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Asia-Pacific Financial Forum's role and work on financial market infrastructure

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Executive Summary



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The Asia-Pacific Financial Forum (APFF), one of the main activity bodies that support the APEC Business Advisory Council's Finance & Economics Working Group, is promoting awareness and collaborative discussions between public and private sector across the region to better navigate the transformations of the future of our environment via six work streams. As one of the work streams, the APFF Financial Market Infrastructure Work Stream has formulated a roadmap on how to best develop financial market infrastructure in the Asia-Pacific region. The outcomes of the discussion will be beneficial for not only the emerging markets but also developed markets in Asia Pacific such as Australia, Japan, Hong Kong and Singapore since these markets have been responding to the global regulatory changes after the global financial crisis (GFC). Adding to the changes from GFC effects across the region, market participants have also started to re-expand their roles and markets are developing legal/regulatory frameworks to benefit from advanced technologies while mitigating various types of risks that can arise from the early stage of technological development.

NOTE

1) Asia-Pacific Economic Cooperation

2) They are the Regional Economic Integration WG, Sustainable Development WG, MSME & Entrepreneurship WG, Connectivity WG and Finance & Economics WG.

Asia-Pacific Financial Forum's role

APEC¹⁾ is an economic cooperation framework comprising 21 economies in the Asia-Pacific region. The next APEC Leaders' Meeting is scheduled in November in Vietnam, APEC's 2017 host country. APEC established the APEC Business Advisory Council (ABAC) in 1996 as its sole private advisory body, as a direct communication channel between the business community and APEC Leaders and Ministers. Each APEC member-country/region appoints up to three representatives to serve on ABAC. In addition to holding plenary meetings where ABAC-wide decisions are made, ABAC has five working groups²⁾ (WGs) to discuss and formulate recommendations in specific focus areas. ABAC meets four times annually in locations that rotate among APEC member-economies.

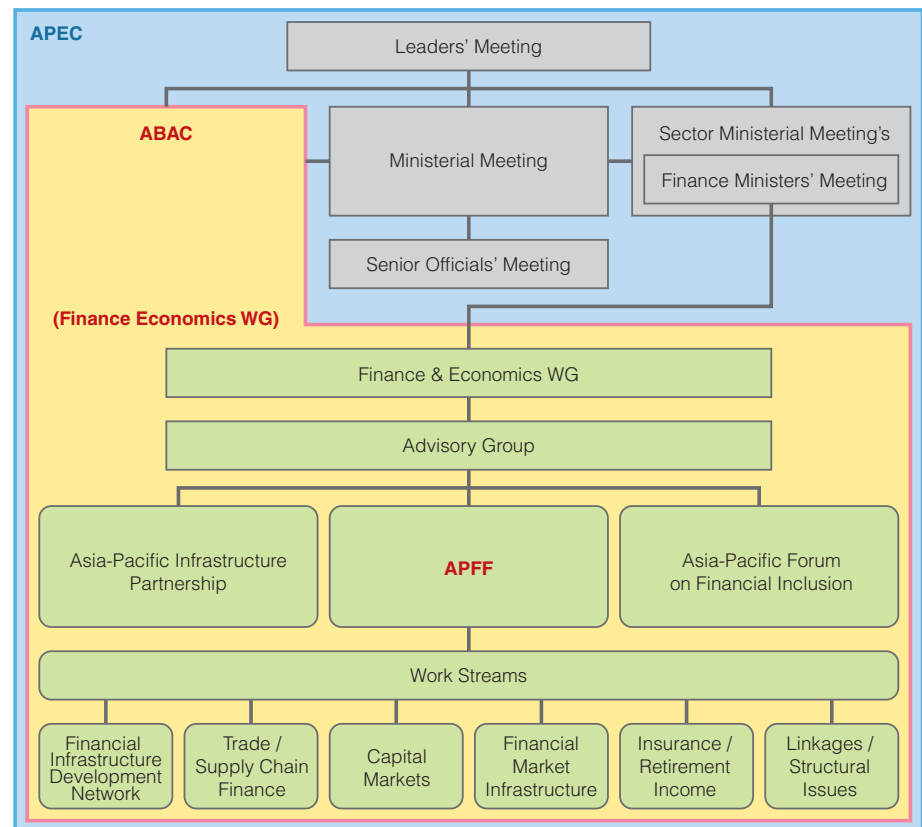
Of the WGs, the Finance & Economics WG (FEWG) conducts activities to contribute to pan-APEC themes from a finance and economic standpoint in the aim of "developing robust and inclusive financial markets." Its agenda includes (1) expanding Micro and Small Medium Enterprises' access to finance, (2) creating

deep, liquid and integrated capital markets, (3) expanding the region's long-term investor base, (4) fostering financially resilient communities to cope with natural disasters, (5) promoting financial inclusion, and (6) expanding Investment in Infrastructure. To pursue such activities FEWG has Asia-Pacific Financial Forum (APFF), Asia-Pacific Forum on Financial Inclusion and Asia-Pacific Infrastructure Partnership, all of which to be reported to APEC Finance Ministers' Meeting Process. The number of events held by these bodies exceeds 20 times a year, including workshops, roundtables, conferences and smaller meetings. It prepares recommendations and analyses by harnessing the combined wisdom of the public and private sectors under the umbrella of Asia-Pacific cooperation to support implementation of the Cebu Action Plan, a 10-year roadmap adopted by APEC finance ministers in 2015³⁾.

3) For more details on the FEWG, see ABAC's Reports to APEC Economic Leaders.

The aforementioned APFF, a public/private partnership proposed by ABAC in 2012 and launched in 2013, aims to accelerate the development of robust and integrated financial markets/services in the Asia-Pacific region. It has six work

Exhibit 1. ABAC (finance Economics Working Group) and APFF's position within APEC



Source: NRI

streams: (1) Financial Infrastructure Development Network, (2) Trade / Supply Chain Finance, (3) Capital Markets, (4) Financial Market Infrastructure, (5) Insurance / Retirement Income and (6) Linkages / Structural Issues. Through these work streams, the FEWG promotes public/private dialogue, shares knowledge and experience and conducts financial-system capacity building activities (Exhibit 1).

The author has been involved with ABAC as an ABAC member's staffer since 2016, and also served as a "Co-Sherpa"⁴⁾ in a wide range of APFF Financial Market Infrastructure Work Stream (FMI-WS) activities, including recruiting participants, managing two symposia, and drafting reports. Following is an overview of the FMI-WS agenda, the orientation of FMI-WS discussions and future steps.

4) Sherpa is a title used within APEC for persons who chair and coordinate bodies comprising members from diverse institutions/organizations and assist with reporting discussion outcomes to APEC finance ministers.

FMI-WS discussions

FMI-WS activities owe their inception to a Cebu Action Plan to formulate a comprehensive roadmap on how to best develop financial market infrastructure (FMI) in the Asia-Pacific region in light of FMI's globally growing importance since the 2007-08 global financial crisis⁵⁾. FMI-WS discussions⁶⁾ have involved participants from regulatory authorities and central banks in addition to experts⁷⁾ in the issues ranging from securities post-trade ecosystems to repo/securities lending, OTC derivatives, investment funds and FinTech/Disruptive technologies.

5) More specifically, the plan sought a roadmap with a range of options for economies where the development stages of each markets differ widely.

6) In addition to conference calls, the discussions took place at an April 2017 symposium in Seoul and July 2017 joint session in Manila. The symposium was held in conjunction with the 2nd ABAC Meeting with the support of the Federation of Korean Industries; the joint session was held with the support of the ASEAN+3 Bond Market Forum. In Seoul, where 60 participants engaged in lively discussions despite many of the participants' concerns about escalating military tensions on the Korean Peninsula, I keenly recognized ABAC and the APFF's importance as platforms for ongoing public/private dialogue by virtue of the track record and relationships of trust both organizations have cultivated.

7) Such experts include individuals from financial institutions, multinational institutions, international industry organizations, FMIs and information service providers.

One common theme across multiple work streams is promotion of portfolio investments in the region. Aside from foreign direct investment, portfolio investments via securities and funds amongst the APEC economies are yet small in scale. The capital accumulated in parallel with economic development is not recirculating sufficiently within the region. In addition, since the global financial crisis, centralized clearing of OTC derivative trades and their mandatory trade reporting have been instituted, primarily in the developed countries in the world, to strengthen systemic risk management. Know-your-customer (KYC) rules have likewise been strengthened. While such measures are crucial steps toward safer, fairer financial markets, their high costs pose concern that small end-users, financial institutions, and countries/regions may be left behind the economic growth.

In response to this concern, the FMI-WS has initiated discussions on upgrading overall interoperability among not only traditional FMI⁸⁾ such as clearinghouses and trade repositories but also financial institutions and other market participants in the broad financial ecosystem through regulatory harmonization and standardization

8) Traditional Financial Market Infrastructures (FMIs) encompass a variety of institutions and systems including payment systems that are systemically important, Central

Securities Depositories (CSDs), Securities Settlement Systems (SSSs), Central Counterparties (CCPs) and Trade Repositories (TRs). FMI are central to the clearing and settlement of transactions in the financial markets, the movement of money and securities, and centrally managing the counterparty risks around the world. Issues in Large Value Payment Systems (LVPS) are not included in this report since it could be discussed separately with the currency policy issues in the region. FMI are the pillars of financial market integrity. Since the global financial crisis (GFC) where FMI withstood the strains of extreme volatility and volume, the importance of FMI and the reinforcement of their robustness have risen to the fore of policy and regulatory considerations that is best represented by the CPMI-IOSCO Principles for FMI. In recent years, FMI are increasingly also taking on new roles as the global regulatory agenda promotes greater transparency of transactions and greater standardization of financial products among others. FMI continue to stand as a bulwark against market disruptions.

Exhibit 2. Subject matter of FMI-WS recommendations

1. FMI's role (macro recommendations)
<ul style="list-style-type: none"> • Harmonize the issuance rules and enhancing transparency of securities and tax rules; • Monitor the extraterritorial effects of developed economies' rules and consider ways to address this, especially in smaller economies. • Address the growing need for High Quality Liquid Asset collateral in the region. • Promote the interoperability among FMI and participants, and evaluate the effects of interconnectedness among markets
2. Process and financial products
<ul style="list-style-type: none"> ■ Securities markets: post-trade ecosystem <ul style="list-style-type: none"> • Assess and progress on the regional standardization of account opening documents like KYC/AML and tax reporting • Regulatory support of the use of 3rd party industry utilities to store, manage and make easy access of such standardized documents by relevant parties. ■ Nonresident accounts, taxation, investor identification & transparency <ul style="list-style-type: none"> • No need to change the way the local market is operating which could be (direct holding, omnibus or a mix of both) but the omnibus is the preferred option for cross-border flows to attract foreign investments to a local market. • Prefer no tax or a simple tax scheme • Define the right balance between transparency and market efficiency. ■ Repos & securities lending <ul style="list-style-type: none"> • Review the local practices if they adopt the international standard documentation such as the GMRA and GMSLA and undertake promotional initiatives if they do not, including reflecting some locality to be reflected in the standard contract document; e.g. in the form of annex, ■ Derivatives <ul style="list-style-type: none"> • Shared, public commitment to global convergence on harmonised reporting requirements • Greater regulatory endorsement of data standards and formats already in use • The removal of barriers to sharing information across trade repositories and borders • Increased availability of substituted compliance • Promotion of inter-operability and connectivity between trade repositories • Greater cross-border regulatory focus on global aggregation mechanisms ■ Fund services <ul style="list-style-type: none"> • Set highly standardized registration process for funds between passporting economies, • Support for the activities of Asian Fund Standardization Forum • Support for the development of fund platforms led by infrastructure providers.
3. Data management and technology
<ul style="list-style-type: none"> • Conducting a review of the current Digital ID and e-KYC initiatives being rolled out in several APEC member economies • Exploring whether there are inter-operability concerns that exist in the APEC e-Payments ecosystem and whether APFF can make recommendations on how to resolve those concerns • Creating a typology of cybersecurity risks in the fintech ecosystem • Experiment and contribute to the research and development exercise required to overcome the maturity challenge • Collaborate across markets to agree on harmonized domestic legal frameworks supporting the implementation of such new technologies and ensure cross-border regulatory certainty.

*Electronic means of know-your-customer compliance

Source: APFF "DEVELOPING ROADMAP for APEC'S FINANCIAL MARKET INFRASTRUCTURE"

of business practices. These discussions seek to further expand FMI's roles and support economic growth by reducing costs and facilitating financial and capital market trading activity inclusive of small-scale participants. The main topics of FMI-WS discussions and recommendations related thereto are listed in Exhibit 2.

FMI-WS recommendations were submitted to APEC finance ministers meeting process in July via ABAC, as an appendix to the 2017 APFF Progress Report to the APEC Finance Ministers and ABAC's annual report. They will be discussed at the finance ministers meeting process in October 2017. When endorsed, the recommendations will lead to greater cooperation with regulators and central banks in APEC member-economies and more dialogue, policy proposals and cross-sectoral activities by government officials and private-sector leaders interested in specific topics.

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