



30 August 2016

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

Dear Minister Thorne:

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

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

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

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

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

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

- *Increasing micro-insurance coverage in APEC.* We recommend that the Finance Ministers Process (FMP) undertake activities in 2017, in collaboration with APFF, to complete the roadmap for expanding micro-insurance coverage as envisaged under the CAP.
- *Developing effective disaster risk financing and insurance (DRFI) mechanisms.* This year, we created a network of industry experts in the APFF drawn from the insurance, re-insurance, catastrophe risk modelling and related sectors. To further advance the CAP, we recommend that the FMP convene a workshop in early 2017, in collaboration with APFF, to identify economies most in need and perils that need to be prioritized. This would be an initial step in promoting private disaster insurance schemes. We ask that the FMP complete the stocktaking on the availability of risk exposure data as a step toward the development of regional risk sharing measures. We also propose that finance officials be involved in the drafting of an APEC roadmap for DRFI, involving experts from the public and private sectors and multilateral institutions.
- *Developing a robust pipeline of bankable infrastructure projects.* We recommend that the FMP more closely integrate and coordinate its various infrastructure initiatives, using the Public-Private Partnership (PPP) Experts Advisory Panel as the coordinating center. We suggest expanding cooperation with the Global Infrastructure Hub, including early adoption by member economies of the Hub's online tools and resources, as well as their participation in the International Infrastructure Support System (IISS). We propose that economies hold further APIP dialogues in 2017, and that the FMP advance the CAP's initiative to promote urban infrastructure development in collaboration with the Urban Infrastructure Network (UIN).
- *Expanding the region's long-term investor base.* Long-term investors such as insurers and pension funds play critical roles in the development of capital markets, financing of infrastructure projects and providing financial security. With the progressive ageing of societies, their roles will become even more important going forward in channeling long-term liabilities into long-term assets that can provide adequate returns to meet future emergency and retirement needs. We propose that APEC economies expand the region's long-term investor base, by establishing mandatory retirement systems and introducing tax incentives to promote the retirement savings market. We propose that economies promote infrastructure investment as a defined asset class, and adopt regulatory standards that support development of the long-term investor base.
- *Mobilizing Islamic Finance for infrastructure investment.* Following suggestions we received at our dialogue with Finance Ministers in Cebu, ABAC collaborated with the governments of Brunei Darussalam and Malaysia to hold workshops focused on how to mobilize capital in Islamic institutions to fund infrastructure across the region. Based on the conclusions of these workshops, we recommend the establishment of an Islamic Infrastructure Investment Platform (I3P). This would be a pathfinder initiative to promote collaboration among public, private, international and academic experts in removing obstacles to cross-border infrastructure investment by Islamic financial institutions.
- *Deepening the region's emerging capital markets.* In collaboration with various partners, ABAC convened APFF workshops to help implement capital market initiatives under the CAP. APFF also completed an assessment of key tax metrics that assist regulators in better understanding the detailed tax implications of the Asia Region Funds Passport (ARFP). We recommend that Finance Ministers encourage more member economies to join the ARFP, undertake workshops with APFF on the development of classic repo and derivatives markets, and use the APFF self-assessment templates to improve the availability and quality of information for capital market investors. We propose accelerating the financial integration of capital

markets with greater access to companies and investors within the region. We also recommend that the FMP collaborate with APFF in convening a regional symposium in 2017 to develop a roadmap for improving the regional financial market infrastructure.

- *Facilitating innovation in financial market infrastructure.* The growing role of financial technology (Fintech) creates new opportunities to enhance the region's financial market infrastructure (FMI), but also introduces new risks. These FMIs are important in promoting cross-border operations of MSMEs. To facilitate innovation in the region's FMI, we recommend that Finance Ministers encourage policy makers and regulators to participate in APFF workshops on cybersecurity, Know-Your-Customer (KYC) rules and ePayments.
- *Harnessing financial technology (Fintech) to accelerate the development of financial markets.* To discuss how APEC could harness Fintech to build bigger, more robust and inclusive financial markets, ABAC convened two APFF Roundtables, one on each side of the Pacific. Based on the outcomes of those discussions, we recommend that Finance Ministers establish a regional platform to bring together stakeholders from the public and private sectors to identify, in close collaboration with each other, concrete ways to help member economies harness financial innovation to build stronger and more inclusive and integrated financial markets. These stakeholders should include representatives from the industry, public sector and major international organizations.
- *Improving valuation practices in APEC.* ABAC is collaborating with various stakeholders to enhance the quality of valuation practices and the profession across member economies. This year, an audit of the valuation industry in APEC's 21 member economies was completed and a template of best practices prepared. These outcomes were discussed in roundtables held in two economies. To improve the quality of regional valuation practices and the expertise of professionals, we recommend that Finance Ministers encourage member economies to host further roundtables with ABAC, the International Valuation Standards Council (IVSC), valuation professional organizations (VPOs), and experts from industry and relevant bodies.
- *Fostering continued dialogue and research on the future of financial regulation.* ABAC continues to promote research and discussions in APFF on the present conditions and future directions of financial markets and regulations. Various dialogues were convened under the APFF in 2016 to discuss these matters. We recommend that Finance Ministers encourage policy makers and regulators involved in the region's financial markets to participate in APFF dialogues on financial regulations.

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

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

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

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

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

Yours sincerely,



Juan Francisco Raffo
ABAC Chair 2016

Attachments: *2016 ABAC Report to APEC Finance Ministers*

<https://www2.abaconline.org/content/download/22613132>

Annex A: Asia Pacific Financial Forum (APFF) 2016 Progress Report to the APEC Finance Ministers

<https://www2.abaconline.org/content/download/22613163>

Annex B: Advisory Group on APEC Financial System Capacity Building 2016 Report on Capacity Building Measures to Strengthen and Develop Financial Systems

<https://www2.abaconline.org/content/download/22613183>