The 3rd Annual PECC Finance Conference

Institution-Building in a World of Free and Volatile Capital Flows: PECC Perspectives

Sheraton Santiago Hotel & Convention Center, Santiago, Chile
June 20-21, 2004

Session III
Assessing and Building Capacities for the Development of Bond Markets in the APEC Region

Developing Bond Markets In APEC

Moving Forward through Public-Private Sector Partnership

Julius Caesar Parreñas
Senior Advisor
Taiwan Institute of Economic Research

DEVELOPING BOND MARKETS IN APEC

MOVING FORWARD THROUGH PUBLIC-PRIVATE SECTOR PARTNERSHIP

Report of a Conference Jointly Organized by ABAC and PECC
May 10-11, Taipei
[*Preliminary Draft*]

Julius Caesar Parreñas and Kenneth Waller*

INTRODUCTION

In 2003, APEC identified the development of domestic and regional bond markets as a priority issue. This is a subject that ABAC and other regional financial sector bodies[1] have been advocating in the past several years. The newly established PECC Finance Forum has also included this in its work program. During the dialogue held by the APEC Finance Ministers with ABAC, PECC and the AFG in Phuket on 5 September, the Ministers singled out bond markets as a priority area for private sector input in 2004.

APEC began substantial work on the development of *domestic* bond markets in the wake of the Asian financial crisis. The APEC Finance Ministers compiled the *Compendium of Sound Practices: Guidelines to Facilitate the Development of Domestic Bond Markets in APEC Member Economies* and undertook initiatives in related areas such as credit rating practices, company accounting and financial reporting, and pension fund reform. Under the leadership of Thailand, the 2003 APEC Chair, the APEC Finance Ministers initiated work on the development of a *regional* bond market.

APEC's focus on the regional bond market in 2003 has been accompanied by parallel work in other regional groups. The ASEAN Plus Three grouping established six working groups[2] for officials to discuss measures in various key areas, with technical assistance from Japan[3] and the ADB. The Executives' Meeting of East Asia Pacific Central Banks (EMEAP)[4] launched a US$1 billion-

---

* Dr. Julius Caesar Parreñas is Senior Advisor to the Chairman and CEO, Chinatrust Financial Holding Co., Ltd. and Senior Advisor of the Taiwan Institute of Economic Research. Mr. Kenneth Waller is Group Economic Advisor to the Commonwealth Bank of Australia.

[1] Two such regional organizations are the Asian Bankers' Association (ABA) and the Association of Credit Rating Agencies in Asia (ACRAA). The ABA has been advocating the development of a regional bond market since 1999, as reflected in its position papers *A Call for Continued Strengthening and Development of Asian Financial Markets* (Issued at the end of the 16th General Meeting, 25-26 Nov. 1999, Singapore) and *Promoting the Development and Integration of Asian Bond Markets* (February 2000). ACRAA has as one of its objectives "to undertake activities aimed at promoting the development of Asia's bond markets and cross border investment throughout the region."

[2] These working groups deal with the following six issues: (1) creating new securitized debt instruments (chaired by Thailand); (2) credit guarantee mechanisms (chaired by Korea); (3) foreign exchange transactions and settlement issues (chaired by Malaysia); (4) issuance of bonds denominated in local currency by multilateral development banks, foreign government agencies and Asian multinational corporations (chaired by China); (5) local and regional rating agencies (co-chaired by Singapore and Japan); and (6) technical assistance coordination (co-chaired by Indonesia, the Philippines and Malaysia). Source: Department of Finance, Republic of the Philippines, *Chairman's Press Release on the Asian Bond Markets Initiative* (Manila, 7 August 2003).

[3] This is being undertaken through the Japan-ASEAN Financial Technical Assistance Fund.

[4] The eleven members of EMEAP are the central monetary authorities of Australia, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, and Thailand.

Asian Bond Fund (ABF) on 2 June 2003.[5] During its meeting on 20-21 June 2003, the 18 members of the Asia Cooperation Dialogue (ACD)[6] issued the *Chiang Mai Declaration on Asian Bond Market Development,* committing themselves to support and cooperate in promoting the Asian Bond Markets initiative.

The paramount intention behind these initiatives has been to ensure access to a stable supply of long-term funds in the region's currencies that will help economies avoid the maturity and currency mismatches that caused the Asian financial crisis.[7] In this light, efforts toward the long-term establishment of a regional bond market must go hand in hand with more immediate measures to accelerate the development of robust, deep and liquid domestic bond markets. The Asian Bond Markets Initiative and the ABF are small initial steps in the right direction, and much more remains to be done,[8] as governments recognize that private sector investors and issuers must eventually assume the lead role in the future.

In its 2003 report,[9] the ABAC Financial Stability Working Group noted the following:

> *If markets are to be conducive to the participation of private sector players from all economies and in a variety of roles, these have to be developed on sound principles and practices. It is also important for measures to reflect views from the private sector because of its crucial role in any deepening of the financial infrastructure in any APEC economy. APEC can play a valuable role in this process, through public-private sector cooperation to develop market infrastructure and the institutional investor base for bonds in the region and through participation of member economies in the ABF.*

In addition, PECC affirmed in its 2003 Brunei Declaration[10] that "economies in East Asia or elsewhere embarking on financial cooperation and capital market integration must base those initiatives on reform of domestic institutions and their alignment with global standards." PECC also stressed that "the economic

---

[5] To be managed by the Bank for International Settlements (BIS), this fund, launched on 2 June 2003, will be invested in a basket of US dollar denominated bonds of sovereign and quasi-sovereign issuers in developing member economies of the EMEAP.

[6] These are Bahrain, Bangladesh, Brunei Darussalam, Cambodia, China, India, Indonesia, Japan, Korea, Laos, Malaysia, Myanmar, Pakistan, the Philippines, Qatar, Singapore, Thailand, and Vietnam.

[7] Keynote Address by Mr. Takayoshi Taniguchi, Senior Vice Minister of Finance, Japan at the ASEAN+3 High-Level Seminar on Fostering Bond Markets in Asia, Tokyo, Japan, 1 March 2003.

[8] It is clear that the promoters of the ABF see it primarily as a catalyst for market development, and that a number of impediments need to be removed and the right conditions provided, before the ABF could play a wider role. See Thirachai Phuvanatnaranubala [Deputy Governor of the Bank of Thailand], *Asian Bond Fund,* Remark at the Euro 50 Group Roundtable, Tokyo, June 12 2003. Some financial experts have pointed out the limitations of the current version of the ABF in promoting a regional bond market. First, in using the US dollar, it does not address the issue of currency mismatch. Second, the idea of monetary authorities buying and holding the Asian bond fund would not promote the development of a secondary market. Third, strict regulation of eligible securities for foreign reserves of central banks (which contribute funds to the ABF) would limit the market size of bonds in which the Fund could invest. See Takatoshi Ito, *The ABC of Asian Bonds*, Paper presented at the Second Annual Conference of Pacific Economic Cooperation Council, Thailand, 8-9 July 2003 (http://www.pecc.org/finance/forum2003/Session3-Ito.pdf).

[9] ABAC Financial Stability Working Group, *Strengthening Financial Systems, Corporate Governance and Security: Priorities for APEC's Finance Agenda* (Paper for the APEC Finance Ministers' Meeting, 2003).

[10] Pacific Economic Cooperation Council, *The Brunei Declaration*, Bandar Seri Begawan, Brunei Darussalam, September 3, 2003.

and technical cooperation agenda, *based on strong public-private partnerships*, must remain a central part of regional integration because it is the key to greater transparency, building capacity and managing and facilitating change."

With the public sector in the region finally taking on a task that has been a major concern of ABAC, PECC and a number of private sector groups, it is an opportune time for these groups to help promote greater private sector involvement and catalyze public-private sector partnership in capacity-building to develop domestic and regional bond markets within APEC. By harnessing the expertise and extensive business sector and institutional networks of ABAC, PECC and allied private financial sector organizations, this conference was a significant step toward this goal.

The following were the objectives of the conference:

- To provide private sector inputs on how best to develop domestic and regional bond market infrastructure and the attendant policies to support bond markets within APEC economies, particularly through incorporation of the results of the conference in reports by ABAC and PECC to APEC Leaders and Finance Ministers.
- To identify crucial capacity-building requirements and measures most likely to help accelerate the growth of private sector investment and issuance in domestic and regional bond markets.
- To catalyze the formation of a private sector network involving ABAC, PECC, financial sector institutions and market players with interest in the development of capital markets that can work closely with the public sector in APEC toward the deepening and strengthening of domestic and regional bond markets.
- To generate wider awareness in the private sector of current efforts to develop bond markets in the region, prospects for the success of these efforts, opportunities arising from them, and challenges for enhanced public-private sector partnership in their pursuit.

The conference was divided into two parts:

- Part One (Sessions I and II): *Key Ingredients for the Development of Asia-Pacific Bond Markets*: This part focused on strategic level discussions on the current situation of domestic bond markets and of regional bond market initiatives, including the policy frameworks, and on key areas for public-private sector cooperation to address problems and accelerate bond market development.
- Part Two (Sessions III to VI): *Capacity-building in key areas:* This part focused on discussing progress of capacity-building efforts in four particular areas that are of key importance to bond market development, and how public-private sector partnership in these areas could be promoted to produce tangible results in the foreseeable future.

KEY INGREDIENTS FOR THE DEVELOPMENT OF ASIA-PACIFIC BOND MARKETS

The conference addressed a wide range of complex and interlocking issues that are relevant to the operation of efficient bond markets. In examining the ingredients that create efficient markets – as seen essentially from a commercial investor perspective – the conference reviewed the key arguments for the promotion of domestic and regional markets, considered the underlying processes that had contributed to the growth of some markets in the APEC region and considered some of the issues brought out by comparing markets in the region and between the region and other regions.

The rationale for bond markets

A central premise is that the region cannot sustain strong economic growth without well functioning capital markets, including bond markets. In the absence of long-term bond issues, local borrowers turn to foreign (including short-term) savings, creating a potential mismatch between lenders and borrowers. This mismatch and associated currency mismatches, contributed, in part at least, to the Asian financial crisis. For these reasons APEC economies see as a priority, the development of bond markets as an integral element of financial system reform.

Moreover, the development of a regional market or markets in Asia (in which bonds issued in Asian currencies or a basket of currencies can be freely invested in and traded by both domestic and foreign participants) is seen a highly desirable objective. Some existing markets in the Asian Pacific region do have the characteristics that define them as a regional market and some have developed offshore markets. However, major policy changes would be required in a number of other economies – such as capital account liberalization and perhaps changes to allow greater flexibility in exchange rate regimes – to allow for the emergence of a market or markets in which bonds denominated in their currency or in other Asian currencies (or a basket of currencies) could be issued and traded by domestic and foreign investors.

Some initiatives leading toward a regional market were discussed at the conference and are commented on in this report. While progress on these initiatives, essentially in the public arena, is seen as steps on a path to regional integration, developments will necessarily be limited by the degree to which economies are prepared to embrace major reforms to open their capital accounts and to allow for easily convertible capital movements which are necessary and fundamental to international bond investing and trading. While the conference did not attempt to address these fundamental issues in any depth, it is a sine qua non that unless significant reforms to capital accounts are made, the conditions allowing for a commercially viable regional bond market, as defined earlier, will not be established. The steps that are being taken toward a regional bond market may therefore be best seen in terms of preparing the way for regional liberalization to facilitate, among other things, the operation of regional bond market at some time in the future.

It is also worth noting that steps that are being taken in the process of improving the operation of domestic bond markets – and of measures to improve regional coordination – should add value to economies in terms of strengthening domestic financial systems and in paving the way toward greater regional and global integration.

Another factor underscoring concern to develop bond markets is that where capital markets are underdeveloped the capacity of the financial system in facilitating "prudential" protection through the reinsurance sector is likely to be diminished. In the absence of bond issues, the buffer against risks borne by the insurance sector will be confined to a limited range of assets, thereby leading to a compartmentalization of the sector's underwriting capacity and a concentration of risk. An efficient bond market facilitates judgement about risk pricing and the spread of risk between various asset classes.

In times of crisis efficient bond markets can facilitate access to liquidity and broaden the risk transfer possibilities to a larger group of players. Arbitragers can provide a buffer and new investors may be induced into markets through attractive trades visible in bond markets. A greater number of risk transfer investments can reduce pressure across products, markets, borders, sectors and investors.

The proposition that Asian savings should desirably be used for long-term Asian development financing needs is also central to thinking on the development of bond markets in the region. Currently, Asian savings often become converted into domestic reserves held in the form of low yield US Treasury paper, and subject to exchange rate and interest rate movements. The development of regional bond markets reflects the growing integration between economies in the region. The recent issue of Thai baht denominated bonds by a Japanese company in Thailand, guaranteed by Japanese banks, involved links by the issuer to the local community and was useful in deepening the local market.

Initiatives to develop an Asian regional bond market

The Asian Bond Market Initiative (by ASEAN+3) is seen as an important element in the development of a regional market, as is the formation of a regional association of credit rating agencies. Under the ABMI and other initiatives, work is proceeding to develop credit guarantee schemes, the harmonization of bond market rules and regulations, the convergence of international accounting standards, regional settlement linkages and ways to improve data flows and dissemination.

The recent launch of the US$ Asian Bond Issue in sovereign paper is seen as a step in the development of a regional market. Further issues may not be limited to sovereign paper, nor limited to issues in US$ but rather be denominated in a local Asian currency. Significant challenges remain however, as governments, supported by the Asian Development Bank and regional groups such as the Association of Credit Rating Agencies in Asia, seek to progress developments across a complex array of issues.

While governments are deeply involved in these challenges, ultimately, successful markets will need to function on a commercial basis. It seems that in practical terms, a number of Asian economies do not have the "scale" required for a deep and efficient domestic market. The demand for long-term finance is limited as is the pool of long-term savings. These factors suggest that smaller economies might benefit from the development of regional markets, where, as noted earlier, the pooling of borrowing needs is reflected in bond issues denominated in a basket of currencies. Another option though and likely to be more relevant in the near term is to improve intermediation through domestic banking systems, perhaps involving some form of credit guarantee arrangement.

Drawing on experiences in the development of bond markets in APEC economies

There has been significant growth and development of bond markets in the region over the last 30 years or so, in Japan, Australia, Hong Kong, Singapore, Korea and more recently in China and in Chinese Taipei. A common thread has been the steady development of the market infrastructure in these economies, with sovereign bond issues as the central focus of the market and continuing as a major but perhaps diminishing component in those markets where various forms of commercial debt issues have developed. The US has a long established bond market but unlike the experience of Asia, its early origins were founded on long-term private debt issues to finance railroad development and it was only later that government issues became prominent.

In Hong Kong, the market developed following a series of important government sponsored initiatives, involving fixed debt issues, interest rate swaps, the launch of exchange fund bills and the establishment of a money market unit for clearing and settlement. Three key ingredients in the growth process are the depth and width of the market, as well as a supportive infrastructure. Width reflects the variety of product types for investors and depth reflects a robust investor base. These combine to provide a highly liquid market – and progress reflects strong public/private sector involvement in the market's development, for example, the issue of HK Mortgage Corporation debt of interest to the retail market, including with "placing bank" arrangements to facilitate on-selling to retail investors. More recently, large commercial issues have been made for the retail market, thereby leading to a buoyant secondary market. Experience in Hong Kong points to the importance of public sector entities issuing paper of interest to retail investors.

"Width" developed in Hong Kong through the issues of asset-backed securities. Underlying securities included revenues from toll-roads. Assets of different maturities and tranches are available to match retail and institutional investor interests.

The involvement of the government in bond issuance based on the securitization of prospective revenues has supported market development on a non-subsidized basis. This provides flexibility in government financing and has also led to strong commercial involvement in the market.

A similar process of government bond issues followed by corporate issues and securitization occurred in Chinese Taipei. The market has grown steadily under a policy to develop a sound and liquid market. The Financial Reform Task Force established in 2002 led to the pre-announcement of government issues, a primary dealer system for those issues, the establishment of a benchmark yield curve and a bond futures market. A number of laws providing for asset securitization were subsequently introduced, as were measures to improve liquidity, including the promotion of cross-border transactions and the introduction of know-how from foreign firms. Public and private sector interests have cooperated in developing market infrastructure, the regulatory system and in supporting regional cooperation of legal harmonization.

Major reforms in Chile, including in the area of financial supervision and the liberalization of capital controls, led to an open capital market and that in turn has contributed to a sustained period of economic growth. Major changes to retirement income policies in that economy and the consequent growth of long-term savings has been a driver in the growth of the bond market – as well, banks issue subordinated debt to satisfy capital adequacy rules. Notwithstanding domestic interests in the market, a deeper and liquid market has been supported by foreign investor participation. This required adjustment to the tax system. A challenge remains as to how SMEs may more effectively tap into the bond market.

The Japanese bond market similarly developed into a deep open market through a serious of steps over a relatively long period. The market was opened to overseas issuers in the early 1970's when the ADB issued its first yen-denominated bond, the "samurai bond". This was followed by foreign sovereign issues and later by international corporate issues. Improvements have been made at each step of the way in the evolution of the market and this supported by the creation of an appropriate environment and infrastructure – without causing moral hazard and without harming market structures.

In Australia the market developed over a lengthy period but major economic and financial reforms over the last 25 years or so have had a profound impact on deepening and broadening financial markets. More recently, factors affecting the flow of funds into markets have become highly relevant. The introduction of the compulsory superannuation scheme in the mid-80's changed the direction of the flow of funds – reducing to some extent the flow to bank deposits toward managed funds. Banks have increased their borrowings in debt markets, as have non-finance entities – both in domestic and foreign markets. In some senses the bond market may be seen as a complement to bank lending rather than a substitute for it. The role of banks in mortgage and in other forms of securitization is particularly prominent and the compulsory superannuation system has led to a decoupling of long-term savings from the life insurance sector to the funds management sector. Convertible equity issues linking debt and equity issues are growing and these instruments together with asset securitization are more relevant, in terms of agents of change in the financial system, than are straight bond issues.

Comparisons between markets in Asia and between Asia and other regional markets

Bond issuance outstanding in 8 markets in the region (Korea, Thailand, Philippines, Chinese Taipei, Indonesia, Malaysia, Singapore and Hong Kong) amounted to US$ 1,037 billion in 2003, with Korea accounting for nearly 50% of the total. Maturities across the 8 markets ranged from 10 years to 20 years. However, transaction costs in some markets are relatively high, making trading unattractive and some markets lack sufficient liquidity.

There is an imbalance in supply and demand – issues are insufficient in some markets against available demand, creating an unacceptably high-risk premium. Expressed in another way, the offer yield on paper issued by a Chinese entity in the HK market compared to paper issued by the same entity in the US market is considerably lower (a differential of 17 bps). While the number of issues is growing in Asian markets, participants look to see improvements in the maturity profile, the development of securitization, increased market turnover and fairer pricing, i.e. fairer risk premium valuation.

A broader comparison across international markets of the contribution made by capital markets, equity markets and banking to total financing, shows quite varied compositional differences in each market. Bond market financing over 8 regional Asian economies is the equivalent of 44% of the combined GDP of those economies; this compares to bond market financing in Germany and the US of 78% of GDP and 157% respectively.

A lower proportion of financing, to GDP, is provided through equity markets in Germany compared to that provided in the same 8 Asian economies, while significantly more is financed in the US through equities. The proportion provided by banks in the US is considerably lower (88%) than that of the 8 Asian markets (134%) and by banks in Germany (143%).

It may be concluded that on a regional basis, bond markets in Asia generally make a lower contribution to total financing but based on the comparisons just noted and the contribution from Asian equity markets, it is difficult to draw anything particularly meaningful about the inherent quality of the mix of financing sources in Asian markets. But neither do these comparisons negate the reasons for promoting bond markets as outlined earlier in this report.

CAPACITY-BUILDING IN KEY AREAS

Expanding the Region's Institutional Investor Base

Private sector investors and analysts both in and without the region agree strongly that the time is opportune to further develop bond markets in the region. In addition to the points made earlier as to the rational for developing markets, investors note the shrinking opportunity set of markets as European markets have merged and an increasing correlation of returns in established markets. More markets, and more liquid markets in Asia would offer the prospect of greater diversification and higher returns to investors. Conversely, Asian issuers would have greater access to a larger pool of savings and to potentially lower costs of funds.

Investors outlined the central factors guiding their decisions on placing funds under their responsibility into bond markets and which would thereby contribute to an expansion of the institutional investor base. The conference highlighted the interlocking relationships between the interests of private sector market participants and of governments, and the policy and environmental framework necessary for the efficient operations of markets. These relationships are shown in a schematic form in *Annex A*:

As noted earlier, the government role as a bond issuer and supporting the yield curve and in providing the enabling environment is crucial in expanding the investor base. . Investors highlighted some additional key points of particular relevance to investment decision- making. They are shown in the box below:

Additional key aspects of an enabling environment

- Creditor and shareholder rights, work outs and insolvency processes are essential elements of the legal framework
- Energies ought to be devoted to the harmonization of supervisory arrangements across the region

- The importance of non-political credit rating standards and independent agencies
- Uniform and transparent reporting standards for financial and non-financial institutions
- Enhanced corporate governance, financial controls and integrity through clear rules and penalties
- The absence of capital controls if foreign investors are to be market participants and avoidance of double taxation on interest and profits – foreign investors will be encouraged by active domestic investor participation
- The crucial importance of reliable, consistent and continuous information flows
- Credit enhancement schemes must be limited in scope to avoid moral hazard and the corruption of markets and lenders should bear some risk
- The interests of all participants – importantly the lead players – issuers, investors, intermediaries and principals and regulators - should be reflected in a balanced way

Investors noted that if interests are not balanced in the operation of the market trade is unlikely – for some or all of the following reasons:

- no value in perceived investment
- insufficient investor demand for debt on issue
- transaction costs are too high
- there are other and cheaper ways to raise finance
- regulatory impediments
- taxes and charges are a disincentive
- inadequate reward for risk

Emphasizing the importance of the relationship between market participants and governments, investors proposed some useful major steps that governments and potential market participants should jointly consider in the process of developing markets:

- Develop a government bond issuance program, and in so doing communicate with investors to understand their needs
- Develop the supportive infrastructure – repurchase market, securities laws, documentation standards and pricing methodology
- Utilize international standards for documentation (avoid reinventing the wheel)
- Develop a capital adequacy risk/return culture in the investor base and the banking system
- Central bank and fiscal agency communications need to respect the needs of investors and intermediaries for transparency and integrity in economic statistics and public accounting standards

It was noted that an effective market involving corporate issues may well require some form of credit enhancement and to the extent that that proves necessary, the capacity to assess and manage credit risk becomes highly relevant. Longer-term corporate issues may well be of diminishing importance in supporting risk management in the financial sector, particularly in light of the growth of hybrid instruments

Commercial assessment of emerging regional arrangements

While the Asian Bond Fund may facilitate the flow of funds from surplus to deficit countries, market forces do not dictate the movement of capital under this facility. The initiative is recognized as the first stage in regional governmental cooperation in developing a regional market. However, for a regional market to have significance to commercial participants it should reflect commercial pricing if it is to facilitate genuine risk assessment and capital allocation functions. If it were to do otherwise, the market would involve a degree of moral hazard and it could detract from rather than contribute to regional financial stability.

In considering the concept of bond issues based on a basket of currencies, investors noted that while these might help ameliorate the problem of mismatches between local and foreign currencies, the infrastructure required to bring the concept to a commercial reality is a significant and long-term challenge. Similarly, regional securitization would involve complex and time-consuming challenges. If these concepts to come to be implemented on a regional basis, governments are advised to avoid provision of some form of subsidy that could distort market pricing signals. Multi-currency bonds could also add to volatility, and complexity for market participants in assessing the risk profile of the various components of such bonds. It is an imperative that markets be allowed to exert the natural "price searching" function. Schemes which deflect from this principle could well create moral hazard and lay the foundation for future crisis. .

While noting the considerable efforts to promote credit rating agencies in the region, it is highly important that work is focused on ensuring best international standards and practices. It is unlikely that new agencies would be preferred over established agencies in rating regional issues, at least over the near-term when work of ways to stimulate the supply of and demand for bonds and to focus on improving existing infrastructures might yield better results.

Banks as primary financiers in the region should play an important role in the development of bond markets. One important way is for banks to provide first-tier credit enhancement to corporate bond issuers. In Korea, companies pooled their financing needs into combined issues known as Primary Collateralized Bond Obligations – CBOs – with credit enhancement provided by the Korea Credit Guarantee Fund. These arrangements have supported issues by SMEs and by venture capital companies.

A second-tier credit enhancement system might alleviate the problem for investors of differing country risk within the region through the establishment of a regional guarantee body, the "Asian Credit Guarantee Fund", financed by contributions from reserve rich countries in the region. The fund would provide around 95% guarantee for the principal and for a certain portion of interest payment for credit enhanced corporate bond issues or asset-backed securities. With additional guarantees on bonds already credit enhanced (under the first-tier) this would significantly reduce country risk, enabling the rating of an Asian issuer to investment grade status, thereby enhancing investment and trade in such paper.

To avoid moral hazard, these concepts would need to be developed on a commercial basis.

Within economies, strong political support will be needed if domestic markets are to be developed. Governments will need to be primary issuers on a regular basis, taking into account the interests of long-term savers and investors, and they would need to consult closely with potential market participants. The development of an enabling environment and infrastructure is an imperative. Given, the fact that the range of issues involved span a number of public sector agencies, a domestic Bond Secretariat could provide a useful coordinating role. Support on technical work could be sought from international and regional agencies. To maintain focus and commitment in the region, a coordinating function in the APEC Secretariat could be considered to oversight development and progress in member economies and which would report direct to APEC Finance Ministers.

Developing a Strong Regional Credit Rating Industry

A strong credit rating industry is of crucial importance for the development of bond markets. Credit ratings facilitate the efficient allocation of savings and investment; reduce information asymmetry and the consequent risk premiums demanded by investors; promote deeper and more liquid financial markets; and provide means for debtors to assure creditors of their intention to be open and transparent.

Recent episodes of financial crises in emerging markets and major corporate failures in advanced economies underscore the need to ensure robust rating practices among global credit rating agencies (GCRAs), which rate bonds denominated in major international currencies that are issued from within the region. Domestic credit rating agencies (DCRAs), which serve most of the region's domestic (local-currency) bond markets, face even greater challenges.

Capacity-building measures are currently being undertaken, particularly by the Association of Credit Rating Agencies in Asia (ACRAA), with support from the ADB and the Government of Japan, to address two important areas – training to upgrade analytical skills and the development of best practices in DCRAs.

- *Training*. To date, several training programs have been completed since 2002 in the areas of securitization, infrastructure project finance, financial analysis of banks and ratings for insurance companies. Several more training programs are being planned.
- *Best practices*. ACRAA has developed a concept paper identifying best practices and containing a transparent disclosure of practices being followed by its member CRAs with respect to these best practices.

However, other key areas need to be addressed to significantly improve the performance of CRAs in a number of emerging markets. These include the following:

- *High standards of corporate governance*. This is especially crucial with respect to timely and meaningful disclosure of financial information, board and management process and company ownership structures, with an emphasis on identifying conflicts of interest involving managers and directors.
- *Robust accounting standards and practices*. Previous studies have identified accounting standards as a major impediment to the development of credit ratings in emerging markets within the region, as the quality of ratings given by DCRAs depend on the quality of accounting information they receive.
- *Effective regulatory oversight*. Effective regulation is crucial to ensure the quality of financial information and disclosure and to ensure high standards for the accreditation and operation of CRAs.
- *Open markets*. An open market that is conducive to unbiased financial reporting is an important prerequisite to the development of a robust credit rating industry. Market discipline is needed to encourage issuers to practice

good corporate governance and CRAs to maintain their credibility and independence.

The role of credit ratings in the development of a regional bond market is another major issue. While global ratings issued by GCRAs are useful to international fund managers looking at different economies worldwide, their value to domestic investors, especially in economies where they are not allowed to invest overseas, is limited.

Domestic (local currency) ratings differ from global ratings in that the latter considers foreign currency risk, and hence global ratings for corporate bonds are limited by a sovereign ceiling, i.e., could not be higher than the sovereign rating of the particular economy. While sovereign ceilings result in a compression of ratings in economies with low sovereign ratings – such as in most emerging markets in the region – domestic rating scales for local currency bonds allow greater differentiation of credit risks, and thus have higher information value for investors primarily focused on such markets.

The development of a regional bond market would require sufficiently comparable meaningful information on probabilities of default across economies within the region, which are not at present adequately provided by either DCRAs or GCRAs. To address this issue, discussions have focused on (a) harmonizing rating standards and practices among DCRAs in the region; and (b) the development of a regional credit rating agency (RCRA) that can issue regional ratings.

A number of challenges make it difficult to harmonize rating standards among DCRAs in the region. First, there are significant differences in stages of market development, accounting standards and regulatory frameworks among economies in the region. Second, DCRAs are at different stages of maturity. Third, a number of DCRAs are affiliated to GCRAs and have adopted their practices and methodologies, which are different from each other. Fourth, there is some reluctance to harmonize in markets where there are several competing DCRAs.

Nevertheless, efforts to harmonize rating standards and practices in the region have been started. The ADB has commissioned a study on the feasibility and desirability of harmonizing rating standards of DCRAs, and to provide guidance to APEC on the development of a regional capital market and encouragement of cross-border capital flows. ACRAA is preparing a glossary of rating terminology to develop standard definitions that would lead to consistency in rating processes across the region.

The establishment of an RCRA, which could add considerable value to investors and issuers in the region's emerging markets, faces difficult problems. These include the lack of harmonized regimes in financial reporting, insolvency law and taxation within the region. There is a lack of regional default studies.

No clear idea has yet emerged on ownership structure, management control and area of operation, which involve contentious issues. There is also the question of the commercial viability of an RCRA at this point in time. There is agreement, however, that an RCRA should be independent and credible in order to perform its function effectively and be commercially viable. Private ownership is important for these conditions to be satisfied.

For the present time, efforts should focus on supporting the work of harmonizing rating practices of DCRAs in the region to make their credit ratings more comparable and easier to understand by regional and global investors; thus laying the groundwork for the commercial and technical viability of regional ratings. The latter would include the undertaking of regional default studies and cooperation among CRAs in making cross-country rating exercises and dual domestic and regional ratings. These should be supported by efforts to harmonize financial reporting, insolvency law and taxation regimes within the region.

With their expertise and resources, GCRAs have an important role to play in deepening the understanding of government and regulatory agencies, as well as regional investors, about credit culture and the role of credit ratings in capital markets. Efforts by APEC and ASEAN Plus Three to develop regional bond markets should involve GCRAs and DCRAs (especially through ACRAA).

Promoting Effective Domestic and Region-wide Insolvency and Creditor Rights Systems

Effective insolvency and creditor rights systems are necessary for bond markets to develop. Given the global and fast-moving nature of capital flows, markets where protection of creditor rights is weak are vulnerable to instability, tend to have longer and deeper recessions, and suffer from higher costs of capital.

Systemic risk is an issue that must be addressed in developing bond markets, especially given that modern financial markets are characterized by fast-moving capital flows, technological innovation and globalization. The liquidity of a bond market when the issuer becomes bankrupt or insolvent depends on the ability of other bondholders to settle or net out their rights and obligations.[11]

Effective insolvency systems provide for the expectations and interests of creditors, debtors and governments. From the standpoint of creditors (whether domestic or international), they must provide a credible threat to discourage recalcitrant debtors; a remedy of last resort or rescue; convenient and efficient access to the law; and relative certainty, predictability and transparency in its application.

For debtors, they must provide a strong incentive for achieving viability, a protective environment to negotiate toward realistic survival, convenient and efficient access to the law; and a fair and transparent process. For government and regulatory agencies, an effective insolvency system enables the exercise of ultimate control over financial and other important institutions and ultimate guardianship of governance standards.

Effective insolvency systems provide the following: (a) a backbone for the creditor rights system; (b) incentives for debtors to initiate the formal rescue process; (c) incentives to engage in informal workout processes' and (d) an environment where cross-border insolvency laws can be applied and promoted. An effective insolvency system is an essential part of the underlying infrastructure to facilitate a bond market irrespective of whether the bond market is domestic or regional. Effective cross-border insolvency laws are however of particular importance to a regional bond market given the need for a

[11] See submissions made by the American Bond Market Association to the United States Senate in 1999 concerning issues relevant to bond markets in the context of bankruptcy law reform.

regional bond market to effectively respond to insolvencies in more than one jurisdiction within the region.

While all economies in the region have become closely linked to the global economy, insolvency laws in many emerging markets still need to be adjusted to this reality and do not provide adequate protection to interests of both domestic and international creditors. This is related to the inadequacy of the much wider economic legal infrastructure in a number of markets, where businesses find laws and legal institutions not yet widely accessible and their operations lacking in fairness, speed and transparency. Strengthening insolvency laws and institutional capacity on both a domestic and regional basis would enhance stability thus reducing the cost of borrowing in a bond market and the risk of investment.

Developing effective insolvency and creditor rights systems

There are three areas that are important to developing effective insolvency and creditor rights systems within the region – cross-border insolvency, the intersection between secured transactions and insolvency law regimes, and informal workouts. Approaches to addressing these issues have been developed under the ADB's regional technical assistance to promote regional cooperation in the development of insolvency law. APEC now needs to undertake measures to facilitate the adoption of these approaches.

Cross-border insolvency regimes. Cross-border insolvency regimes are concerned with mechanisms for courts and institutions in one jurisdiction to recognize and support the conduct of an insolvency administration in another. This is relevant to the region, where a large number of businesses operate across borders. Within Asia, however, only Japan currently has a cross-border insolvency law. Korea and the Philippines have started the process of introducing laws to facilitate recognition of cross-border insolvency regimes.

Difficulties in adopting cross-border insolvency regimes appear to largely stem from concerns related to sovereignty and reciprocity. [12] There is a concern in many economies about subordination of domestic interests and institutions to foreign influence. Reciprocity is also often demanded for recognition of foreign insolvency regimes, in which case the need arises to first build confidence between economies regarding their respective judicial, legislative and administrative procedures.

These challenges, while posing difficulties, are not insurmountable, as indicated by the steps being taken in Korea and the Philippines, as well as by the growing cooperation within APEC and ASEAN that affect domestic affairs of member economies.

There are a number of approaches to cross-border insolvency laws. [13] The Philippines is considering unilateral discretionary legislation, while laws adopted in Japan and being proposed in Korea are based on the Model Law approach. Regional cooperation can facilitate (a) promotion of mutual confidence in judicial,

[12] It should also be noted that insolvency administrations may also come about not through court orders, but through resolutions of directors, shareholders or creditors, which are normally recognized across borders without concern.

[13] These include unilateral discretionary legislation, unilateral mandatory legislation, bilateral legislation, multilateral or regional treaty legislation, economic union legislation or global "Model Law" legislation.

legislative and administrative procedures and (b) establishment of arrangements for cross-border recognition of insolvency administrations.

One option for facilitating regional arrangements is an expression of intention by economies to cooperate with each other. This could be a non-binding declaration whereby parties adopt the arrangement with a right opt-in later on a voluntary basis, after appropriate legislation has been put in place.

Another option is an agreed statement on the minimum legislative provisions or principles that participating economies need to adopt for cross-border insolvency administrations to be recognized among themselves.[14]

The following are issues that need to be addressed by a regional arrangement based on either option:

- formalities required for commencement of application for recognition;
- the need to secure recognition for both "in-bound" and "out-bound" insolvency administrations;
- possible approaches to accommodating different types of insolvency administrations;
- relevant courts which should be involved;
- ease of access to the courts;
- evidence required by commencement of insolvency administrations;
- effect of recognition;
- cooperation between courts; and
- issues particular to the operation of branches.

The success of a regional arrangement depends very much on the quality of insolvency regimes in all participating economies. A weak and ineffectual insolvency regime in one economy would present difficulties with respect to recognition, relief and cooperation in cross-border cases. Regional cooperation should address the continued strengthening of insolvency regimes.

Intersection between secured transactions and insolvency law regimes. Balance and consistency between laws and supporting legal and government infrastructure relating to secured transactions and those relating to insolvency are essential for creditors to be able to assess their risks with a high level of predictability and confidence, and for facilitating reorganizations of financially troubled debtors. In most cases, they are formulated separately by different government agencies and are influenced by different policy considerations.

Adoption by APEC economies of a set of principles, developed under the ADB's regional technical assistance to promote regional cooperation in the development of insolvency law, would help ensure balance and consistency between these two regimes. These principles touch on the following:

- adequate regulation to ensure the protection of interests of creditors and third parties when secured transactions are created after the opening of an insolvency case;
- clear rules regarding the creation of secured property interest;

[14] Illustrative drafts have been drawn by insolvency experts as part of the ADB technical assistance project, that can be applied for four possibilities: (a) a regional non-treaty using a Model Law approach; (b) a regional non-treaty using a "basic principles" approach; (c) a regional treaty using a Model Law approach; and (d) a regional treaty using a "basic principles" approach.

- clarity of the insolvency law with respect to the property and rights forming part of the estate of the insolvent debtor, restraints on enforcement and exercise of power of sale and the manner for treating proceeds from the sale;
- application of avoidance provisions of insolvency law to secured transactions;
- provision for participation of secured creditors in insolvency cases;
- provision for requirement of post-commencement finance for insolvent debtors in cases of reorganization and for the preservation and protection of interests of secured creditors in such cases;
- conditions to ensure protection of secured creditors' rights when bound by a plan of reorganization;
- maintenance of a registration system for secured transactions;
- efficient, centralized and computerized registration systems;
- sanctions for non-registration of secured transactions;
- rules protecting the interests of a secured creditor when the insolvency law provides for a stay or suspension against enforcement action by the creditor with respect to the secured property of a debtor;
- clear rules governing possession, use and dealings with secured property during a stay; and
- minimizing the number and amounts of claims given priority over claims of secured creditors.

Informal workouts. An informal workout process provides a quick, less costly, more flexible and non-litigious alternative to a formal rehabilitation proceeding. Given its voluntary nature, it requires effective incentives for debtors and creditors to participate and abide by its results. Such incentives are provided by a strong formal insolvency process that can be conveniently and efficiently accessed, and other enforcement processes (including debt enforcement and enforcement of secured transactions).

Government agencies may also play a role in encouraging informal workouts. In such cases, however, care must be taken to ensure that parties are able to negotiate according to commercial realities and that reorganizations result in sustainable operations.

A set of principles, based on the work of the International Federation of Insolvency Professionals (INSOL International), have been developed as part of the above-mentioned ADB technical assistance program for possible adoption by relevant authorities. These principles concern the following:
- participation of all significant finance creditors in the informal workout process;
- eligibility for informal workouts limited to debtors with realistic prospects of achieving long-term viability;
- achievable business plan based on documented and reasonable assumptions and clearly addressing operational and financial issues;
- sufficient, reasonable and limited standstill period;
- avoidance by all relevant creditors of any steps to enforce their claims and protection of relative positions of creditors during the standstill period;
- avoidance by the debtor of any action adversely affecting prospective return to relevant creditors during the standstill period;
- establishment by creditors of a coordinating committee and appointment of professional advisers to facilitate the workout process;
- appointment of an experienced chairperson for the coordinating committee;
- appointment by creditors of competent and experienced representatives;

- provision of relevant and reliable information by the debtor during the standstill period;
- payment by the debtor to meet all reasonable costs of creditors in considering restructuring proposals;
- consistency of arrangements for resolving financial difficulties of debtor and arrangements between creditors relating to any standstill with applicable law;
- confidential treatment by creditors of information provided by the debtor and use of such information exclusively for determining and ascertaining a workout proposal; and
- accordance of priority status for repayment of additional funding provided during the standstill period and under rescue or restructuring proposals.

Strengthening economic legal infrastructure

The development of effective insolvency and creditor rights systems also depends on progress in strengthening the wider economic legal infrastructure within the region. This includes – aside from insolvency – such areas as judiciary systems, civil procedure, competition policy, corporate governance and corporate restructuring, among others. The work on debt collection litigation and arbitration by the APEC Strengthening Economic Legal Infrastructure (SELI) Coordination Group has generated valuable recommendations for endorsement and action by APEC.

APEC economies are at different stages of development in moving toward a credit-based economy, which involves (a) the formation of domestic laws and legislation; (b) building trust in domestic enforcement; (c) fair and transparent execution with respect to foreign firms; and (d) wide accessibility of relevant information for the entire business sector. Continued progress requires the following:

- Voluntary efforts by each economy in response to its specific needs as a basic precondition for the effective implementation of measures to accelerate economic legislation.
- Regional cooperation in (a) capacity-building projects involving education and training; (b) promotion of access to information, especially through the implementation of an IT-based system of disclosing information on legal systems and legal precedents; and (c) best practice guidelines, especially through sharing of experiences.
- Public-private sector partnership, particularly through seminars and workshops for government and legal personnel to gain a deeper understanding of private firms' perspectives and through publication of analyses, business manuals and reports on legal systems.

Promoting Region-Wide Convergence Toward International Financial Reporting Standards

There is growing demand on the part of business for a common global accounting framework as a consequence of globalization. The use of varying accounting standards makes it difficult and costly to compare investment opportunities and make informed financial decisions. They also impose additional costs for firms in preparing financial information based on multiple reporting models to raise capital. The importance of convergence of accounting standards for the development of domestic and regional bond markets is therefore fundamental.

There is an ongoing global effort toward convergence. In April 2001, the International Accounting Standards Board (IASB) began efforts to develop a single set of global accounting standards. Major accounting firms supported this effort and conducted surveys of accounting practices worldwide, resulting in the summary report *GAAP Convergence 2002*.[15] The European Union, the USA and many other economies are now working toward this goal.[16]

Within the Asia-Pacific region, however, a number of issues still need to be addressed. One of the biggest remaining hurdles for convergence toward IFRS is the convergence of US and Japanese accounting standards. Another is the lack of capacity within a number of developing economies to undertake key measures toward implementation and to generate greater domestic support for convergence.

There are, in addition, views within Asia that some specific concerns in the region may not yet be fully taken into consideration by the current IASB framework. Certain key issues related to the implementation of the IFRS also need to be addressed. These include timely interpretation of global standards, how to implement the IFRS as a continuously evolving framework, and the need to improve accounting expertise and knowledge among users and makers of financial statements, as well as auditors and regulators, especially with respect to complicated accounting standards.

Studies have already identified the technical impediments to convergence within APEC related to clarification, cost-benefit and theoretical issues. The major ones are (a) the complicated nature of particular IFRSs; (b) disagreement with certain significant IFRSs; (c) insufficient guidance on first-time application of IFRS; (d) satisfaction with domestic accounting standards among investors and users; (e) limited capital markets; (f) translation difficulties; and (g) tax-driven nature of the domestic accounting regime.[17]

APEC can play an important role in addressing these issues and accelerating the process of convergence with IFRS within the region, specifically by undertaking the following:

- Establishing a regional forum of domestic accounting standard-setting bodies within APEC and promoting inputs of member economies into the work of the

[15] BDO, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton, KPMG, and PricewaterhouseCoopers, GAAP Convergence 2002: A Survey of National Efforts to Promote and Achieve Convergence with International Financial Reporting Standards (available at http://www.iasplus.com/resource/gaap2002.pdf).

[16] The European Union has required all EU-listed firms to adopt the IFRS by 2005. The US Financial Accounting Standards Board (FASB) has agreed to making the convergence of IFRS and US GAAP a primary objective and to begin resolving differences where it is achievable. Australia and New Zealand have already decided to adopt the IFRS. Canada has fully completed the process of convergence. A survey of economies around the world has elicited very positive responses, with 92% of economies indicating that they plan to adopt or converge with IFRS. See ***Report on the Status of the Convergence of Domestic Accounting Standards to International Financial Reporting Standards (IFRS) among APEC Economies***. Prepared for the Asian Bankers' Association by Ernst & Young - SGV & Co. (Ms. Amelia B. Cabal, Senior Partner, Financial Services Industry; Mr. Dominador Gregorio, Jr., Partner and Head, Corporate Finance), Grant Thornton International - Punongbayan & Araullo (Mr. Benjamin R. Punongbayan, Managing Partner); KPMG - Laya Mananghaya & Co. (Mr. Camilo C. Tierro, Partner, Assurance; Ms. Charito M. Farnacio, Partner, Assurance; Mr. Bill G. Debuque, Manager, Assurance), Price Waterhouse Coopers - Joaquin Cunanan & Co. (Mr. Jerry Isla, Chairman and Senior Partner; Ms. Judith V. Lopez, Managing Partner, Assurance & Business Advisory Services). The report is available at http://www.aba.org.tw/doc/abaposition03convergence.PDF.

[17] These are detailed in the previously mentioned ABA report on the status of convergence among APEC economies, as well as in the GAAP Convergence 2002 survey.

IASB. This forum should be used to (a) initiate discussions to provide common inputs from the region into the work of the IASB, especially on the continuing development of the IFRS, as well as the Standards Interpretations Committee, on the further development of interpretations of standards; and (b) share concerns on accounting issues, and to facilitate capacity-building work. This forum could be developed along the lines of existing efforts in the region, such as the annual meeting among standard-setting bodies from China, Japan and Korea.

- Formulating a common policy statement on convergence with a target year for attainment of full convergence within the region. This serves to encourage all member economies to move more resolutely toward this goal.
- Establishing an APEC Collaborative Initiative on Convergence under the APEC Finance Ministers' Process, which should involve the regional forum of domestic standard-setting bodies mentioned above and focus on the following tasks:
  - *Documenting domestic convergence plans of member economies*. APEC economies, on a voluntary basis, should develop and submit updated plans, using GAAP Convergence 2002, a survey of domestic accounting rules benchmarked against IAS, as a starting point in this process. Plans should specify timetables that could be consolidated into a regional convergence plan.
  - *Developing a Regional Convergence Plan*. Timetables could be set for full convergence, aligned with domestic convergence timetables, as well as for key milestones of the plan.
  - *Identifying available resources within the region to support convergence*. The Initiative should identify and facilitate sharing of domestic experiences on convergence efforts, as well as of technical expertise and literature and of financial resources among member economies.
  - *Facilitating convergence efforts of developing member economies*. The Initiative should develop ways to support convergence efforts of developing member economies, especially in disseminating information on all adopted IFRS to relevant domestic organizations and individuals, improving accounting curricula and developing regulatory infrastructure.
  - *Promote funding mechanisms to support convergence efforts, especially by developing member economies*. Such assistance should focus on the publication of IFRS literature in domestic languages; dissemination of guidance on adoption of IFRS; research toward local clarification of complex aspects; and studies to resolve concerns on the theoretical strength of certain provisions and realignment of taxation policies toward convergence. Efforts should be coordinated, whenever appropriate, with the Standards Interpretation Committee of the IASB and the International Federation of Accountants (IFAC).

CONCLUSION

The private sector recognizes that the development of domestic bond markets in many developing economies is still at an early stage, and a commercially driven regional bond market within APEC is a long way off. Regional initiatives to develop bond market infrastructure will help accelerate this process. Greater participation by all interested APEC economies in schemes such as the Asian Bond Fund would be an important symbol of commitment by governments to the realization of this objective.

There is a very keen interest on the part of the private sector in the development of domestic and regional bond markets in APEC, and in working together with the public sector to more quickly and effectively achieve this goal. Bond market development, however, is a complex issue, involving a broad range of policy areas and sectors and a large number of institutions and market players. Properly sequenced concomitant reforms and capacity-building measures, undertaken in partnership with the private sector, are therefore needed in these areas.

The development of bond markets raises fundamental macroeconomic and policy reform issues. A functioning regional bond market (and domestic bond markets) would necessitate considerable eventual relaxation of capital controls and greater flexibility in exchange rates. It would also require an environment conducive to the expansion of the institutional investor base; fair, speedy and transparent operation of laws; reliable and timely financial information based on robust and comparable accounting standards and credit rating practices; and strong banking systems.

To accelerate the development of domestic and regional bond markets, capacity-building efforts based on public-private sector partnership need to be intensified. Particular areas where such efforts are crucial include the following:

- Expanding the region’s institutional investor base. APEC should ensure that tax regimes are attractive to foreign investors – in particular with regard to the abolition of withholding tax. Investors will be attracted by the adoption of internationally accepted standards on documentation and practices in markets, which ensure fair treatment for foreign investors. This should include transparent processes and an environment to assess risk and return in traded instruments. Regulations should facilitate and promote efficient markets and settlement systems. Bond issues should be of a size to attract widespread investor participation and foreign investors would be encouraged by significant domestic investor participation.

- Developing a strong regional credit rating industry. APEC should lend greater support to ongoing capacity-building efforts to harmonize credit rating practices in the region with global standards and develop best practices. In addition, economies need to harmonize regulations governing the operations of credit rating agencies with the objective of ensuring high quality of credit ratings throughout the region.

- Promoting effective domestic and region-wide insolvency and creditor rights systems. APEC should promote:

  - legislation in member economies to enable the recognition of insolvency administration across jurisdictions;

  - region-wide acceptance and application of sound principles and methodologies that support informal workout techniques; and

  - common approaches to the coordinated development of secured transactions and insolvency law regimes throughout the region.

In addition, APEC should undertake capacity-building efforts to improve the framework for debt collection and arbitration throughout the region.

- Promoting region-wide convergence toward the International Financial Reporting Standards (IFRS). Accounting standard-setting bodies in APEC member economies should share concerns on accounting issues and promote greater inputs from the region into the work of the International Accounting Standards Board (IASB). APEC Finance Ministers should accelerate convergence efforts through a collaborative initiative to document domestic plans to converge with IFRS, develop a regional convergence plan and to mobilize available resources to support convergence efforts of member economies.

*****