



18 August 2023

The Honorable Dr. Janet L. Yellen

Chair, APEC Finance Ministers Meeting
Secretary of the Treasury
1500 Pennsylvania Ave NW, Washington, DC 20220
United States

Dear Secretary Yellen,

It is my great honor on behalf of the APEC Business Advisory Council (ABAC) to present to you our recommendations to APEC Finance Ministers this year.

Growing *economic fragmentation* is a serious problem confronting our region today. A deeply concerning global outlook, conflict, and a series of grave challenges – geopolitical, economic, environmental and financial – are seriously impacting cross-border trade and investment. In addition to these, *uncoordinated approaches* within the region to digital transformation, data protection and sustainable finance frameworks stand to create new barriers that can cause huge output losses for Asia-Pacific economies. Ensuring the interoperability of the digital financial systems we are building today and preserving and enhancing our ability to mobilize international capital to accelerate sustainable transition within our region are key tasks we believe APEC needs to urgently address. Collaboration on these issues is critical for achieving the Putrajaya Vision of an open, dynamic, resilient and peaceful Asia-Pacific community by 2040, for the prosperity of all our peoples and future generations.

BUILDING INTEROPERABLE DIGITAL FINANCIAL SYSTEMS

End-to-End Digitalization of Trade and Supply Chain Finance

Despite significant advances in digital technology, trade finance remains to this day largely paper-based and manual. Lack of common standards for trade documents across economies and lack of interoperability of legal frameworks surrounding digital documents hinder the use of technologies to digitalize and automate on an end-to-end basis the various processes involved in trade finance. In 2022, a Regional Digital Trade Transformation and Connectivity Network was started through a pilot connecting digital platforms of Japan, Singapore and Thailand to help address these issues. Because it will lower costs and speed up the processing of trade documents and allow supply chain participants to access credit using transactional data, this will have a profound impact on MSMEs' ability to access trade financing and participate more widely in global supply chains. There is also potential for the platform to provide data that can be used for evidenced-based Scope 3 measurement of greenhouse gas emissions to facilitate the greening of supply chains.

- *We recommend participation of more member economies in the Regional Digital Trade Transformation and Connectivity Network to standardize and digitalize trade documents, promote alignment of legal frameworks with UNCITRAL Model Law on Electronic Transferable Records (MLETR) and develop interoperable domestic digital supply chain finance platforms. We encourage participating member economies to establish task forces in their respective jurisdictions comprising both public and private/business sectors to facilitate their active engagement in this initiative.*

Interoperable Open Data Systems

The development of secure, efficient and inclusive open data and payment systems is key to future growth. Such systems need to be designed and implemented in a way that best fits the specific conditions in each market. However, they also need to be based on commonly agreed principles in order to avoid the region's fragmentation into isolated digital islands. ABAC collaborated with industry, public sector and international organizations to develop guiding principles that can help achieve domestic and international interoperability, promote trusted and secure sharing and use of data, provide an enabling governance and regulatory framework, build the needed infrastructure, and foster education for consumers, practitioners and regulators.

- ***We recommend that APEC member economies use the Guiding Principles for the Development of Interoperable Open Data Systems in the Asia-Pacific Region¹ as a reference in the design and implementation of open data systems.***

Expanded Cross-Border Data Sharing and Privacy Enhancing Technologies

The issue of cross-border data sharing is becoming ever more critical for trade, investment and economic growth. This is especially so for financial services, where financial transactions, market infrastructures and financial institutions have become data transfers, data networks and data processors, respectively. Fragmentation of rules governing the cross-border flow of data poses a major challenge for businesses in making cross-border data transfers. MSMEs are particularly impacted, as they do not have the resources to navigate through different laws, definitions and sectoral regulations. Given the slow progress in establishing data adequacy arrangements, the region will need to develop practical interim solutions that could enable firms to conduct business operations requiring cross-border sharing of data. Privacy enhancing technologies can also be harnessed to enable the processing of data in ways that comply with privacy and data protection rules.

- ***We recommend that APEC member economies actively explore the coordinated adoption of a toolbox of business-level mechanisms supporting the goal of secure and trusted sharing of data in the region. These could include interoperable contractual safeguards, binding corporate rules, certification, codes of conduct or privacy codes, and harmonizing exemptions currently granted under existing legal or administrative frameworks.***
- ***We recommend that APEC member economies develop common core principles for data protection that promote wider and safer data sharing in the region and address uncertainties arising from measures that restrict the flow of data.***
- ***We recommend that APEC member economies foster innovation in relation to privacy enhancing technologies (PETs). This can be achieved through measures such as supporting research and development, providing secure data processing platforms, certification of trusted PETs, innovation contests, regulatory sandboxes and digital identity management, among others.***

Promoting the Development of Interoperable Wholesale CBDCs

Payment systems play a critical role in cross-border trade, investment and foreign exchange transactions. In recent years, many economies in the region have been conducting research, exploration and testing of wholesale Central Bank Digital Currencies (wCBDCs) as a way to reduce costs and increase the speed of cross-border payments. While they hold the promise of greater efficiency, their uncoordinated adoption across the region carries the risk of fragmentation, increasing barriers to cross-border business transactions. ABAC collaborated with industry, public sector including central banks and international organizations to develop Common Principles that can assist member economies in designing

¹ *Guiding Principles for the Development of Interoperable Open Data Systems in the Asia-Pacific Region*
<http://www2.abaonline.org/content/download/22632171>

interoperable wCBDCs. These include foundational principles for interoperability and design principles that can help promote consistency across jurisdictions.

- *We recommend that APEC member economies consider using the Common Principles for the Development of Interoperable Wholesale Central Bank Digital Currencies² proposed by ABAC as a reference in the design and implementation of their respective wCBDCs.*

MOBILIZING INTERNATIONAL CAPITAL TO ACCELERATE SUSTAINABLE TRANSITION

Creating a Collaborative Framework for Financing Sustainable Transition

Various economies have adopted transition finance as a flexible approach to decarbonizing high-emitting industries that seeks to incentivize not just “green” projects, but also “amber” projects that currently form a large part of the economy. Successful implementation of this approach will require concrete, science-based and credible climate finance transition roadmaps for each economy and each key sector, with robust verification mechanisms to guide project development and ensure against greenwashing. However, these roadmaps will need to be comparable, consistent, credible and interoperable across the region and supported by robust and high-quality disclosure to allow companies to access the large-scale financing that is potentially available for their transition projects.

- *We recommend that APEC provide a common platform for member economies to coordinate the development of climate finance transition roadmaps for each economy and for each key sector. This common platform should assist in the establishment of transition bonds and loans as a new asset class and in the development of interoperable emissions trading systems. It should also assist in the coordination of complementary fiscal incentives and regulatory approaches that can facilitate the financing of transition projects from across the region.*
- *We recommend that APEC member economies establish climate disclosure consortia within their respective jurisdictions, based on the foundations laid down by the Task Force on Climate Related Financial Disclosures (TCFD). These consortia should promote coordination among relevant public and private sector stakeholders domestically and support regional coordination among member economies in promoting robust and standardized disclosure across the region. They should also facilitate active engagement in the ongoing efforts of the International Sustainability Standards Board (ISSB) to develop and promote disclosure standards.*

Financing Just and Affordable Energy Transition

Financing a just and affordable energy transition is a challenge that will require enormous amounts of investment in renewables and new sources of energy as well as in reducing emissions in hard-to-abate sectors. While there is no shortage of global capital looking for investment opportunities in developed economies, there are challenges for developing economies in attracting access to sufficient hard currencies. A significant factor in this is currency risk. The task of identifying and getting the right projects ready for financing to reach the net zero goal by 2050 is complex and difficult. Successful just and affordable energy transition will require leveraging existing initiatives to assist in the preparation of bankable energy infrastructure projects. A market instrument that significantly reduces currency risk can be established using a reference point for repayment and interest against a basket of international currencies explicitly chosen to reduce overall currency volatility.³

² Common Principles for the Development of Interoperable Wholesale Central Bank Digital Currencies
<http://www2.abaonline.org/content/download/22632181>

³ One currency basket that may be considered for this purpose is the World Parity Unit (WPU). This is a basket of 11 widely traded international currencies, the daily settlement price of which is calculated by the FTSE-Russell division of the London Stock Exchange. For more details, see Robert Dohner, *Financing the Energy Transition: Currency Risk and WPU Indexed Bonds*
https://www.mountainpacificinstitute.org/Financing_the_Energy_Transition_20230720.pdf

Fixed rate long-term bonds in which servicing and repayment obligations are indexed to such a currency basket could serve as a 'risk-free' reference rate within the new financial instrument market, leveraging diversification and indexation principles to effectively mitigate risk. A selected index that is transparent, robustly and properly regulated, and recognized by the global financing system as an appropriate store of value can serve this purpose. Convertibility of component currencies is a key success factor for indices among those offered by several trustworthy currency index providers today that enjoy wide acceptance in the market. The issuance and disaggregation mechanisms for such indexed bonds can make funding available for small projects and MSMEs in developing economies.

- *We recommend that APEC member economies leverage existing and ongoing initiatives to promote the development of a pipeline of energy transition projects that can attract private sector financing. Examples are the digital project preparation platform SOURCE, the Global Infrastructure Hub (GIH) and GFANZ, through existing FMP policy initiatives such as the APFF Sustainable Finance Development Network (SFDN) and the Asia-Pacific Infrastructure Partnership (APIP).*
- *We recommend that APEC provide a common platform to facilitate the use of blended finance through collaboration among governments, multilateral institutions and international initiatives to attract financing for just energy transition projects.*
- *We recommend that Ministers explore the issuance of fixed rate long-term bonds in which servicing and repayment obligations are indexed to a basket of major international currencies. This should be designed to reduce borrower and lender risk from swings in the exchange rate of the currency of issue and thereby enable broader financing options. Suitably indexed bonds could become core allocations in the portfolios of global investors and thus allow international capital to be made available to finance a just and affordable energy transition.*

Financing Sustainable Innovation

Achieving the net zero goals will require a rapid reduction of carbon emissions, which at present remain at unsustainably high levels. Reaching these goals will require faster innovation to lower the costs and accelerate the transition toward a green future. For this to happen, economies need to develop enabling ecosystems for financing innovations. These should be based on coordination of key stakeholders through their engagement in formulating well-defined objectives and identification of policy levers. They should focus on innovations that are most needed in the region's developing economies, such as carbon capture, utilization and storage (CCUS). Voluntary carbon market (VCM) exchanges and over the longer term, emissions trading systems, as well as reforms and capacity building measures to facilitate intellectual property financing, can play important roles in incentivizing innovations.

- *We recommend that APEC member economies collaborate with multilateral institutions and the private sector to design enabling ecosystems for financing sustainable innovation that leverage their complementary roles and meet the needs of their respective jurisdictions. Initial efforts could focus on fostering voluntary carbon market exchanges and prioritize incentives for the development of technologies most needed in developing economies, such as those related to carbon capture, utilization and storage (CCUS).*
- *We recommend that APEC promote legal and regulatory reforms to enable intellectual property (IP) financing and IPR ownership under the Enhanced APEC Agenda for Structural Reform (EAASR). As a first step, we recommend that member economies collaborate with relevant international organizations and the private sector in initiating a pilot project. This would seek to develop and implement a reform agenda enabling the use of IP supporting sustainable innovation to access finance (such as through IP-backed loans and securitization). This could start with a product-based diagnostic for each participating jurisdiction to assess gaps and opportunities in the legal and regulatory environment. The diagnostic could map alignment of*

laws, regulations, valuation standards, business practices, and market development with international standards and best practices.

In addition to the preceding recommendations, ABAC is pleased to submit to Finance Ministers the 2023 Progress Report of the Asia-Pacific Financial Forum (APFF), the Asia-Pacific Financial Inclusion Forum (APFIF) and the Asia-Pacific Infrastructure Partnership (APIP). These policy initiatives continue to provide platforms for public-private collaboration assisting member economies in implementing the Cebu Action Plan and other FMP initiatives. The Executive Summary of this Progress Report is appended to this Letter and the accompanying Report, while the full text can be downloaded through this link: <http://www2.abaonline.org/content/download/22632361>.

Details of our recommendations are contained in the attached Report. We hope that they will provide meaningful ideas for concerted action, and look forward to our upcoming dialogue this coming November in San Francisco.

Sincerely yours,



Dominic Ng
ABAC Chair 2023

ATTACHMENTS:

- *APEC Business Advisory Council 2023 Report to APEC Finance Ministers*
- *2023 Progress Report: Asia-Pacific Financial Forum ● Asia-Pacific Financial Inclusion Forum ● Asia-Pacific Infrastructure Partnership – Executive Summary*