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Background Paper for Finance Ministers – Public-Private Collaboration for Regional Financial Market Development: The Way Forward for the Asia-Pacific Financial Forum

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BACKGROUND PAPER FOR THE APEC FINANCE MINISTERS' WORKING LUNCH WITH ABAC

Public-Private Collaboration for Regional Financial Market Development The Way Forward for the Asia-Pacific Financial Forum (APFF)

Our region today faces new realities that require a larger role for domestic and regional demand to sustain stronger, balanced and inclusive growth. This transformation of our economic growth model requires significant increases in domestic consumption supported by robust investment. It requires efforts to address poverty, environmental issues and the economic impact of aging, building infrastructure and facilitating competitiveness, innovation and growth of small enterprises.

Financial markets and services are critical to this transformation. Our region needs deep and liquid capital markets, institutions that provide long-term finance and expanded access of households and enterprises to financial services, supported by sound and efficient legal and regulatory frameworks and good governance. Regional financial integration has an important role to play in achieving these objectives.

Following the Asian crisis, the region's public sector initiated various undertakings in this direction, which have yielded concrete results and helped our economies weather the impact of the Global Financial Crisis. These undertakings constitute the foundations and building blocks of a more robust, efficient and integrated Asia-Pacific financial architecture. Accelerating its development in response to our region's pressing needs, however, requires closer public-private sector collaboration.

At their 2013 meeting, APEC Finance Ministers welcomed ABAC's proposal to create an Asia-Pacific Financial Forum (APFF) as a regional platform for such collaboration. This year, ABAC submitted an Interim Report recommending concrete undertakings across the broad financial sector that can yield tangible results within two or three years. This report drew from discussions undertaken by more than 270 senior representatives and experts from 137 major private and public institutions.

These proposed undertakings, encapsulated in 12 action plans, are clustered around two major issues: (a) the development of deep, liquid and integrated capital markets and the region's long-term investor base; and (b) expanded access of enterprises and individuals to financial services.

Promoting capital market depth and liquidity and long-term investment. This benefits the region in a number of ways, including greater financial system diversity and stability, improved availability and lower costs of financing, more efficient intermediation of the region's savings into investments, greater capacity to finance infrastructure development, growth of the region's financial services sector and better investment opportunities to finance future needs, especially of rapidly aging societies. To promote this, the APFF Interim Report proposes action plans with the following objectives:

- Facilitating cross-border portfolio investment through (a) an ***enabling Asia-Pacific securities investment ecosystem*** consisting of market practices, standards and platforms that can selectively harmonize market access and repatriation practices, improve inter-operability, liquidity and connectivity of domestic and cross-border financial markets and reduce systemic risks in the context of today's shorter settlement cycles; (b) expanding private sector ***support for the successful launch of the Asia Region Funds Passport***; and (c) helping jurisdictions ***improve availability of information needed by capital market investors***, using self-assessment templates covering disclosure, bond market data and investor rights in insolvency.
- Increasing capital market liquidity by improving access to hedging and risk management instruments through: (a) addressing impediments in legal architectures, market infrastructure, conventions and industry practices as well as liquidity, currency, repatriation, tax and market access issues related to the ***development of classic repo markets***; and (b) ***development of the legal infrastructure for OTC derivatives markets***, particularly those for netting, protection of collateral interests and margining of non-cleared derivatives.
- Developing the long-term institutional investor base through (a) enhanced regulators' understanding of ***regulatory and accounting issues' impact on insurers' incentives to do long-term business***

and of longevity solutions for management of retirement savings; and (b) **identifying market and operational issues** that constrain insurers' and pension funds' investment in long-term assets, including infrastructure.

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

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

A related initiative being developed by ABAC is a review of **policy and regulatory reforms needed to support the growth of innovative financing mechanisms** such as microfinance, angel and seed investments, internet trade financing, venture capital, crowd funding and junior/venture exchanges. Based on the *APEC Framework for Innovative SMME Financing Mechanisms* report, this seeks to address especially the needs of enterprises in the initial stages of their life cycle, where innovative and alternative mechanisms offer more suitable financing avenues than traditional bank financing.

Complementing action plans geared toward these objectives is a program of **broader discussions on linkages and structural issues**, including future directions for financial regulation, the interplay between cross-border investment in financial services and connectivity of financial markets, and understanding macroeconomic imbalances and systemic risk, which are critical for policy makers and regulators as they respond to the region's changing needs and financial landscape.

In pursuit of the above objectives, a large number of major financial industry firms and associations, as well as multilateral organizations, academic institutions and public sector bodies have committed to collaborate in undertaking pathfinder initiatives, dialogues and workshops under the Interim Report's 12 action plans.¹ This pooling of considerable talent and resources from both public and private sectors using the APFF platform provides an opportunity to achieve concrete progress in key areas that will help accelerate development of financial markets and complement ongoing public sector initiatives.

The success of these undertakings will depend on active participation and engagement of the public sector, in particular those responsible for adoption and introduction of relevant legal, policy and regulatory measures. We hope that APEC Finance Ministers will support this process by encouraging the public sector to collaborate closely with the private sector in the APFF.

The full APFF Interim Report can be downloaded from <https://www.abaconline.org/v4/download.php?ContentID=22611921>.

¹ These are: (1) a pathfinder initiative to develop credit information sharing systems; (2) a pathfinder initiative to improve the legal and institutional architecture for security interest creation, perfection and enforcement and related workshops; (3) dialogues on regulatory issues in trade and supply chain finance; (4) workshops on emerging facilitators of trade and supply chain finance; (5) a pathfinder initiative to develop classic repo markets; (6) workshops to develop strategies to improve legal and documentation infrastructure for the development of OTC derivatives markets; (7) self-assessment templates on information for capital market investors: development and workshop series; (8) ARFP Support Initiative; (9) workshop series to develop an enabling Asia-Pacific securities investment ecosystem; (10) dialogue series on regulation and accounting issues impacting the long-term business of the insurance industry in Asia-Pacific economies and longevity solutions; (11) collaboration with APEC Finance Ministers' Process in promoting long-term investment, including infrastructure; and (12) conference and workshop series on linkages and structural issues.