

Finance and Economics Working Group Matrix

Highlighted cells indicate U.S. Action

Agenda Item	US Member	US ABAC position/action	USG Position if known or applicable	Other economy positions
1. From the Chair				
A) FEWG Work Plan	Rob Fiddick/Tom Clark	<ul style="list-style-type: none"> <li>• The work plan has not been circulated at this point, but will include the following themes:                             <ul style="list-style-type: none"> <li>▪ Macroeconomic overview and G-20 developments</li> <li>▪ Promoting Asia Pacific Financial Forum (APFF) in developing regional financial markets integration and addressing regulatory and structural reform</li> <li>▪ Developing strategies to achieve balanced growth and stronger financial integration</li> <li>▪ Promoting PPP and infrastructure finance</li> <li>▪ Promoting financial inclusion (including SME access to finance)</li> </ul> </li> <li>• <b>ABAC USA is supportive of the agenda as established by the FEWG Chair</b></li> </ul>		
2. Financial Stability	Rob Fiddick/Tom Clark	<ul style="list-style-type: none"> <li>• <b>ABAC USA recognizes that the current situation underscores the need for development and integration of financial markets in the APEC area. This will require further development of market infrastructure and regulatory frameworks.</b></li> <li>• <b>ABAC USA is supportive of utilizing ABAC and APEC as a forum to coordinate policy development and is also supportive of efforts to increase reasonable regulatory oversight</b></li> <li>• <b>ABAC USA supports the use of the Asia-Pacific Financial Forum (APFF) as a forum to develop sound and efficient markets and encourages APEC economy governments and regulatory agencies to actively participate in the APFF.</b></li> </ul>		<ul style="list-style-type: none"> <li>• APEC Russia has presented three papers addressing ways of strengthening financial markets through improvements in regulatory policy, supervisory arrangements and financial infrastructure.</li> </ul>
3. Internationalization of Emerging Economies	Rob Fiddick/Tom Clark	<ul style="list-style-type: none"> <li>• NCAPEC has consulted with its financial services board members and at this point has no position against the internationalization of emerging currencies.</li> </ul>		<ul style="list-style-type: none"> <li>• The internationalization of emerging currencies has been on the ABAC agenda since 2012. ABAC Japan is</li> </ul>

Currencies		<ul style="list-style-type: none"> <li>• <b>ABAC USA will monitor the issue closely.</b></li> </ul>		<p>proposing this paper. ABAC Japan, Russia, and China have led efforts on this issue since 2011.</p> <ul style="list-style-type: none"> <li>• ABAC China will be delivering a presentation on the use of RMB for cross border settlement. There are no recommendations. It will focus on a Chinese initiative on RMB settlement for cross-border trade which was launched in 2009.</li> </ul>	
4. <b>Integrated Reporting</b>	Rob Fiddick/Tom Clark	<ul style="list-style-type: none"> <li>• This is a new topic. NCAPEC has circulated the paper to NCAPEC Board Member for input. <b>ABAC USA will monitor closely.</b></li> <li>• Integrated Reporting is a business-led, market informed initiative which aims to improve the quality, value and relevance of corporate reporting.</li> </ul>		<ul style="list-style-type: none"> <li>• This is a new topic and is being presented by ABAC Australia.</li> <li>• Integrated Reporting is used by companies as part of a test initiative in 9 APEC economies, including USA, China, Japan, NZ, Canada, South Korea, Russia, Australia, and Chile.</li> </ul>	
5. <b>Mobilizing Regional Savings</b>	Rob Fiddick/Tom Clark	<ul style="list-style-type: none"> <li>• There is a new topic. No paper has been circulated at this time. <b>ABAC USA will monitor closely.</b></li> </ul>			
6. <b>Advisory Group Update</b>					
a.	<b>Regional Financial Architecture - Asia-Pacific Finance Forum (APFF)</b>	Rob Fiddick/Tom Clark	<ul style="list-style-type: none"> <li>• <b>ABAC USA is supportive of the Asia-Pacific Finance Forum (APFF) as an additional forum for bringing together regulators, private sector, academia, and government to advance regional financial integration through openness and liberalization.</b></li> <li>• The APFF will be a valuable forum for the U.S. private sector to advance priority issues such as: <ul style="list-style-type: none"> <li>▪ Enhancing cross-border data flows</li> <li>▪ Implementation of International Financial Reporting Standards (IFRS)</li> <li>▪ Encouraging a level playing field for all market participants</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• APEC Finance Ministers endorsed the creation of the APFF in 2012.</li> <li>• While the U.S. Treasury is supportive of the APFF, they are not convinced of the “staying power” of an additional forum. ABAC must emphasize the importance of creating a robust, results oriented agenda in order to avoid the forum becoming a “talk-shop”</li> </ul>	<ul style="list-style-type: none"> <li>• The APFF has broad support amongst ABAC Members.</li> </ul>

b.	<b>Infrastructure Finance</b>	Rob Fiddick/Tom Clark	<ul style="list-style-type: none"> <li>• ABAC USA is supportive of efforts to improve infrastructure financing.</li> <li>• Overcoming the infrastructure deficit will not be possible without leveraging financing through public private partnerships (PPPs).</li> <li>• ABAC USA encourages greater regulatory transparency and certainty, such as minimizing reviews of already approved projects and amendments to already agreed terms and conditions, as a means to improve investors' risk perceptions and the level of returns they will require.</li> </ul>		<ul style="list-style-type: none"> <li>• Infrastructure financing has strong support amongst ABAC Members.</li> </ul>
c.	<b>Financial Inclusion</b>	Rob Fiddick/Tom Clark	<ul style="list-style-type: none"> <li>• <b>ABAC USA is supportive of efforts to enhance financial inclusion, particularly efforts to improve:</b> <ul style="list-style-type: none"> <li>• Improving the regulatory environment on the use of remittances as a source of income</li> <li>• Improving SMME access to financing</li> <li>• Increasing the role of regional credit bureaus to improve credit portability and access to credit.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Treasury is supportive of efforts to improve financial inclusion. The US hosted a workshop on financial inclusion during US hosting of APEC in 2011.</li> </ul>	<ul style="list-style-type: none"> <li>• Financial inclusion has strong support amongst ABAC Members.</li> </ul>
7.	Regional Financial Integration	Rob Fiddick/Tom Clark	<ul style="list-style-type: none"> <li>• No paper has been circulated at this time. <b>ABAC USA will monitor closely.</b></li> <li>• ABAC USA is supportive of enhanced Intra-regional collaboration for promoting regional economic and financial integration.</li> </ul>		
8.	<b>IFRS</b>	Tom Clark, NCAPEC Board Member	<ul style="list-style-type: none"> <li>• <b>ABAC should draft a letter to the IASB/FASB Chairs supporting convergence to IFRS standards of reporting, encouraging a dialogue between business groups, and stressing a considered implementation by economies of IFRS that takes into account ways of satisfactorily dealing with business concerns. (Letter to be drafted intersessionally)</b></li> <li>• <b>To enhance interaction between the public and private sector, ABAC should draft a letter to the Chair of the APEC Economic Committee (EC) requesting their support of in coordinating a second IFRS Roundtable for wide-ranging discussion on the margins of the SOM II Economic Committee meetings in 2013. (Letter to be drafted intersessionally)</b></li> </ul>	<ul style="list-style-type: none"> <li>• Treasury is not opposed to IFRS, but has raised concerns that it is not a discussion that should take place in APEC.</li> <li>• IFRS is a regulatory issue, and as APEC is not a regulatory body, it doesn't fit neatly with one of APEC's existing working groups.</li> <li>• Treasury is supportive of moving the IFRS discussion to the Asia-Pacific Finance Forum (APFF).</li> </ul>	<ul style="list-style-type: none"> <li>• IFRS has received broad support amongst ABAC Members, particularly those from Australia, Chinese Taipei and Japan, who delivered their own IFRS presentations in 2010, 2011 and 2012 respectively.</li> <li>• ABAC endorsed a roundtable between the APEC Economic Committee (EC) and ABAC in 2012 to discuss IFRS. The roundtable was held on May 30, 2012 in Kazan, Russia.</li> </ul>

		<ul style="list-style-type: none"> <li>• ABAC should continue to encourage a dialogue between business groups and IASB/FASB on ways that would align IFRS principles with the interests of SMMEs and other business groups that will be affected. Furthermore, adoption by economies of IFRS should take into account ways of satisfactorily dealing with the concerns raised by business groups.</li> </ul>		
9. Cross-Border Data Flows	Tom Clark, NCAPEC Board Member	<ul style="list-style-type: none"> <li>• Tom Clark, NCAPEC Board Member will deliver the readout from the January 21st Roundtable on Cross-Border Data Flows.</li> <li>• ABAC USA is supportive of a regulatory environment that allows the private sector to efficiently move business-related data across borders.</li> <li>• Cross-border data flows will be an important determinant of the financial service industry's ability to grow over the next decade, and is a key element of the region's ability to remain globally competitive.</li> <li>• ABAC USA will be presenting this readout as "for information" and will not be making any specific recommendations.</li> </ul>		<ul style="list-style-type: none"> <li>• Several ABAC economies have expressed concerns over the complexity and privacy implications of cross-border data flows, including: <ul style="list-style-type: none"> <li>▪ ABAC Malaysia</li> <li>▪ ABAC Australia</li> <li>▪ ABAC Japan</li> <li>▪ ABAC PNG</li> <li>▪ ABAC Brunei</li> </ul> </li> </ul>
10. Other issues	Rob Fiddick/Tom Clark	<ul style="list-style-type: none"> <li>• ABAC USA will monitor any issues not identified in the existing agenda.</li> </ul>		

**Draft Agenda**  
**Finance and Economic Working Group**  
**1630-1830, Tuesday 22<sup>nd</sup> January 2013**  
**Manila Room, Level 1, Shangri-La Hotel Manila**

<b>Agenda Item No.</b>	<b>Issue</b>	<b>Lead Economy/ Speaker</b>	<b>Doc. No.</b>
1.	<b>Introduction</b> <ul style="list-style-type: none"> <li>- Opening Remarks</li> <li>- Overview of Work Plan 2013</li> <li>- Approval of the minutes from Vladivostok</li> </ul>	<b>Ms. Cher Wang</b> <b>ABAC Chinese Taipei</b> <b>(Chair)</b>	
2.	<b>Financial Stability</b> <ul style="list-style-type: none"> <li>- ABAC Russia will present a work plan for continuing this study into 2013</li> </ul>	<b>Mr. Neil MacKinnon</b> <b>ABAC Russia</b>	
3.	<b>Internationalization of Emerging Economies Currencies</b> <ul style="list-style-type: none"> <li>- FEWG will be briefed on the outcome of an IIMA Symposium in Tokyo</li> <li>- ABAC China will provide an update on the internationalization of RMB</li> </ul>	<b>Mr. Yoshihiro Watanabe</b> <b>ABAC Japan</b>  <b>Ms. Lili Wang</b> <b>ABAC China</b>	
4.	<b>Integrated Reporting</b> <ul style="list-style-type: none"> <li>- ABAC Australia will introduce a financial reporting standard for showcasing long-term business value</li> </ul>	<b>Mr. John Denton</b> <b>ABAC Australia</b>	
5.	<b>Advisory Group Update</b> <ul style="list-style-type: none"> <li><b>a. Regional financial Architecture</b> Agenda setting for the APFF Symposium on April 10-11, 2013 in Sydney</li> <li><b>b. Infrastructure Finance</b> Outcome of APIP Dialogue with Indonesian Government on Oct 22, 2012 in Jakarta</li> <li><b>c. Financial Inclusion</b> Update on APEC Financial Inclusion Initiative</li> </ul>	<b>Mr. Mark Johnson</b> <b>Mr. JC Parrenas</b> <b>Advisory Group</b>	
6.	<b>Regional Financial Integration</b> <ul style="list-style-type: none"> <li>- IDB representative will present a report on Asia-Latin America's financial cooperation/integration</li> </ul>	<b>Mr. J.A. Ketterer</b> <b>Inter-American Development Bank</b>	
7.	<b>IFRS</b> <ul style="list-style-type: none"> <li>- Update on current implementation progress with a focus on lease accounting and revenue recognition; discussion on how ABAC should continue to play a key role</li> </ul>	<b>ABAC USA</b>	

<b>8.</b>	<b>Cross-border Data Flows</b> - FEWG will be briefed on the outcome of the roundtable discussion held on Jan 21, 2013, day one of ABAC 1	<b>ABAC USA</b>	
<b>9.</b>	<b>Other Issues</b> - Any other business - Closing remarks	<b>Ms. Cher Wang</b> <b>ABAC Chinese Taipei</b> <b>(Chair)</b>	

## Meeting Document Summary Sheet

<b>Document Title:</b> Emerging Economies' Currencies Internationalization
<b>Purpose:</b> For Consideration
<b>Issue:</b> Enhancing the financial markets stability in the region by further promoting the emerging economies' currencies
<b>Background:</b>  With the rise of the emerging economies in the world, ABAC discussed the issue "emerging economies' currencies internationalization" in 2012 and finally reached to the recommendations as follows ; - monitoring of excessive volatility to ensure stable capital flows - expanding the daily ordinary settlement for trade and investment with bilateral currency swap agreements as liquidity support by relevant authorities - promoting cross-border bond issuance denominated in emerging market currencies across APEC  In this context, ABAC should continue to consider and implement the further action for facilitating the internationalization of emerging economies' currencies in 2013. ABAC would like to discuss widely in order to seek for the possibility that the emerging economies currencies could play larger roles as the global currencies.  Based on this background, ABAC invites Institute for International Monetary Affairs to make the brief reports on the outcome of the comprehensive symposium "The Internationalization of Renminbi and Future of the Tokyo Financial Market" held in October 2012 in Tokyo.
<b>Proposal /Recommendations:</b>  <ul style="list-style-type: none"><li>• ABAC should discuss and consider the concrete step plans to achieve the goal of 2012 recommendations. With this regard, ABAC should investigate and share the best practice for further promoting the emerging economies currencies. The study for road map to the direct settlement of Renminbi/Currency of a certain economy would be raised.</li></ul>
<b>Decision Points:</b>  <ul style="list-style-type: none"><li>• Endorse the recommendations outlined above.</li></ul>

First APEC Business Advisory Council (ABAC) 2013 Meeting

## Follow-up Discussion on the Internationalization of Emerging Market Currencies

22 January 2013



Institute for International Monetary Affairs,  
Chief Economist, Koji Sakuma

### 1. Stabilizing foreign exchange rates of Pan-Pacific region by encouraging the internationalization of RMB and other local currencies

➤ On Sep.2012, ABAC FEWG (Finance and Economics Working Group) announced the following policy recommendations in order to develop and stabilize Asia-Pacific's financial market:

- ① Reinforcement of the monitoring of emerging market currencies that are increasing their importance within the region's trade and investment
- ② Expansion of currency swap facilities for its utilization as emergency liquidity supply as well as general trade/investment settlement
- ③ Encouraging bond issuance in local currencies





- Special attention should be paid to the currencies of China and its trade partners in Asia because of its massive size of mutual trade and investments.

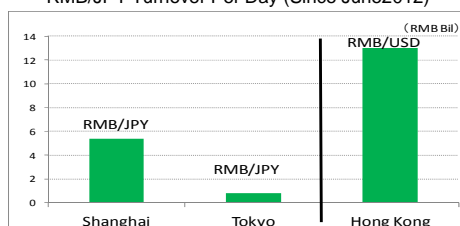
3

## 2. RMB/JPY Direct Settlement as a Part of RMB Internationalization.



- On 1 June 2012, a full-scale direct trading between RMB and JPY was introduced in Shanghai and Tokyo. The present data of their average turnovers per day: approximately 5 billion RMB in Shanghai market and 0.8 billion RMB market in Tokyo.
- With no vehicle currency (USD) in the exchange of RMB and JPY, the bid-offer spread has been decreasing slightly --- positive effect of direct transaction is slowly arising.

RMB/JPY Turnover Per Day (Since June 2012)



4



➤ Essential points for further utilization of RMB/JPY direct settlement

① China's further steps forward

✓ Further liberalization of RMB which encourages foreign corporate to choose RMB as settlement currency. Specific schemes are for instance;

A) Clarifying procedures and improving transparency of capital transaction in RMB.

B) Simplification of procedures, such as partial exemption of documents upon trade settlement.

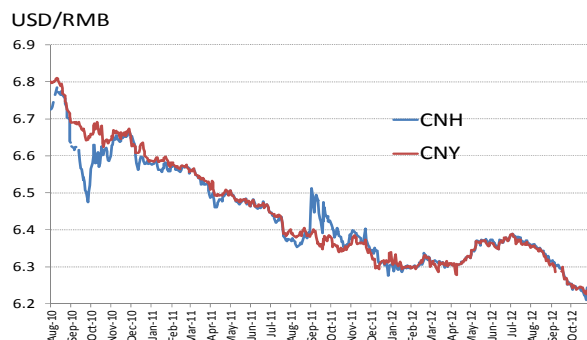
5



② Further Development of HK Market

✓ Although discrepancy between RMB's onshore rate (CNY) and offshore rate (CNH) has decreased compared to the past, it still exists in daily transaction. Such discrepancy is expected to be resolved in the future.

RMB's Onshore Rate (CNY) and Offshore Rate (CNH)



6



### ③ Enhancing the Use of Tokyo Market

- ✓ Improving the market environment for Japanese and Chinese corporate who want to issue RMB bond in Japan
- ✓ Enhancing the use of TOKYO PRO-BOND market in order to ease foreign companies' funding in RMB and JPY.

#### # Publicity Actions taken by IIMA

- ✓ On 11 Oct. 2012, IIMA organized a RMB seminar sponsored by Bank of Tokyo Mitsubishi UFJ.
- ✓ IIMA has written and published a report, "Internationalization of Emerging Markets Currencies" (in Japanese & English) in Oct. 2012.

7



#### 【Discussion points】

■ Why the development of RMB/JPY direct exchange market in Tokyo is so slow?

- ✓ Focus is limited on current transaction (= Exports and Imports)
- ✓ Further attention should be paid to capital transaction such as investments and funding of corporate
  - > because financial markets should develop in tandem of foreign exchange market, money market and capital market.

■ What needed?

Investment side : more sufficient liquidity of RMB/JPY foreign exchange,  
more convenience in hedging method  
– forward, swap and option, etc.

Funding side : more liberalization of RMB transfer from overseas to China  
more market infrastructures such as bond clearings

8

Document: FEWG 33-002

Draft: **FIRST**

Source: ABAC China

Date: 15 January 2013

Meeting: Manila, Philippines

**Document Title:**

**Status Quo, Challenges and Trends of  
RMB Settlement for Cross-Border Trade**

**Purpose:**

For consideration

**Issue:**

Currency internationalization of emerging economies

**Background:**

Since RMB settlement for cross-border trade was officially launched by the Chinese government in 2009, it has made a lot of encouraging achievements with growing policy support. However, despite the great progress that has been made, compared with the USD, EUR and other international currencies, the “Going-Global” of RMB is still in its infancy, and RMB settlement for cross-border trade will face three major challenges in the future. With increasingly liberalized policies and mature market, RMB settlement for cross-border trade will continue to develop.

**Proposal / Recommendations:**

**Decision Points:**

# Status Quo, Challenges and Trends of RMB Settlement for Cross-Border Trade

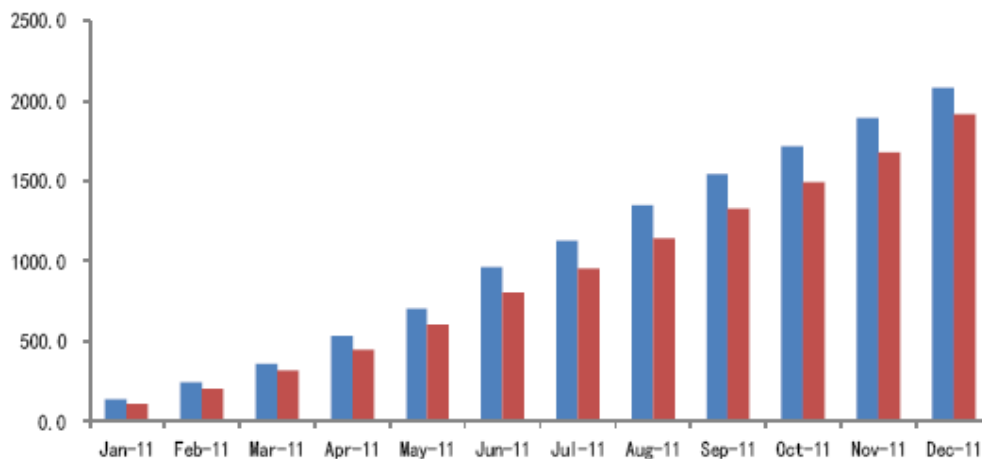
ABAC China Member Wang Lili

## I. Status quo of RMB settlement for cross-border trade

RMB settlement for cross-border trade was officially launched by the Chinese government in 2009. Ever since then, it has made a lot of encouraging achievements with growing policy support. The achievements have been made mainly in the following eight areas:

**First, the pilot project of RMB settlement for cross-border trade has progressed steadily.** In July 2009, China launched the pilot project whereby cross-border trade between domestic cities of Shanghai, Guangzhou, Shenzhen, Zhuhai and Dongguan and the SARs of Hong Kong and Macau could be settled in RMB. And pilot areas were expanded to cover the whole China on August 22, 2011. With the support of policies and expansion of the pilot areas, RMB settlement for cross-border trade has witnessed rapid growth: total RMB settlement volume amounted to 3.58 billion yuan, 506.34 billion yuan and 2.08 trillion yuan in 2009, 2010 and 2011 respectively, i.e. a year-on-year growth rate of 140 times in 2010 and of 3.11 times in 2011.

Figure 1 Total volume of RMB settlement for cross-border trade (RMB billion)



Source: CEIC

**Second, the pilot project of RMB settlement for cross-border investment and financing has been conducted orderly.** In order to support large-scale projects of enterprises in the process of “Going-Global”, China launched a pilot project for RMB cross-border investment and financing. First, in terms of RMB cross-border investment, China adopted its first pilot project on RMB Overseas Direct Investment (ODI) in Xinjiang in October 2010, and expanded the pilot project in January 2011. Later, in terms of RMB Foreign Direct Investment (FDI), China officially launched

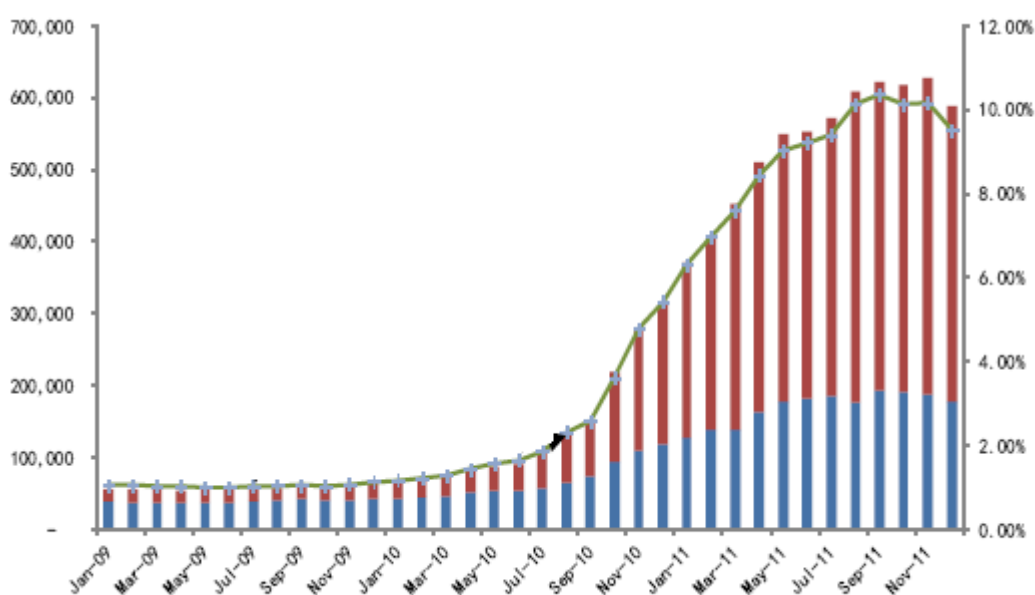
its pilot project of RMB FDI on October 13, 2011, so foreign investors and banks can engage in RMB settlement for FDI pursuant to the policy. Finally, in terms of RMB cross-border financing, China carried out pilot projects, on a case-by-case basis, for traditional trade finance and project finance, so that domestic banks can provide RMB financing to foreign enterprises and projects.

**Third, the channels for the backflow of offshore RMB funds are widened continuously.** In August 2010, the People’s Bank of China, China’s central bank, issued *Notice on the Pilot Project and Related Matters for Three Types of Institutions including Overseas RMB Clearing Banks to Use RMB to Invest in Domestic Inter-Bank Bond Market*, opening the door for foreign institutions to enter China’s inter-bank bond market, and further expanding backflow channels for offshore RMB.

**Fourth, bilateral currency cooperation has been further strengthened.** As of the end of 2011, China has signed bilateral currency swap agreements with central banks and monetary authorities of 14 economies including South Korea, Malaysia, Hong Kong, Belarus and Argentina, totaling 1.3 trillion yuan, which will promote bilateral trade and investment between China and these economies.

**Fifth, developing Hong Kong into an offshore RMB center is in steady progress.** First, the monetary base has gradually accumulated. By the end of 2011, the balance of RMB deposits in Hong Kong has increased from 315 billion yuan in early 2011 to 588.5 billion, up by 86.8%. Second, the RMB bond market in Hong Kong has witnessed rapid development. In 2011, RMB-denominated bonds issued in Hong Kong amounted to 107.9 billion yuan, which was nearly 2 times more than the amount of 35.8 billion in 2010. Finally, RMB loan business in Hong Kong is growing steadily, where the balance of RMB loans increased from less than 2 billion yuan in early 2011 to 30.8 billion at the end of 2011.

**Figure 2 Trends of RMB deposits (RMB million)**



Source: Hong Kong Monetary Authority

**Sixth, China has established direct trading mechanisms with the world's major currencies.**

As of the end of May 2012, direct trading mechanisms have been set up between RMB and the world's major currencies, and nine currencies can be traded with RMB directly. This is of great significance in reducing the settlement costs for trade and investment between China and its major trading partners, and in strengthening the convertibility of RMB. Since June 1<sup>st</sup>, 2012, the direct trading mechanism between RMB and JPY has been established in Chinese interbank foreign exchange market, and JPY becomes the second major foreign currency which could be transacted with RMB directly following USD.

**Seventh, RMB has gradually been adopted as one of the reserve currencies of foreign central banks and monetary authorities.** At present, central banks and monetary authorities of Malaysia and some other ASEAN economies have included RMB as an official reserve currency. In addition, Nigeria, Kenya and Thailand have started to include RMB into their foreign exchange reserves.

**Eighth, RMB trading band has been further expanded.** In order to promote the price discovery of RMB exchange rate, enhance two-way floating flexibility, and improve reforms of RMB exchange rate regime, the People's Bank of China announced, on April 16, 2012, to expand the trading band of RMB against the USD on domestic inter-bank spot foreign exchange market from 5‰ to 1‰.

## **II. Challenges against RMB settlement for cross-border trade in the future**

RMB settlement for cross-border trade has made great progress, but compared with USD, EUR and other international currencies, the "Going-Global" of RMB is still in its infancy, and RMB settlement for cross-border trade will face three major challenges in future:

**First challenge: the weakening of expectation for RMB appreciation will slow down the growth of offshore RMB funds in Hong Kong.** The expectation for RMB appreciation has, in a large part, mandated the rapid growth of Hong Kong's offshore RMB funds. In the medium and long run, RMB will continue to maintain its trend of appreciation. Yet given the macroeconomic uncertainties at home and abroad, it is possible that market expectation for RMB appreciation may continue to weaken in 2012, so it may be difficult for Hong Kong's offshore RMB funds to revert to the previous rapid growth trend in the short term. This will be the biggest challenge facing RMB settlement for cross-border trade.

**Second challenge: expanding the size of offshore RMB backflow and maintaining the stability of the domestic financial system are contradictory.** With the ever widening of offshore RMB backflow channels and the establishment of RMB backflow mechanism, the RMB which flew out of China through trade settlement might come back to domestic market in the form of

loans, posing challenges to the credit and monetary policies, and may result in the weakening of the central bank's window guidance. In addition, the arbitrage operations due to large RMB exchange rate and interest rate spreads between Hong Kong and the mainland may lead to large-scale abnormal transactions of funds, thus affecting the stability of financial markets in the mainland. It has become a problem in the development of RMB settlement for cross-border trade, and needs to be addressed as to how to avoid strong impacts on the stability of mainland financial system while improving the investment return of offshore RMB through consummating RMB backflow mechanism and expanding backflow scale.

**Third challenge: inadequate demand by overseas entities for RMB has limited the degree of RMB settlement for cross-border trade.** First of all, the scope of actual use of RMB settlement for cross-border trade is relatively limited. A large proportion of cross-border settlement only happened between enterprises in Hong Kong and mainland, or between mainland parent companies and their Hong Kong subsidiaries. Besides, enterprises have very strong motives for arbitrage. Yet, only the increased use of RMB for trade settlement by foreign companies, especially large multinational corporations, can really help promote RMB use on a global scale. Second, the demand for RMB in overseas market is weak, while the financing requirement in mainland is still the main factor for supporting the development of offshore RMB market. The establishment and improvement of backflow mechanism can help to liaise the flow of funds between onshore and offshore markets, but in essence, RMB on the offshore market in Hong Kong is still in the "domestic circulation", and has not realized international circulation in the real sense. Overall, the fundamental improvement of the degree of RMB settlement for cross-border trade is still dependent on the further nurturing of demand for RMB by overseas entities, which will be a gradual process led by market forces.

### **III. Trends of RMB settlement for cross-border trade**

With increasingly liberalized policies and mature market, RMB settlement for cross-border trade will continue to develop, mainly in the following six areas:

#### **1. Gradually expand the use of RMB in cross-border trade and investment**

Recognition of a currency by the international market is, in essence, based on the confidence in the prospects for the economic development and financial system stability in its economy. Based on such international experience, China will rely on its own economic development, and gradually push forward the use of RMB in cross-border trade, investment and financing in the future, throughout the perfection and opening process of its financial systems.

#### **2. Expand the geographical scope for the use of RMB**

Currently, RMB is in wide circulation, and is used in China's neighboring economies such as ASEAN, Central Asia, Mongolia and Russia. Over 180 economies have conducted actual receipts and payments of RMB with China, and the geographical scope of RMB use needs to be expanded further.



### **3. Continue to improve and open domestic financial market**

In the future, China will gradually improve the hierarchy and systems of domestic financial markets, improve and enrich categories of RMB products, expand market size, and establish a stable and secure operating mechanism. In addition, China will gradually open up domestic market, allowing two-way flow of RMB between onshore and offshore markets, and fully absorb the flow of overseas RMB funds.

### **4. Continue to strengthen the cultivation of offshore RMB market in Hong Kong**

In the future, China will continue to strengthen the cultivation of offshore RMB market in Hong Kong, and on this basis, Hong Kong can play its role of aggregation and radiation. These are mainly reflected in the following three aspects. First, China will continue to strengthen the construction of clearing and settlement mechanisms, to expand the global settlement network, and to leverage on the radiation role of Hong Kong's offshore RMB market. Second, China will promote all-round development of offshore RMB financial markets in a broad sense, including credit market, foreign exchange market, bond market and stock market, and promote financial innovation. Third, China will promote the introduction of offshore RMB business, so as to raise the awareness of offshore RMB financial platform in Hong Kong.

### **5. Steadily push forward opening of the capital account**

Among the 40 items under the capital account regulated by the IMF, more than two-thirds has now been fully or partly opened in China; the rest such as direct cross-border securities investment, derivatives trading, short-term debts, are still subject to stringent controls like limited pilot projects, scale control, and even complete limitation. In the process of steadily promoting RMB settlement for cross-border trade, China will steadily relax control over the capital account. The opening of the capital account will be closely integrated with RMB settlement for cross-border trade, and diversified two-way flow channels for cross-border RMB will be gradually established, promoting virtuous circle of cross-border RMB funds.

### **6. Continue to promote the interest rate liberalization and formation mechanism of RMB exchange rate**

RMB settlement for cross-border trade requires efficient and in-depth financial markets as carriers; not only onshore RMB market needs to be quite mature and open, but also offshore RMB market must be sufficiently wide and deep, together with smooth channels for two-way flows of RMB between domestic and foreign markets. Therefore, China should continue to steadily promote interest rate liberalization and the reforms of formation mechanism of RMB exchange rate, so that these reforms can promote constant development of RMB settlement for cross-border trade.

## Meeting Document Summary Sheet

<p><b>Document Title:</b>          Integrated Reporting: Underpinning Financial Stability and Sustainable Economic Growth</p>
<p><b>Purpose:</b>          For consideration and approval of actions recommended.</p>
<p><b>Issue:</b>          The International Integrated Reporting Council (IIRC) believes that ABAC members can play a central role in promoting a new corporate reporting framework within APEC member economies that encourages efficient capital markets, long-term investment and business transparency.</p>
<p><b>Background:</b>          Today's corporate reporting largely reflects the business practices of the last century, when financial and manufactured assets were the main indicators of a company's value. Today it is a company's people, and the access they provide to ideas and intellectual capital, that are the significant drivers of corporate value (what the IIRC calls "capitals"). Similarly, today's business leaders are much more aware of the constraints in which they operate due to world-wide shortages of water, food and energy, yet there is not currently a globally accepted framework for communicating in a concise way to investors how businesses create value, within today's economic context, over the short, medium and long term.</p> <p>Integrated Reporting (IR) is a process that results in communication, most visibly a periodic "integrated report", about value creation over time. An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term. IR is a business-led, market-informed initiative which aims to improve the quality, value and relevance of corporate reporting. Today around 1,000 businesses globally have adopted some aspects of IR, either because of a requirement to publish an Integrated Report in stock exchange listing rules (South Africa) or on a self-declared basis.</p> <p>IR aims to:</p> <ul style="list-style-type: none"> <li>• Catalyse a more cohesive and efficient approach to corporate reporting that draws together other reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time.</li> <li>• Inform resource allocation by providers of financial capital that supports long term, as well as short and medium term, value creation.</li> <li>• Enhance accountability and stewardship with respect to the broad base of capitals (financial, manufactured, human, intellectual, natural and social) and promote understanding of the interdependencies between them.</li> <li>• Promote integrated thinking, decision-making and actions that focus on the creation of value in the long-term, as well as the short and medium-term.</li> </ul>
<p><b>Proposal / Recommendations:</b></p> <ul style="list-style-type: none"> <li>• The IIRC requests that ABAC members create formal opportunities for the IIRC to</li> </ul>

consult with the business community during the consultation period (16 April-15 July) to encourage input into the process of creating the world's first International IR Framework.

- The IIRC notes that ABAC will convene in July 2013 in Kyoto, which coincides with the end of the IIRC's consultation process, and urges FEWG to revisit the issue of IR at that time and receive some early feedback from the consultation process.
- The IIRC recommends that APEC economies take proactive steps to encourage corporate reporting innovation.
- The IIRC recommends that ABAC creates an Integrated Reporting Sub-Group to examine whether IR can meet the demands of policymakers in terms of increased levels of transparency whilst delivering information to the capital market that is useful to investors.
- Encourage major banks and other financial institutions in their economies to become part of the IIRC's Investor Network, and to engage with the IIRC as it pursues outreach activities in their economies.
- Discuss IR, including in relation to energy financing, with their Finance Ministers in relation to the IIRC's aim for G20 support in 2013 and 2014.
- Support the IIRC in winning further pilot companies, particularly from the energy sector, in their economies
- Advocate Integrated Reporting to their Finance Ministers, Energy Ministers and business leaders, making a case for market-based implementation solutions rather than legislative or regulatory mandates
- Focus discussions with Finance Ministers on making it easy for those implementing Integrated Reporting in both the private and public sectors to do so, removing or dealing with the blockages and challenges

# **APEC BUSINESS ADVISORY COUNCIL**

Prepared for ABAC Finance and Economic Working Group (FEWG)

Manila, Philippines, 20-23 January 2013

## **INTEGRATED REPORTING: UNDERPINNING FINANCIAL STABILITY AND SUSTAINABLE ECONOMIC GROWTH**

Paul Druckman, Chief Executive, International Integrated Reporting Council  
(IIRC)

### **Introduction**

APEC economies are among the most vibrant and dynamic in the world and the potential for continued economic expansion in the coming decades, particularly in the Asia Pacific region, is considerable. Yet APEC economies are not without their challenges, particularly the growing need to attract long term investment in strategically important sectors including infrastructure and energy (see case study on energy financing below). APEC economies are also committed to implementing governance systems that help to minimize the risk of financial instability. Such systems can help to encourage business investment by improving transparency, revealing hidden value and creating the conditions for sustained growth.

It is in the spirit of offering solutions to these challenges that the International Integrated Reporting Council (IIRC) is honoured to present this paper to the ABAC Finance and Economics Working Group.

The Global Financial Crisis that affected many of the world's major capital markets has led to calls for a new economic orthodoxy focused on different ways of thinking and doing business underpinned by high quality governance and reporting frameworks that assist businesses in becoming magnets for inward investment and more resilient in the face of future challenges.

**In summary, the IIRC believes that ABAC members can play a central role in promoting a new corporate reporting framework within APEC member economies that encourages efficient capital markets, long-term investment and business transparency - the building blocks of sustainable economic growth.**

## Definition

Integrated Reporting <IR> is a process that results in communication, most visibly a periodic “integrated report”, about value creation over time. An integrated report is a concise communication about how an organization’s strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term. An integrated report should be prepared in accordance with the International <IR> Framework.

While the communications that result from <IR> will be of benefit to a range of stakeholders, they are principally aimed at the providers of financial capital.

<IR> is a business-led, market-informed initiative which aims to improve the quality, value and relevance of corporate reporting. The IIRC is part of a growing movement. Today around 1,000 businesses globally have adopted some aspects of <IR>, either because of a requirement to publish an Integrated Report in stock exchange listing rules (South Africa) or on a self-declared basis.

## The IIRC’s Mission and Role

The IIRC, formed in 2010, is a coalition of businesses, investors, regulators, standard setters, NGOs and the accountancy profession. The IIRC's mission is to create a new, globally accepted framework for corporate reporting, which addresses the real and practical challenges faced by both preparers and users of company reports.

Since the inception of the IIRC, there have been several defined phases. Phase 1 was designed to determine whether <IR> was of global interest, and it soon became obvious that it was. Phase 2, which we call Creation and Awareness, has resulted in significant progress, with the introduction of the Investor and Business Pilot Programme, the establishment of an IIRC Secretariat and the continued efforts to raise awareness of <IR>. During the current phase, which will continue well into 2014, the IIRC is not looking for companies to be producing integrated reports, but rather to be thinking about <IR>, and participating in the creation of a framework that is fit for purpose. The third phase will be Implementation, from late 2014, when we expect to see large numbers of companies using version 1.0 of the framework. The timing of the development of the framework fits well with the Russian and Australian Presidencies of the G20 in 2013 and 2014 respectively.

Having published the Prototype in November 2012, the IIRC will publish the Consultation Draft of the International <IR> Framework on 16 April 2013, which will be followed by version 1.0 of the Framework in December 2013. **The IIRC requests that ABAC members create formal opportunities for the IIRC to consult with the business community during the consultation period (16 April - 15 July) to encourage input into the process of creating the world’s first International <IR> Framework. The IIRC also notes that ABAC will convene in July 2013 in Kyoto, which coincides with the end of the IIRC’s consultation process. We urge the ABAC Finance and Economics Working Group (FEWG) to revisit the issue of Integrated Reporting at that time and receive some early feedback from the consultation process.**

## **Objectives of <IR>**

<IR> aims to:

- Catalyse a more cohesive and efficient approach to corporate reporting that draws together other reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time.
- Inform resource allocation by providers of financial capital that supports long term, as well as short and medium term, value creation.
- Enhance accountability and stewardship with respect to the broad base of capitals (financial, manufactured, human, intellectual, natural and social) and promote understanding of the interdependencies between them.
- Promote integrated thinking, decision-making and actions that focus on the creation of value in the long-term, as well as the short and medium-term.

## **The IIRC in APEC Economies**

The IIRC is currently active in nine of the 21 APEC member economies through its Pilot Programme, where global businesses and investors test the principles of <IR> and apply them to their own reporting systems and practices. This innovation has led to a better understanding of the business benefits of <IR>, some of which are highlighted below. The 22 businesses involved in the IIRC's Pilot Programme in APEC member economies include: China Light and Power (CLP), Takeda Pharmaceuticals, National Australia Bank and ROSATOM (see below for the full list). The IIRC has also participated in <IR> related events in several APEC member economies where we do not currently have a Pilot Programme member. Most recently the IIRC held its half-yearly Council meeting in Tokyo, where we welcomed the launch by the Japanese Government of the Corporate Reporting Lab.

## IIRC Pilot Programme Businesses in APEC Member Economies

Business	Country	Sector
Cliffs Natural Resources	USA	Industrial mining & metals
CLP Holdings Ltd	China	Electricity
Edelman	USA	Media
Ernst & Young ShinNihon LLC	Japan	Accounting
Hyundai Engineering & Construction	South Korea	Construction & Materials
Jones Lang LaSalle	USA	Real estate
MASISA S.A.	Chile	Forestry, wood & boards
mecu Limited	Australia	Banks
Microsoft Corporation	USA	Software and computer services
National Australia Bank Ltd	Australia	Banks
New Zealand Post	New Zealand	Postal services
Prudential Financial Inc.	USA	Financial Services
Rosneft	Russian Federation	Oil & gas producers
Showa Denki Co Ltd	Japan	Household goods & home construction
SK Telecom	South Korea	Telecommunications
State Atomic Energy Corporation (ROSATOM)	Russian Federation	Nuclear industry
Stockland	Australia	Real estate investment & services
Takeda Pharmaceuticals Company Ltd	Japan	Pharmaceuticals & biotechnology
Teck Resources	Canada	Industrial mining & metals
The Clorox Company	USA	Chemicals
The Coca-Cola Company	USA	Beverages
Vancity	Canada	Banks

### The Business Case for <IR>

Today's corporate reporting largely reflects the business practices of the last century, when financial and manufactured assets were the main indicators of a company's value. Today it is a company's people, and the access they provide to ideas and intellectual capital, that are the significant drivers of corporate value (what the IIRC calls "capitals"). Similarly, today's business leaders are much more aware of the constraints in which they operate due to world-wide shortages of water, food and energy, yet there is not currently a globally accepted framework for communicating in a concise way to investors how businesses create value, within today's economic context, over the short, medium and long term. Increasingly business leaders, investors and other stakeholders are realizing that we cannot continue to exploit the natural resources of the world without thinking about the future. There is a clear need to develop a framework which will enable enterprises and economies to prosper sustainably. Integrated Reporting seeks to be part of the solution to address these needs.

While there have been significant improvements to the quality of financial reporting standards over the last decade, corporate reporting has not kept pace with the dramatic changes that have occurred in the real economy. A focus on financial factors alone reveals only a fraction of the value created by the company over time. Research shows that today only 20 per cent of a company's value is reflected in its financial statements compared to around 80 per cent in the 1970s.

At the same time company reports have ballooned in size, driven by increased regulatory requirements and the growing complexity of international business operations. The focus on compliance with reporting standards over telling the story of the company's performance and prospects has contributed to a disconnect between company boards and their investors, who increasingly take a short term approach to capital allocation which, in turn, increases the cost burden of compliance.

Research conducted by the leading corporate communications consultancy Black Sun among the 83 global businesses in the IIRC's Pilot Programme revealed that one of the key business benefits of integrated reporting was the opportunity provided to connect teams from across an organization, breaking down silos and leading to more integrated thinking. It improved internal processes leading to a better understanding of the business itself.

The research also indicated other benefits of <IR> included increased interest and engagement of senior management in issues around the long-term sustainability of the business, which helped them gain a more holistic understanding of the business itself. The research showed <IR> improved management's ability to articulate the strategy and business model of the company.

As a business and investor-led organization, the IIRC is aware of the need to ensure that developments in corporate reporting respond to market demand, facilitate investment (particularly long term investment) and do not result in unnecessary burdens on the business community. With this in mind the IIRC greatly welcomes the initiative by the Japanese Ministry of Economy, Trade and Industry (METI) to establish a Corporate Reporting Laboratory which brings together businesses, investors and standard setters to understand, evaluate and resolve current corporate reporting challenges. This pragmatic response by the Government provides a safe environment within which companies and investors can innovate. **The IIRC recommends that other APEC economies take proactive steps to encourage corporate reporting innovation. Primarily this will enable businesses and investors to come together to discuss whether market mechanisms can be used to improve the quality of corporate reporting, to assess the feasibility of adopting Integrated Reporting, and identify solutions to any practical regulatory barriers to doing so. In practical terms, APEC countries could create their own "Integrated Reporting hubs" or they could mirror the Japanese METI "Corporate Reporting Laboratory" initiative. Either way, <IR> should be a significant workstream.**



## **<IR> and Business Transparency**

Business transparency is a key theme of the policymaking community and will form a major element of G8 and G20 discussions throughout 2013 and 2014. These discussions usually lead to demands for increased levels of disclosure, and therefore an even greater volume of data for businesses to manage and investors to process. The IIRC believes business transparency is vital to ensuring public and investor trust in capital markets is maintained and enhanced. But this transparency must have a purpose and policy should be designed to enhance the quality of disclosure, not the volume. **The IIRC recommends that ABAC creates an Integrated Reporting Sub-Group to examine whether <IR> can meet the demands of policy-makers in terms of increased levels of transparency whilst delivering information to the capital market that is useful to investors. We also urge ABAC members to encourage major banks and other financial institutions in their economies to become part of the IIRC's Investor Network, and to engage with the IIRC as it pursues outreach activities in their economies.**

## **ANNEX ONE: KEY REQUESTS AND RECOMMENDATIONS**

The IIRC believes that ABAC members can play a central role in promoting a new corporate reporting framework within APEC member economies that encourages efficient capital markets, long-term investment and business transparency – the building blocks of sustainable economic growth. We make the following requests of ABAC members in this paper:

- The IIRC requests that ABAC members create formal opportunities for the IIRC to consult with the business community during the consultation period (16 April-15 July) to encourage input into the process of creating the world's first International <IR> Framework.
- The IIRC notes that ABAC will convene in July 2013 in Kyoto, which coincides with the end of the IIRC's consultation process. We urge the ABAC Finance and Economic Working Group (FEWG) to revisit the issue of Integrated Reporting at that time and receive some early feedback from the consultation process.
- The IIRC recommends that APEC economies take proactive steps to encourage corporate reporting innovation. Primarily this will enable businesses and investors to come together to discuss whether market mechanisms can be used to improve the quality of corporate reporting, to assess the feasibility of adopting Integrated Reporting, and identify solutions to any practical regulatory barriers to doing so. In practical terms, APEC economies could create their own "Integrated Reporting hubs" or they could mirror the Japanese METI "Corporate Reporting Laboratory" initiative. Either way, <IR> should be a significant workstream.
- The IIRC recommends that ABAC creates an Integrated Reporting Sub-Group to examine whether <IR> can meet the demands of policymakers in terms of increased levels of transparency whilst delivering information to the capital market that is useful to investors.
- We urge ABAC members to encourage major banks and other financial institutions in their economies to become part of the IIRC's Investor Network, and to engage with the IIRC as it pursues outreach activities in their economies.
- We recommend that ABAC members discuss Integrated Reporting, including in relation to energy financing, with their Finance Ministers in relation to the IIRC's aim for G20 support in 2013 and 2014.
- We recommend that ABAC members:
  - Support the IIRC in winning further pilot companies, particularly from the energy sector, in their economies;
  - Advocate Integrated Reporting to their Finance Ministers, Energy Ministers and business leaders, making a case for market-based implementation solutions rather than legislative or regulatory mandates; and
  - Focus discussions with Finance Ministers on making it easy for those implementing Integrated Reporting in both the private and public sectors to do so, removing or dealing with the blockages and challenges.

## **ANNEX TWO: CASE STUDY – Financing Energy Needs in APEC Economies**

The importance of APEC member economies to the IIRC's global implementation aims were made clear earlier in this paper. This aligns well with the importance of APEC member economies to global financial stability and capital flows in 'The Asian Century', and the critical importance of energy throughout APEC. Accordingly, Integrated Reporting represents a significant business opportunity in APEC member economies by assisting in driving the required energy investment by helping capital providers understand and support the best energy investment propositions. Driving that opportunity will require the active support of business, and Finance and Energy Ministers, in APEC member economies.

### **The Dependence of APEC Member Economies on Reliable, Affordable and Cleaner Energy**

The capital required to enable energy policies to be implemented throughout the world, including in APEC member economies, is not flowing as it needs to. The International Energy Agency (IEA) published its first Energy Investment Outlook in 2003<sup>1</sup>. At that stage the IEA estimated that around US\$16 trillion would need to be invested in the energy sector between then and 2030 if substantial inroads were to be made into the near two billion people who at that stage did not have access to reliable supplies of energy. Many of these people were in APEC member economies. Ageing and missing infrastructure accounted for more of the investment requirement in the more mature economies.

By 2008, that number had grown to US\$26 trillion. The increase between 2004 and 2008 was in part caused by cost increases, better estimates, and further clarity around carbon investments. However, in part it was driven by the required investments not being made between 2004 and 2008<sup>2</sup>. The number has now grown again. Earlier in 2012, the IEA published its estimate of the required investment by 2035, and not 2030<sup>3</sup>. The estimated investment requirement is now US\$35 trillion by 2035. Accordingly, the comparable 2030 number is probably around US\$30 trillion. The IEA's report contains sufficient detail to break the estimate down to the APEC level, and for individual member economies. Needless to say, the requirement is relatively large in each case.

### **Integrated Reporting – A Business Solution for Energy Companies and Financiers and an Energy Policy Implementation Enabler for Governments**

The absolute size of the number is not important – what is important is that it is very big, and will keep increasing while there are uncertainties about the energy policy environment and other impediments to capital flows. Investment grade energy policy is required<sup>4</sup>, which will enable innovation in energy financing. Integrated Reporting is also required as a necessary but not

---

<sup>1</sup>[http://www.google.com.au/url?sa=t&rct=j&q=world%20energy%20investment%20outlook%202008&source=web&cd=2&cad=rja&ved=0CDsQFjAB&url=http%3A%2F%2Fwww.worldenergyoutlook.org%2Fmedia%2Fweowebsite%2F2008-1994%2Fweo2003.pdf&ei=z2fOUPi0KKbUyQGO\\_ICQBw&usq=AFQjCNH\\_Za5Zz9DkyuSqOsdTbB\\_fDOvDYA&bvm=bv.1355325884,d.aWc](http://www.google.com.au/url?sa=t&rct=j&q=world%20energy%20investment%20outlook%202008&source=web&cd=2&cad=rja&ved=0CDsQFjAB&url=http%3A%2F%2Fwww.worldenergyoutlook.org%2Fmedia%2Fweowebsite%2F2008-1994%2Fweo2003.pdf&ei=z2fOUPi0KKbUyQGO_ICQBw&usq=AFQjCNH_Za5Zz9DkyuSqOsdTbB_fDOvDYA&bvm=bv.1355325884,d.aWc)

<sup>2</sup> The first call for Integrated Reporting in relation to energy financing was made at the Sydney World Energy Congress in 2004. The congress conclusion included under 'A larger share of global infrastructure investment must be devoted to energy', 'Regulatory frameworks must recognise this and provide stability and transparency to attract the necessary investment in a timely manner.' This congress was held well before the IIRC was formed and the Integrated Reporting Framework developed, and so the conclusion is in generic terms. This was in response to a paper delivered by Michael Bray of KPMG.

<sup>3</sup> <http://www.worldenergyoutlook.org/>

<sup>4</sup> Refer to the Australian Energy Policy Institute's recent commentary on the Australian Government's Energy White Paper, 'Searching for Realistic Pathways in a New Energy World – An Initial Commentary on the Australian Energy White Paper', by Robert Pritchard, November 2012. [http://www.energyalliance.com.au/images/EPIA\\_EWP\\_commentary\\_Nov\\_2012.pdf](http://www.energyalliance.com.au/images/EPIA_EWP_commentary_Nov_2012.pdf)

sufficient condition for delivering the funding for the required investment. It will provide business, CEOs in particular, with a better tool to tell their 'business story' to their capital providers, and will enable governments to assist business in fulfilling 'their part of the deal' in delivering energy policy.

The body of this paper has covered the business benefits of Integrated Reporting generally – a better basis for capital allocation, significant reporting cost reduction, cutting clutter and business performance improvement. The purpose of this section has been to demonstrate an industry sector case study of the capital allocation benefits from Integrated Reporting – for delivering energy investment.

Energy policies are under review throughout the region. The Australian government recently released its final Energy White Paper. Broadly, it notes that Australia's share of the US\$30 trillion to 2030 is about US\$530 billion, representing US\$240 billion for domestic energy and US\$290 billion for energy resource development. The US\$290 billion is possibly more important to APEC member economies generally as much of the energy resources developed (eg coal, gas, uranium) will be exported from Australia to other APEC member economies.

At the highest level, it is often said that 'good' projects will always get the finance they need'. However, not all of the projects necessary for delivering energy policy objectives are 'good' in the eyes of those providing the capital. Also whether a project is 'good' will not always be obvious to the providers of capital given the limitations of traditional corporate reporting practices, including both financial and sustainability reporting.

The energy financing issue in Australia is stark<sup>5</sup>. The investment requirement is large, and there are significant questions about how the required long term financing required can be achieved:

- The white paper makes it clear that the Australian government will not be providing much of the finance.
- The major trading banks will not be able to provide as much as previously might have been hoped because of Basle III. Pension fund trustees have been reluctant to invest in long term energy projects.
- Australia does not have a well-developed \$A corporate bond market; we don't have 'super majors' or 'regional giants' in energy as we do in mining (eg BHP Billiton and Rio Tinto) and oil & gas (eg Exxon, Chevron or Petronas) which can finance major projects from retained earnings.
- Finally, there is still a lack of clarity in Australia to some extent about inbound foreign investment.

The energy financing challenge exists with some difference in all APEC member economies. Australia and APEC generally needs energy financing innovation supported by Integrated Reporting. The IIRC needs APEC to deliver its global ambitions. Together, this is a win/win proposition.

While Australian energy policy has now been defined at the federal level, federal energy policy is not fully consistent with other federal policies, nor is it aligned with the energy policies of the Australian states. More importantly from the perspective of APEC member economies. Australian federal energy policy has not been fully set in the context of the energy policy of Australia's major trading partners, which are important to the US\$290 billion component of Australia's energy investment requirement. We need greater certainty in the investment

---

<sup>5</sup> Refer KPMG's August 2012 publication, 'Australia's Energy Challenge: Creating the right investment environment', in particular pages 14-16. <http://www.kpmg.com/AU/en/IssuesAndInsights/ArticlesPublications/Pages/australia-energy-challenge.aspx>

environment and alignment in energy policy at all levels, including in relation to financing. For instance, Australia may need an ‘apply or explain’ Corporate Governance Principle for Integrated Reporting like that in place in South Africa through the Johannesburg Stock Exchange.

### **A Focus on Energy - An Imperative for Today for All of ABAC, APEC and The IIRC**

The energy sector is well represented globally in the IIRC’s pilot programme. However, that representation is not replicated in APEC member economies, including Australia<sup>6</sup>. The IIRC’s plans to double the number of pilot participants in coming months were outlined earlier in this paper. We recommend that ABAC members:

- support the IIRC in winning further pilots, particularly from the energy sector, in their economies;
- advocate Integrated Reporting to their Finance Ministers, Energy Ministers and business leaders, making a case for market-based implementation solutions rather than legislative or regulatory mandates; and
- focus discussions with Finance Ministers on making it easy for those implementing Integrated Reporting in both the private and public sectors to do so, removing or dealing the blockages and challenges (eg directors liability in Australia).

A focus on energy financing has not to date been a major feature of the IIRC’s Investor Network. We also encourage ABAC members to encourage major banks and other financial institutions in their economies to become part of the IIRC’s Investor Network, and to engage with the IIRC as it pursues outreach activities in their economies. Outreach support could involve forming a group such as the Australian Business Reporting Leaders Forum<sup>7</sup>, establishing the Integrated Reporting business case in their own economies, and connecting such a forum with the IIRC.

We also recommend that ABAC members discuss Integrated Reporting, including in relation to energy financing, with their Finance Ministers in relation to the IIRC’s aim for G20 support in 2013 and 2014.

---

<sup>6</sup> Ibid, page 17

<sup>7</sup> <http://www.ske.org.au/BRLF.php>

# APEC BUSINESS ADVISORY COUNCIL

Prepared for ABAC Finance and Economics Working Group (FEWG)

Manila, Philippines

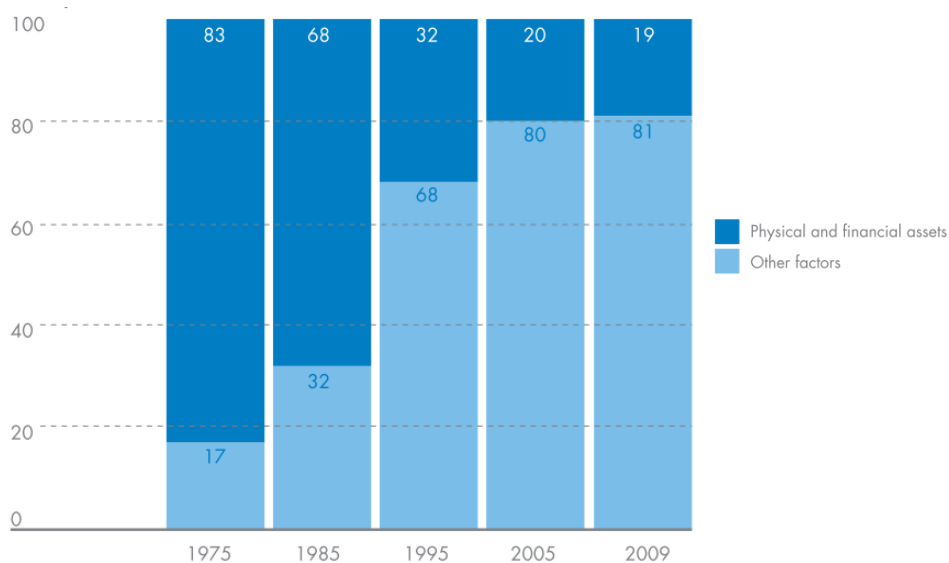
20-23 January 2013

## INTEGRATED REPORTING <IR>

### UNDERPINNING FINANCIAL STABILITY AND SUSTAINABLE ECONOMIC GROWTH

Paul Druckman, Chief Executive  
International Integrated Reporting Council (IIRC)

COMPONENTS OF S&P 500 MARKET VALUE



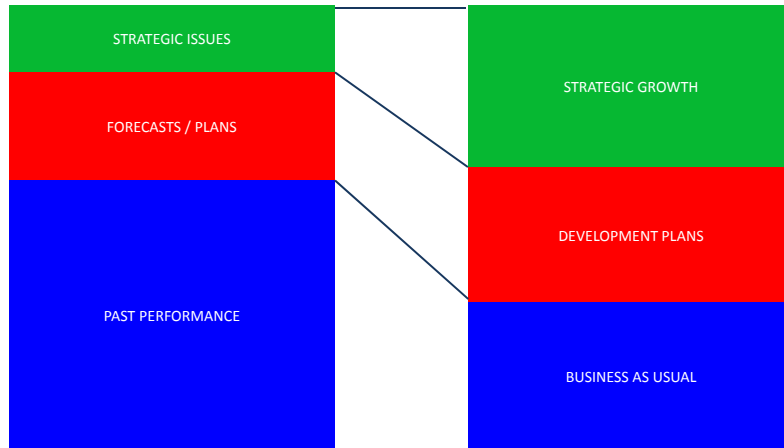
INTEGRATED REPORTING <IR>

## THE REPORTING MISMATCH

An illustration for a typical business:

Reporting content

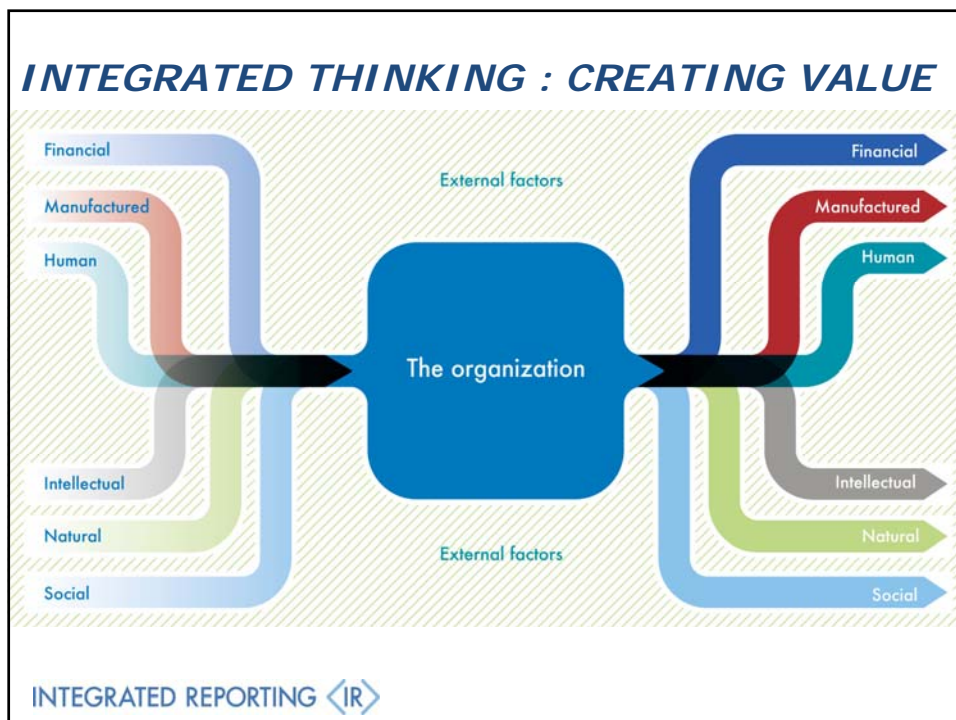
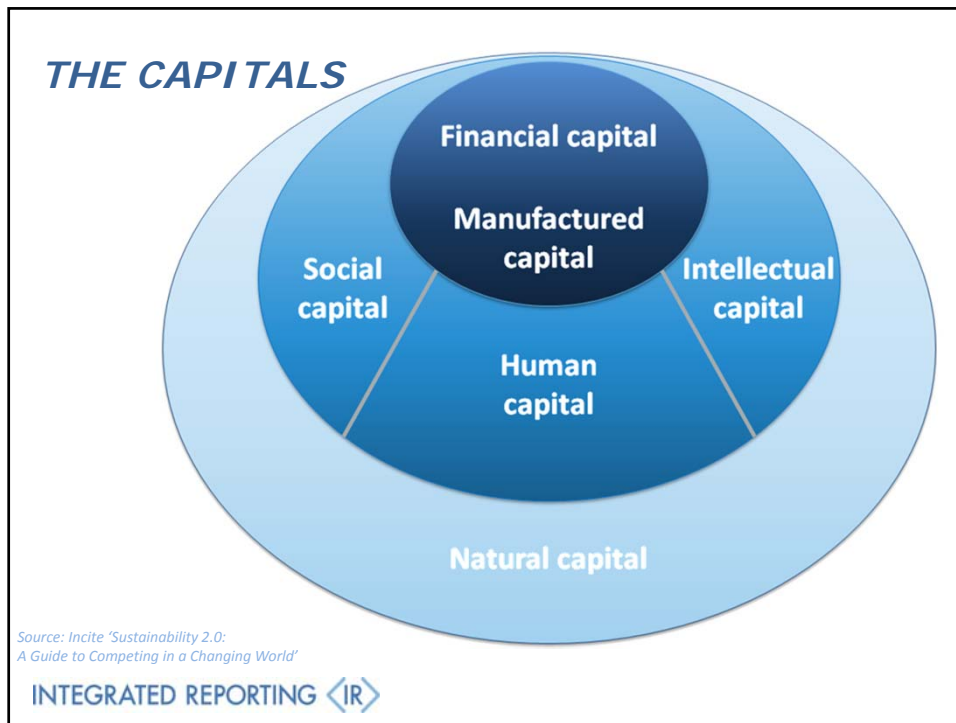
Business value



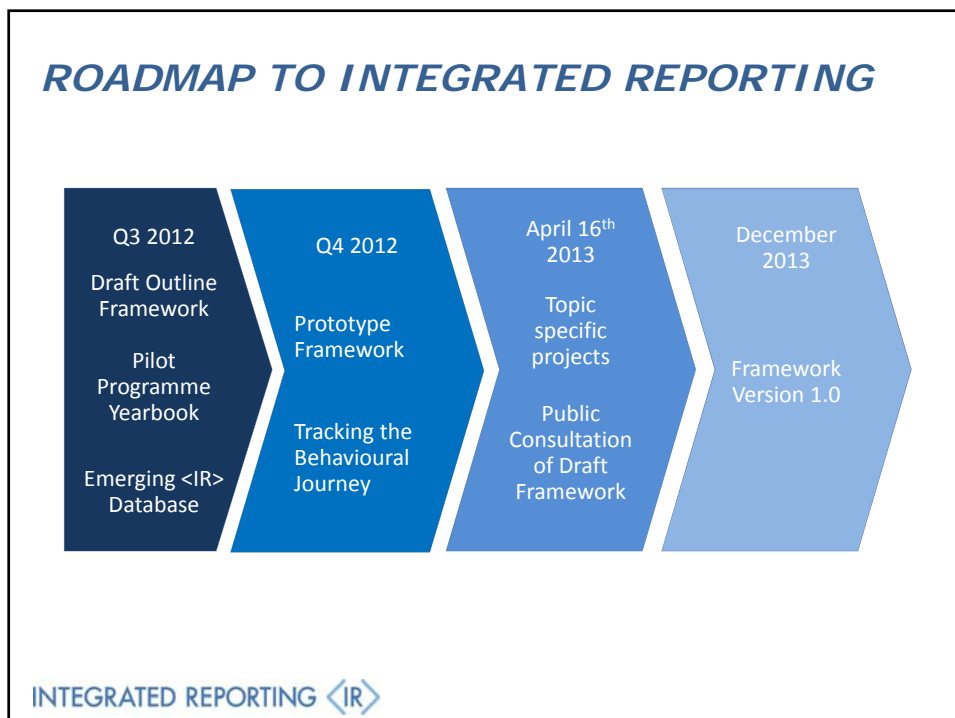
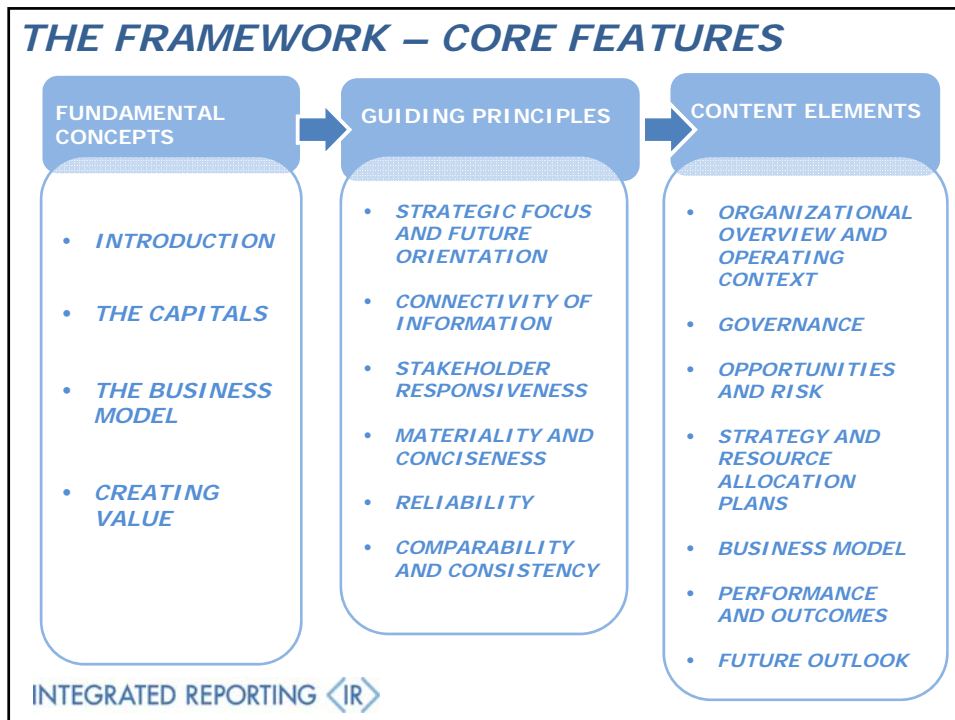
INTEGRATED REPORTING <IR>

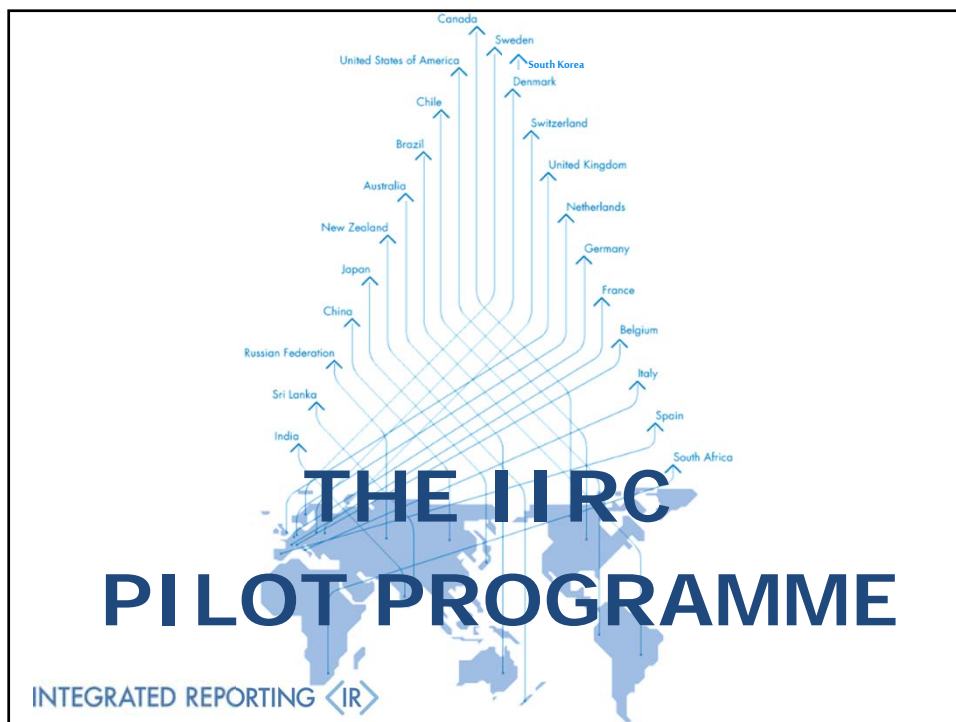
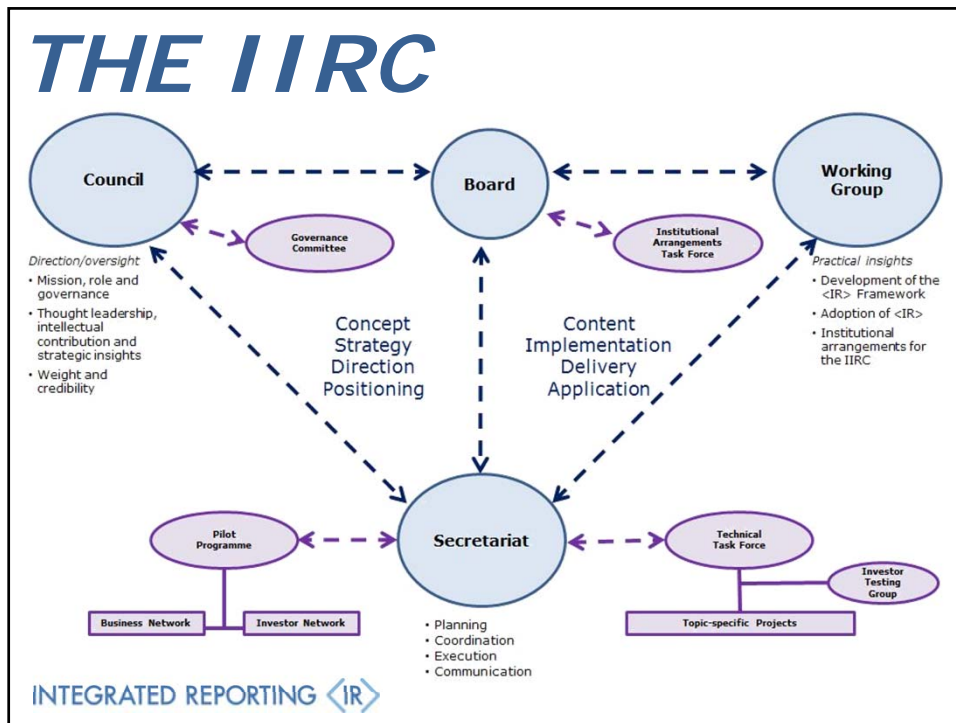


INTEGRATED REPORTING <IR>









**CURRENT IIRC RESOURCES:**



**Understanding transformation**  
BUILDING THE BUSINESS CASE FOR INTEGRATED REPORTING



**IIRC Pilot Programme Yearbook**

**Behavioural Change Report**

**Prototype of the International <IR> Framework**

**Emerging <IR> Database**

INTEGRATED REPORTING <IR>

**ENERGY CASE STUDY:**

**FINANCING ENERGY NEEDS IN APEC ECONOMIES**



INTEGRATED REPORTING <IR>

**THE IIRC ASKS YOU TO...**

**APEC** <IR>

**IIRC PILOT PRO**

**CORPORATE REPORTING LABORATORIES**

**Bank** Invest (in-vest)

**INTEGRATED REPORTING <IR>**

**INTERNATIONAL INTEGRATED REPORTING COUNCIL**

**IIRC**

[www.theiirc.org](http://www.theiirc.org)  
[info@theiirc.org](mailto:info@theiirc.org)

**INTEGRATED REPORTING <IR>**

## Meeting Document Summary Sheet

**Document Title:**

Advisory Group on APEC Financial System Capacity Building: Proposed 2013 Work Program

**Purpose:**

For consideration.

**Issue:**

Proposed 2013 Work Program of the Advisory Group

**Background:**

The Advisory Group was established in 2003, at a meeting jointly organized by the APEC Business Advisory Council (ABAC) and the Pacific Economic Cooperation Council (PECC). It was created with three major goals in mind: (a) to harness expertise in international public and private sector institutions in collaborating with the APEC Finance Ministers to develop capacity-building programs for the region's financial systems; (b) to promote public-private sector collaboration in capacity-building efforts; and (c) to ensure greater synergy among ongoing capacity-building activities and facilitate identification of capacity-building gaps through exchange of information.

**Proposal / Recommendations:**

The draft work program contains proposals on: (a) objectives; (b) activities; (c) meetings in 2013; and (d) deliverables. It proposes work to be done by the Advisory Group in 2013 in the following areas:

- (1) Asia-Pacific Financial Forum
- (2) Asia-Pacific Infrastructure Partnership
- (3) Asia-Pacific Financial Inclusion Forum
- (4) Legal Architecture to Facilitate Finance
- (5) Venture Capital Finance
- (6) Promoting a Robust Credit Rating Industry for the Development and Regional Integration of Local Currency Bond Markets

The draft work program also foresees that the 2013 Advisory Group Report will, as in previous years, be also incorporated as an Annex to the 2013 ABAC Report to Finance Ministers, after its endorsement by FEWG during ABAC III.

**Decision Points:**

Endorse the proposed draft program.

# THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

## PROPOSED 2013 WORK PROGRAM

*Draft as of 18 December 2012*

### BACKGROUND

The Advisory Group on APEC Financial System Capacity Building was established at the time of the APEC Finance Ministers' Meeting in Phuket, Thailand in 2003, at a meeting jointly organized by the APEC Business Advisory Council (ABAC) and the Pacific Economic Cooperation Council (PECC). The Advisory Group was created with three major goals in mind: (a) to harness expertise in international public and private sector institutions in collaborating with the APEC Finance Ministers to develop capacity-building programs for the region's financial systems; (b) to promote public-private sector collaboration in capacity-building efforts; and (c) to ensure greater synergy among ongoing capacity-building activities and facilitate identification of capacity-building gaps through exchange of information.

### OBJECTIVES OF THE 2013 WORK PROGRAM

Following are the objectives of the 2013 Work Program of the Advisory Group:

- To develop specific proposals on capacity-building that can be endorsed to the APEC Finance Ministers, particularly in areas where public-private partnership would be helpful.
- To advance capacity-building efforts through public-private sector dialogues in key areas of the Advisory Group's work.
- To collaborate with relevant APEC fora and participating organizations in successfully undertaking activities, particularly with respect to the implementation of Advisory Group recommendations.

### ACTIVITIES IN 2013

#### A. ADVISORY GROUP PROJECTS

##### 1. Asia-Pacific Financial Forum

In November 2011, APEC Finance Ministers in Honolulu pledged to take coordinated action to strengthen global recovery, reinforce financial stability, maintain open markets and build a foundation for strong, sustainable and balanced growth. Ministers welcomed the Advisory Group's recommendation adopted by ABAC on improving collaboration among financial regulators to help promote regional financial market integration and enhanced efficiency in capital markets.

Taking up that challenge, the Advisory Group convened a forum in March 2012 in Melbourne, Australia, attended by senior representatives from financial authorities, the region's financial industry and key international bodies. The issues identified in the Forum suggested that the region would greatly benefit from an overarching framework for enhanced regional public-private collaboration that can effectively complement various ongoing regional initiatives to help the region develop sound, efficient and integrated financial markets.

This collaborative framework, named the Asia-Pacific Financial Forum (APFF) is envisioned to be a platform for public-private sector collaboration in:

- the development of robust financial markets across the region; the convergence of financial standards, regulations and practices; and connectivity for facilitating cross-border financial flows, to create dynamic and integrated financial markets that will support the region's sustained rapid growth; and
- shaping global financial regulatory reforms in support of the region's financial development goals, through coordination of views on agreed areas of common regional concern and ensuring that these concerns are adequately reflected in global financial standards and regulations.

The Advisory Group and ABAC proposed the establishment of the APFF to APEC Finance Ministers. In response, the Ministers in their 2012 Joint Statement expressed support for the holding of a symposium in early 2013 to explore its creation. The Australian Government committed to host the symposium, which will be held on 10-11 April 2013. The symposium will seek to develop concrete ideas on the structure, participation and future activities of the Forum, and how these activities can be coordinated with other ongoing regional initiatives. The outcomes of the symposium will serve as the basis for the way forward to be discussed with ABAC at the Finance Ministers' Meeting in Bali in September 2013.

## **2. Asia-Pacific Infrastructure Partnership**

In 2010, the Advisory Group and ABAC proposed the Asia-Pacific Infrastructure Partnership (APIP) as a regional platform for governments and the private sector, with the support of relevant international institutions, to frankly and objectively discuss and consider complex matters facing each economy. The APIP seeks to involve key ministers and officials engaged in infrastructure PPP, private sector experts, and MDBs and ECAs, and utilize the Advisory Group's and ABAC's network of senior private sector experts from a wide range of fields relevant to infrastructure PPP as members of a private sector advisory panel. Coordination is undertaken by the Advisory Group.

In 2011, the Advisory Group undertook activities to demonstrate the effectiveness of this model. Activities included (a) APIP dialogues with the governments of Mexico, Peru and the Philippines, and (b) a forum in Honolulu with APEC Deputy Finance Ministers to discuss the outcomes of the dialogues and the way forward for APIP. The APEC Finance Ministers endorsed the APIP at their meeting in Honolulu. In 2012, APIP dialogues were held with the governments of Vietnam in July and Indonesia in October. As a follow-up to the outcomes of the 2011 dialogues, ABAC funded 5 studies on issues identified by governments as topics where they would welcome additional advice.<sup>1</sup>

APIP plans to focus on the following in 2013:

- **Dialogues with interested economies.** A follow-up dialogue with the Philippines and a dialogue with Thailand have been scheduled to take place on 23 January and 22 February, respectively. Discussions will also be held with other interested economies to undertake dialogues in their respective capitals with the APIP private sector panel in collaboration with multilateral institutions (ADB, IDB, IFC and WB).

---

<sup>1</sup> These were: (a) comparative study of legal frameworks to protect the long-term interests of pension funds investing in PPPs; (b) comparative study of contractual clauses to provide for the smooth adjustment of physical infrastructure and services through the lifecycle of a PPP project; (c) best practice in design of PPPs for social infrastructure, particularly in health care and education. (d) comparative study of best practice taxation measures to support PPPs and (e) ways to evaluate externalities of PPPs.

- **Follow-up on the outcomes of the 2012 and 2013 dialogues.** APIP will discuss with allied institutions how capacity building activities and studies can be developed to address issues raised during the dialogues with Vietnam and Indonesia in 2012 and with the Philippines, Thailand and other interested economies in 2013.
- **Collaboration with the APEC Finance Ministers' Process.** Depending on needs, APIP plans to collaborate with APEC finance ministries, and particularly with the Ministry of Finance of the Republic of Indonesia in its capacity as APEC FMM Chair, on the development of specific initiatives under the APEC FMP.

### **3. 2013 Asia-Pacific Financial Inclusion Forum**

The first APEC Financial Inclusion Forum convened by the Advisory Group and ABAC in May 2010 focused on how to provide enabling environments to extend the reach of microfinance, improve its commercial viability, and increase private investment in MFIs. In their *Kyoto Report on Growth Strategy and Finance*, APEC Finance Ministers welcomed the outcomes of this Forum and ABAC's initiative to set up subsequent discussions.

The 2<sup>nd</sup> Asia-Pacific Financial Inclusion Forum, with the theme of *Expanding the Frontiers of Microfinance through Regional Public-Private Cooperation*, focused on new channels to serve the financial needs of the unbanked, and how APEC can harness regional public-private cooperation to promote the sustainability and expansion of undertakings using these new channels. It was hosted by ADB Institute in Tokyo on 6-8 September 2011.

The 3<sup>rd</sup> Forum was convened in partnership with ADB Institute (ADBI) and the Asia-Pacific Finance and Development Center (AFDC) in Shanghai, People's Republic of China, on 25-27 June. Building on the conclusions of the 2011 Forum, it dealt with the common basic elements of an enabling environment to promote financial inclusion - financial literacy, financial identity, proportionality of regulations and consumer protection. In addition, further discussions on linking microfinance to remittances were undertaken.

The 2013 Forum will be held in Indonesia (date and venue to be confirmed) in collaboration with the Indonesian Government and ADB Institute. Theme and topics will be identified to further build on the results of previous Forums and to contribute to the work of the APEC Finance Ministers.

### **4. Legal Architecture to Facilitate Finance**

Providing attractive environments for lenders and investors requires well-defined legal systems with effective enforcement mechanisms. Such systems provide a highly predictable environment that reduces non-commercial risks faced by lenders and investors and leads to lower financing costs. An important area where reforms can have a major impact on finance is commercial law, which sets the rules governing various stages of the relationship between lenders and investors, on one hand, and borrowers, on the other.

The region's emerging markets stand to greatly benefit from such reforms, particularly in the areas of secured lending and insolvency regimes, which form a single integrated body of law representing the backbone of modern commercial legal systems. The Advisory Group has undertaken work on these issues in recent years, including the formulation of specific recommendations in the areas of secured lending and cross-border insolvency administration and the development of regional guidelines and model agreement for informal workouts.

This year, the Advisory Group will seek to build on and update this previous work and develop concrete and practical recommendations to APEC Leaders, Ministers, Senior Finance Officials and Senior Officials for consideration, adoption and implementation. For this purpose, the Advisory Group will organize a workshop during the ABAC meeting in Kyoto. This workshop will look at the role of APEC in facilitating finance through legal



architecture reforms, particularly with respect to the development of model elements for a code of security interest creation, perfection and enforcement and model treatment of floating charges and accounts receivable financing, as well as an updated regional framework for informal workouts.

## **5. Venture Capital Finance**

In 2012, the Advisory Group initiated work to develop ideas on promoting venture capital finance to spur innovation in the region's emerging economies. A workshop was held in Kuala Lumpur on 21 May 2012, involving experts, investors, fund managers and venture managers to discuss how the policy and regulatory environment affects the development of venture capital in APEC emerging markets and how this might be enhanced. This workshop enabled the Advisory Group to identify several crucial roles that governments can play in promoting a dynamic ecosystem for financing innovation:

- catalyzing angel and venture capital through support programs;
- providing an enabling legal and regulatory environment that will encourage the flow of more private sector resources into venture capital; and
- creating, maintaining and enhancing the fundamental conditions that encourage entrepreneurship and innovation.

In 2013, the Advisory Group will undertake further discussions and activities to build on these outcomes and develop concrete recommendations to Finance Ministers and Leaders.

## **6. Promoting a Robust Credit Rating Industry for the Development and Regional Integration of Local Currency Bond Markets**

Among the previous work done by ABAC and the Advisory Group in the field of finance, the work on credit ratings has been one of the most fruitful. It has resulted in the establishment of the Association of Credit Rating Agencies in Asia (ACRAA), which has successfully gathered together most of the region's domestic credit rating agencies (CRAs) and undertaken much work in collaboration with the ADB to develop best practices, promote convergence of rating practices, and upgrade rating knowledge and skills among its members.

In 2013, the Advisory Group will review the progress achieved in the development of the credit rating industry in the region, particularly with respect to the role of CRAs in promoting the development and integration of the region's local currency bond markets, and identify further measures that need to be taken toward this end. Discussions to be held will draw upon current research and studies, including the ongoing work of the Institute for International Monetary Affairs on this issue.

## **B. 2013 REPORT ON FINANCIAL SYSTEM CAPACITY-BUILDING**

This report, which will be finalized in July 2013, will incorporate the results of the above-mentioned projects as well as of discussions during the meetings of the Advisory Group and present recommendations to APEC Finance Ministers on how to accelerate progress in the following areas: (a) development and integration of the region's financial markets; (b) infrastructure finance; (c) financial inclusion; (d) legal architecture to facilitate finance; (e) angel and venture capital finance; and (f) promoting a robust local currency credit rating industry.

### **MEETINGS IN 2013**

The Advisory Group will have its regular meetings on the following dates and venues:

- **Regular meeting (First): 22 January, Makati City, Philippines**

To finalize the work program; discuss the preparations for activities in 2013; undertake initial discussions of key issues under the work program; identify steps to develop work on these issues

until the next regular meeting; discuss the outcomes of the APIP dialogue with Indonesia and the preparations for the APIP dialogue with the Philippines and Thailand.

- **Regular meeting (Second): During the period 3-6 April, Singapore** (*exact date yet to be announced*)

To discuss the outcomes of the APIP Dialogues with the Philippines and Thailand and the preparations for the Sydney Asia-Pacific Financial Forum Symposium, the 2013 Asia-Pacific Financial Inclusion Forum and the Kyoto Workshop on Legal Architecture to Facilitate Finance; as well as ongoing studies on promoting a robust local currency credit rating industry.

- **Regular meeting (Third): During the period 8-11 July, Kyoto, Japan** (*exact date yet to be announced*)

To discuss the results of the Sydney Asia-Pacific Financial Forum Symposium, the 2013 Asia-Pacific Financial Inclusion Forum, the Kyoto Workshop on Legal Architecture to Facilitate Finance and any other dialogue or activity related to infrastructure finance; to finalize the report on completed activities and to finalize proposals on capacity-building to be forwarded to the APEC Finance Ministers.

- **Regular meeting (Fourth): During the period 2-5 October, Bali, Indonesia** (*exact date yet to be announced*)

To discuss the future agenda and arrangements for the Advisory Group.

## **DELIVERABLES**

The above activities are geared toward the following deliverables:

1. Successful completion of (a) the Sydney Asia-Pacific Financial Forum Symposium; (b) APIP Dialogues; (c) the 2013 Asia-Pacific Financial Inclusion Forum; and (d) the Kyoto Workshop on Legal Architecture to Facilitate Finance, as well as other related activities.
2. Complete reports on the conclusions of these activities (*those related to activities completed before the APEC Finance Ministers Meeting to be forwarded to the Finance Ministers beforehand – through ABAC as well as any other relevant channel*).
3. Endorsement of the Asia-Pacific Financial Forum and its activities.
4. Endorsement of the model elements for a code of security interest creation, perfection and enforcement and model treatment of floating charges and accounts receivable financing, as well as an updated regional framework for informal workouts.
5. 2013 Report on Financial System Capacity-Building in APEC (*to be submitted to the APEC Finance Ministers before their 2013 meeting – through ABAC as well as any other relevant channel*).

## Meeting Document Summary Sheet

<b>Document Title:</b> Regional Financial Integration
<b>Purpose:</b> For Consideration
<b>Issue:</b> Asia - Latin America Financial Cooperation / Integration
<b>Background:</b> <p>Intra-regional collaboration is one of the key issues for promoting trade among APEC economies as a main engine of growth. However, we need to consider the differences in levels of development between each of the sub-regions.</p> <p>Focusing on Asia-Latin America sub-regional collaboration.</p> <p>Trans-Pacific economic ties between Asia and Latin America have certainly been deepening recently. Trade between both sides has steadily increased, mainly in terms of commodity-for-manufactured goods. But compared with the economic ties between other sub regions, like North Asia-South Asia or Asia-North America, it is clear that the depth and width of collaboration and linkage of these two markets still need to be developed further, with respect to trade in goods and services, investment and capital and financial market transactions.</p> <p>ABAC is seeking to discuss how economic linkages between Asia and Latin America could contribute to economic growth in the APEC region.</p> <p>With this in mind, ABAC has invited specialists from the Inter-American Development Bank (“IDB”) to make a brief presentation on the following points ;</p> <ul style="list-style-type: none"><li>- Fact-finding<ul style="list-style-type: none"><li>- Current situation of trade and investment between Asia-Latin America</li><li>- Outlook</li></ul></li><li>- Scope for enhancing Asia-Latin America collaboration<ul style="list-style-type: none"><li>- Promoting regional economic and financial integration</li><li>- Financial support for South-South cooperation</li><li>- Future trade patterns / Going beyond conventional trade patterns</li><li>- Policy coordination between Asia and Latin America</li></ul></li></ul>
<b>Proposal / Recommendations:</b> <ul style="list-style-type: none"><li>• ABAC should discuss and consider effective steps to facilitate Asia - Latin America financial cooperation / integration in collaboration with IDB and ADB based on the report of various economic linkages between the sub regions.</li></ul>
<b>Decision Points:</b> <ul style="list-style-type: none"><li>• Endorse the recommendations outlined above.</li></ul>

<p><b>Document Title:</b> Continued Work on Implementation of IFRS</p>
<p><b>Purpose:</b> For consideration</p>
<p><b>Issue:</b></p> <p>The introduction of robust and common accounting standards such as IFRS has the potential to enhance development of capital markets in the APEC region, as well as to promote sustainable economic growth.</p>
<p><b>Background:</b></p> <p>As ABAC observed in its 2010, 2011, and 2012 Reports to APEC Economic Leaders, the Council believes the introduction of robust common accounting standards such as International Financial Reporting Standards (IFRS) has the potential to enhance further development of capital markets in the APEC region, as well as to promote sustainable economic growth. ABAC supports immediate introduction of IFRS into the region, but recommends standards be implemented in a way that does not impair APEC's overarching themes of Inclusive Growth.</p>
<p><b>Proposal /Recommendations:</b></p> <ul style="list-style-type: none"><li>• ABAC should draft a letter to the IASB/FASB Chairs supporting convergence to IFRS standards of reporting, encouraging a dialogue between business groups and IASB on ways that would align IFRS principles with the interests of SMEs and other business groups, and stressing a considered implementation by economies of IFRS that takes into account ways of satisfactorily dealing with the concerns of the SME sector, and of other business concerns. <b><i>(Letter to be drafted intersessionally)</i></b></li><li>• In an effort to enhance interaction between the public and private sector, ABAC should draft a letter to the Chair of the APEC Economic Committee (EC) requesting the support of the EC in coordinating a second IFRS Roundtable for wide-ranging discussion on the margins of the SOM II Economic Committee meetings in 2013. <b><i>(Letter to be drafted intersessionally)</i></b></li><li>• ABAC should continue to encourage a dialogue between business groups and IASB/FASB on ways that would align IFRS principles with the interests of SMMEs and other business groups that will be affected. Furthermore, adoption by economies of IFRS should take into account ways of satisfactorily dealing with the concerns raised by business groups.</li></ul>
<p><b>Decision Points:</b></p> <ul style="list-style-type: none"><li>• Endorse the recommendations outlined above.</li></ul>

## **Background: IFRS**

The introduction of robust and common accounting standards such as IFRS has the potential to enhance development of capital markets in the APEC region, as well as to promote sustainable economic growth. In ABAC's 2010, 2011, and 2012 *Report to APEC Economic Leaders*, ABAC expressed its strong support for adoption of IFRS throughout the APEC region, as part of APEC's goal of encouraging regulatory coherence and of promoting regional economic integration. However, ABAC has consistently voiced concerns that some of the newly-proposed accounting standards may result in potential negative business and economic impact. Though ABAC does not intend to critique the technical aspects of financial regulatory policy, it has a duty to underscore at a higher level that financial regulatory standards be implemented in a way that does not impair APEC's overarching themes of Inclusive Growth.

ABAC has noted that the improper implementation of IFRS in lease accounting will reduce the ability of businesses, particularly SMMs, to access funding, including in many APEC economies. ABAC is also concerned that IFRS for insurance contracts will subject insurance companies in the region to possible negative impacts including non-economic volatility in earnings and shareholder equity along with a lack of transparency in the reported results of insurance companies in the region. Finally, harmonized international standards for reporting revenue are in need of improvement, and as a result regulatory bodies are attempting to clarify principles for recognizing revenue from contracts with customers. However, ABAC is concerned that replacing all of the existing industry specific guidance with a single general principle will fail to address many unique, industry-specific matters and this is a significant step away from these rules. Comprehensive impact analyses must be conducted to assess how the implementation of IFRS will impact the financial services industry.

### **2011 ABAC Letters to the IASB/FASB**

As part of APEC's goal of encouraging regulatory coherence and promoting regional economic integration, ABAC wrote twice during 2011 to the Chairman of the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) conveying ABAC's strong support for adoption of IFRS throughout the APEC region. One letter was in reference to an exposure draft on lease finance and another on insurance contracts. At the time, ABAC noted that adoption of IFRS should be undertaken in a manner that minimizes the impact on real economic activities. In particular, ABAC identified that it would be concerned with any impact of implementation on the financing activities of SMEs, as this is a focus area for Inclusive Growth initiatives, one of the pillars of APEC's growth strategy. Importantly, due to comments from ABAC as well as over 800 other businesses and associations, the IASB and FASB decided to delay implementation of the draft exposure on lease financing in order to accommodate additional input from the private sector.

### **2012 ABAC-APEC EC Roundtable on IFRS**

ABAC and APEC senior officials organized the first dialogue on IFRS at SOM/EC on May 30, 2012 in Kazan, Russia. At the dialogue in Kazan, ABAC made three presentations on specific aspects of IFRS implementation: lease accounting, insurance contracts and revenue recognition.

While reiterating ABAC support for harmonized accounting standards, the presentations underscored the need for further consultations and deliberations on new standards. The first dialogue was productive and conveyed the common views to both APEC and ABAC through exchanging the aspects and comments on IFRS. The dialogue clarified the current situation and addressed challenges toward the adoption of IFRS.

### **Proposed 2013 Action Items**

- ABAC should draft a letter to the IASB/FASB Chairs supporting convergence to IFRS standards of reporting, encouraging a dialogue between business groups and IASB on ways that would align IFRS principles with the interests of SMEs and other business groups, and stressing a considered implementation by economies of IFRS that takes into account ways of satisfactorily dealing with the concerns of the SME sector, and of other business concerns. *(Letter to be drafted intersessionally)*
- In an effort to enhance interaction between the public and private sector, ABAC should draft a letter to the Chair of the APEC Economic Committee (EC) requesting the support of the EC in coordinating an IFRS Roundtable for wide-ranging discussion on the margins of the SOM II Economic Committee meeting. *(Letter to be drafted intersessionally)*
- ABAC should continue to encourage a dialogue between business groups and IASB/FASB on ways that would align IFRS principles with the interests of SMMEs and other business groups, such as insurance companies, that will be affected. Furthermore adoption by economies of IFRS should take into account ways of satisfactorily dealing with the concerns raised by business groups. The recently created Asia-Pacific Finance Forum (APFF) could be an ideal forum in which to achieve such a dialogue.

**Document Title:**

Dialogue and Partnership: Opportunities for Promoting Regional Data Flows:  
*Enhancing Integration and Efficiency in APEC Economies to Create a Seamless Commercial Environment*

**Purpose:**

For Information

**Issue:**

At the ABAC IV meeting in Vladivostok, Russia, ABAC convened a side meeting to discuss the issue of cross-border data flows. Following this meeting, ABAC Members recommended convening a roundtable on the margins of the ABAC I meeting in Manila and inviting subject experts from the private sector to discuss how businesses currently utilize cross-border data flows.

**Background:**

Technological advances have reduced infrastructure and IT costs for businesses and increased productivity, particularly SMMEs, enhancing their flexibility and improving their opportunities for growth. Despite the potential benefits of cross-border data flows, emerging technologies such as cloud computing have their risks. Concerns over data privacy, security, and sovereignty must be addressed in order for this new technology to flourish.

This dialogue will explore the opportunities for cross-border data flows, the role of data flows in commerce, and how the private sector utilizes new information technology such as cloud computing. It will also assess the security and privacy implications of enhanced cross-border data flows, and determine how to create a regulatory environment that supports the secure flow of data throughout the region.

**Proposal /Recommendations:**

For Information

**Decision Points:**

For Information

**Dialogue and Partnership on Promoting Regional Data Flows**  
*Enhancing Integration and Efficiency in APEC Economies to Create a Seamless Commercial Environment*

*January 21, 2013  
Manila, Philippines*

12:00 – 12:05

**Introduction and scene-setter**

Speaker: *Alex Parle, National Center for APEC (TBD)*

12:05 – 12:40

**Speakers 1/2 – What is the role of data flows in commerce: how does the private sector utilize cross-border data flows?**

Information technology has created a more competitive, efficient, and flexible commercial landscape. Speakers will discuss the benefits and challenges of cross-border data flows, and how remote computing technologies are reshaping the commercial landscape.

Speakers: *Denis Curran, Technology Head of Strategy & Innovation, National Australia Bank*  
*Tom Clark, Board Member, National Center for APEC, Vice President, Government Relations – Asia, General Electric*

12:40 – 1:00

**Q & A**

1:00 – 1:20

**What are the security and privacy implications of cross-border data flows?**

A regulatory environment that allows the private sector to move business-related data across borders will be an important determinant of the financial service industry's ability to grow over the next decade, and is a key element of the region's ability to remain globally competitive. Despite the potential benefits of cross-border data flows, emerging technologies such as cloud computing have implications such as security, ownership, and privacy. These issues must be addressed in order for this new technology to flourish. How can APEC balance these concerns with the need to encourage growth?

Speaker: *Mr. David Katz, Board Member, National Center for APEC, Head of Government Relations, North Asia, VISA Worldwide Pte Limited*

1:20 – 1:30

**Q & A**