. Our work in promoting high quality valuation practices and professionals across member economies has been led by the International Valuation Standards Council (IVSC) and involves valuation professional organizations (VPOs) across the region, experts from industry and other relevant bodies.

This work focuses on (a) promoting region-wide convergence of valuation practices; (b) exploring the valuation landscape in Asia Pacific economies; (c) discussing model valuation architecture, associated best practice, the role of commonly accepted valuations standards and of VPOs; (d) recording strengths, weaknesses and impediments to improving valuation practices and identify where there is need to develop and/or reinforce valuation infrastructure; (e) prioritizing opportunities to enhance existing landscape and implementation challenges; and (f) outlining the development process for member economies that lack valuation infrastructure.

Stakeholders have since completed work on two documents, which are now both available online. The first is the audit of the valuation landscape in APEC's 21 member economies, covering various asset classes.[10] The second is the template of best practices, which describes various options for establishing best practice landscapes for valuation practices in member economies.[11] Roundtables have been convened in Malaysia in January and Papua New Guinea in April to discuss best practices. Discussions with other member

[10] This may be downloaded from http://www2.abaconline.org/assets/2016/3%20Shenzen/Resource_Material_-_APEC_Valuation_Landscape.pdf .

[11] This may be downloaded from http://www2.abaconline.org/assets/2016/3%20Shenzen/Resource_Material_-_Valuation_Best_Practices_Template.pdf .

economies are under way to hold other Roundtables and a Symposium.

Recommendation

- ***The Advisory Group encourages APEC member economies to host discussions with ABAC, the International Valuation Standards Council (IVSC), valuation professional organizations (VPOs), experts from industry and other relevant bodies on improving the quality of valuation practices and professionals.***