2018

FINANCE SYSTEMS & REGULATION IN ASEAN

Helping promote better payments and sustainable finance

EU-ASEAN BUSINESS COUNCIL

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EXECUTIVE SUMMARY

This paper looks at a number of issues that are related to the need to assist with the more rapid and sustainable economic development of ASEAN. The region has many goals linked to the continued development of the ASEAN Economic Community, and the need to ensure that the benefits of economic development can be felt more widely across the region. Moving collectively to improve matters such as cross-border money flows for transactions; promoting increased use of sustainable finance vehicles; and, ensuring closer alignment of regulatory regimes to lower bureaucratic burdens and costs to financial insitutions can only help with this.

Payment Systems

For the members of the EU-ABC, ensuring that businesses, no matter their size, can get paid more quickly and more efficiently for the goods and services they provide, domestically or cross-border, is a key element. Same day credits to bank accounts will ease capital concerns for MSMEs and reduce the cost of trading overseas (by lowering bank and transfer charges). The latter point will help ASEAN with one of its goals of lowering the cost of trade transactions for intra-ASEAN trade[1]. Domestic payment systems in ASEAN are gradually evolving together with improvements in cross-border payment outcomes. However, ongoing attention is required to ensure the region fully embraces a new standard for cross-border payments. It is our view that the region should collectively promote wide-scale adoption in ASEAN banks of community-based initiatives like SWIFT gpi that are not commercially driven, remain market & segment-neutral, remain fully inclusive and provide a ready platform for regional payments integration within ASEAN markets, and also with extra-ASEAN markets. Doing so will greatly advance matters on the process of cross-border payments within the region.

Sustainable Finance

Economic development has come with environmental and social costs. These costs need to be minimised to ensure the continued liveability of cities and rural areas. New financial models linked to sustainability of projects and companies are now being developed globally, and nascent beginnings of green financing are now taking root in ASEAN, particularly in Singapore. In this paper we have given examples of how Sustainable finance can bring benefits and how this sector is developing. It is our view that more should be done to promote greater use of Sustainable Finance vehicles to open up new funding sources for infrastructure and investment within ASEAN.

Banking Regulatory Framework in ASEAN

We have seen in recent years a plethora of new regulatory oversight legislation for the financial services sector across the World. There is no doubt that much of it was brought about by necessity. However, the impact of extra-territorial legislation resulting in contradictory or duplicative or equivalence requirements has placed increased burden on financial institutions. It is our view that this can be mitigated through co-operation, coordination and dialogue amongst regulators and we urge the EU and ASEAN (and others) to do more in this respect. Regulators are, therefore, encouraged to conduct in-depth research on any potential unintended consequences, particularly for non-systemically important local financial institutions and foreign financial institutions located in that jurisdiction where it may be appropriate to apply proportionate rules, when considering new regulations.

[1] See paragraph 53 of the ASEAN Chairman's Statement, 31st ASEAN Summit, November 2017: http://asean.org/storage/2017/11/final-chairman%E2%80%99s-statement-of-31st-asean-summit.pdf

TABLE OF RECOMMENDATIONS

Issue	Recommendations
Payment Systems	
Fast-tracking regional payments integration; Reduce inefficiencies in cross-border payments and trade; and, Include mid-smaller size banks in payments innovation initiatives	Promote wide-scale adoption in ASEAN banks of community-based initiatives like SWIFT gpi that are not commercially driven, remain market & segment-neutral, remain fully inclusive and provide a ready platform for regional payments integration within ASEAN markets, and also with extra-ASEAN markets.
Developing safe, reliable and efficient national payment schemes	Central banks and financial services authorities must assess global best practices, expertise and proven solutions that provide required levels of performance, security and resiliency.
Sustainable Finance	
Promote greater use of Sustainable Finance vehicles to open up new funding sources for infrastructure and investment in ASEAN.	ASEAN Governments should continue to work closely with financial institutions and trade bodies to develop and ASEAN-wide framework for Green Bonds and blended finance e.g. as ACMF has done on the development of ASEAN Green Bond Standards[2] ASEAN Governments should actively encourage the use of sustainable finance, linked to ESG measures, when seeking to raise funds for projects under their direct control, and also encourage SOEs and Private corporations to make greater use of ESG measures in their everyday planning and operations. In this respect recommendations by the High Level Expert Group on Sustainable Finance for the European Commission should be considered for ASEAN measures. More education for issuers and investors to raise awareness of the commercial imperative of Green Bonds should be undertaken by Governments across the region
Banking Regulatory Framework in ASEAN	
The impact of extra territorial legislation resulting in contradictory or duplicative or equivalence requirements can be mitigated through co-operation, coordination and dialogue amongst regulators.	The EU should be more conscious of the impact on non-EU markets and the market participants would benefit from better regulatory coordination when drafting new legislation. Improved coordination in implementation and monitoring of compliance will ultimately lead to more stable and accessible financial markets and a level playing field. To prevent market disruption, facilitate cross-border flows and encourage economic growth, the equivalence process must be simplified and outcomes-based or a proportionate equivalence process allowed based on systemic impact to the EU financial markets. Regulators are encouraged to conduct in-depth research on any potential unintended consequences, particularly for non-systemically important local financial institutions and foreign financial institutions located in that jurisdiction where it may be appropriate to apply proportionate rules.

[2] See: http://www.theacmf.org/ACMF/upload/ASEAN_Green_Bond_Standards.pdf .

ENHANCING CROSS BORDER PAYMENTS IN ASEAN

"SURELY, IN THIS NEW DIGITAL AGE... CAN WE JUST MAKE SURE HARDWORKING PEOPLE GET TO REMIT THE FRUITS OF THEIR LABOUR TO THEIR FAMILIES BACK HOME AS EFFICIENTLY, AND AT THE MOST COST-EFFECTIVE WAY POSSIBLE?"

Dr. Vivian Balakrishnan, Singapore Foreign Affairs Minister at ISEAS ASEAN Lecture, 5 Dec 2017 (from: http://www.todayonline.com/singapore/spore-help-asean-ride-digitalisation-wave-balakrishnan)

Domestic payment systems in ASEAN are gradually evolving together with improvements in cross-border payment outcomes. However, ongoing attention is required to ensure the region fully embraces a new standard for cross-border payments.

In this era of the Digital Economy and instant outcomes, payment systems in the ASEAN region are also gradually evolving to adopt global payments trends like real-time payments, richer payment information, global standards such as ISO 20022 and frictionless end-user experiences.

In ASEAN, there are presently various cross-border payment methods - merchants can be paid using credit cards and cross-border bank remittances in local currencies can be made. There are also other methods including cross-border e-commerce payment providers such as Payoneer and Paypal, and new domestic cashless payment providers such as GrabPay, GoPay, WeChat Pay and Alipay with emergent cross-border potentials.

Despite this progress in payments, until recently most cross-border payments in the region took an inordinate amount of time, lacked transparency & predictability – thus putting pressure on working capital, especially for MSMEs – and can be costly as well due to intermediary commissions or transaction charges. This has especially posed a challenge for growing ASEAN businesses that are increasingly providing services or selling goods over ever greater distances. For these businesses getting paid speedily, efficiently, and with minimal costs has become more and more important.

In a paper on the difficulties faced on financial integration in ASEAN, released in March 2017, SWIFT noted that "in 2016, payments related to intra-ASEAN commercial flows continue to be intermediated via extra-ASEAN markets, with 85% of these payments denominated in US Dollars, majority of which were settled in the United States"[3]. Sending payments for the provision of goods and services in such a manner adds complexity, time and cost for the suppliers of those services.

Hence, to better support the low value high volume payments that characterises cross-border e-commerce activities that connects ASEAN business-to-business (or B2B), business-to-consumer (or B2C) and to facilitate new fintech business models like crowdfunding and the "gig economy" that can support MSME entrepreneurship and financial participation of skilled workers regardless of geographic locations, cross-border ASEAN e-payments need to be low-cost (to both users and providers), efficient, secure and ideally be able to conduct near-instant cross-border payments.

The problem is not one of technology, but rather business process friction.

In 2015 the global banking community and SWIFT jointly assessed the challenges in cross-border payments with an aim to identify real underlying problems. It was noted that the SWIFT network takes only 2-3 seconds for messaging between any of its 11,000 users globally, securely processing billions of transactions annually, amounting every 3 days to the value of the World's GDP. If it takes only a few seconds for a payments instruction from a bank in Singapore to securely reach

[3] See: https://www.swift.com/news-events/news/achieving-financial-integration-in-the-asean-region 24 March 2017.

another bank in San Francisco or Jakarta, the question arises why it still takes a few days for the final funds to be credited to the recipient? The underlying problem was therefore found to be not technology, but rather the business process friction existing within correspondent banks.

In response, SWIFT gpi was launched in 2015 as an inclusive, global financial community initiative to address this business process friction. Today, this is the largest initiative in cross border payments occurring globally. ASEAN gpi banks and end consumers are already reaping benefits from this initiative with enhanced speed, certainty, transparency and innovations - ASEAN cross-border payments can now be processed in minutes – instead of days or weeks.

Banks in ASEAN region are adopting gpi with the highest traction in Singapore, Thailand, Indonesia and Vietnam. Gpi banks in the region are providing customers with same day credits, real-time status tracking, transparency on fees & exchange rates and confirmations of final credit.

With SWIFT gpi, the ASEAN region also has a ready, inclusive platform that supports banks of all sizes to provide an enhanced cross-border payments service experience to their customers. Future roadmap services like the cloud-based richer payment data layer will support additional use cases, for example trade digitisation or e-KYC[4] processing. Innovative, emerging technologies like APIs and Distributed Ledger Technology (DLT) are being used and assessed as part of the initiative, and open innovation is being promoted via engagement of the global and ASEAN Fintech community in the creation of overlay services using gpi rails. ASEAN gpi banks are participating in a Proof of Concept undertaken to assess applicability of DLT to reconciliation between Nostro Accounts, and possible reduction in transaction cost processing for banks.

To progress on such a cross-border efficient lower cost near-instant payment environment, **the EU-ABC welcomes moves to put in place enhanced and more efficient payment and settlement systems across ASEAN. Adoption of ISO 20022[5] is encouraged,** as advocated by SWIFT and others.

As Figure 1 below indicates, a key element in achieving financial integration, financial inclusion and financial stability in ASEAN is in putting in place enhanced payment and settlement systems. In much the same way as Singapore has put in place the FAST system for instant transfers between participating domestic banks, allowing for instantaneous financial transactions even between different banks, the technology and protocols already exist today to allow for similar high speed, low cost, transfers across borders within ASEAN.

As an example, SWIFT gpi is already helping bring near-real time cross border payments to the region and enables reuse of existing infrastructure by banks already connected to SWIFT.

On retail payments, ASEAN member countries have been developing their own national retail payment schemes, such as Indonesia's National Payment Gateway that was launched in 2017, the National Payment Corporation of Vietnam launched in 2016 (NAPAS), and the Myanmar Payments Union in 2011. These schemes aim to integrate the countries' domestic retail payment systems and cut costs for banks and merchants and will in turn promote non-cash transactions.

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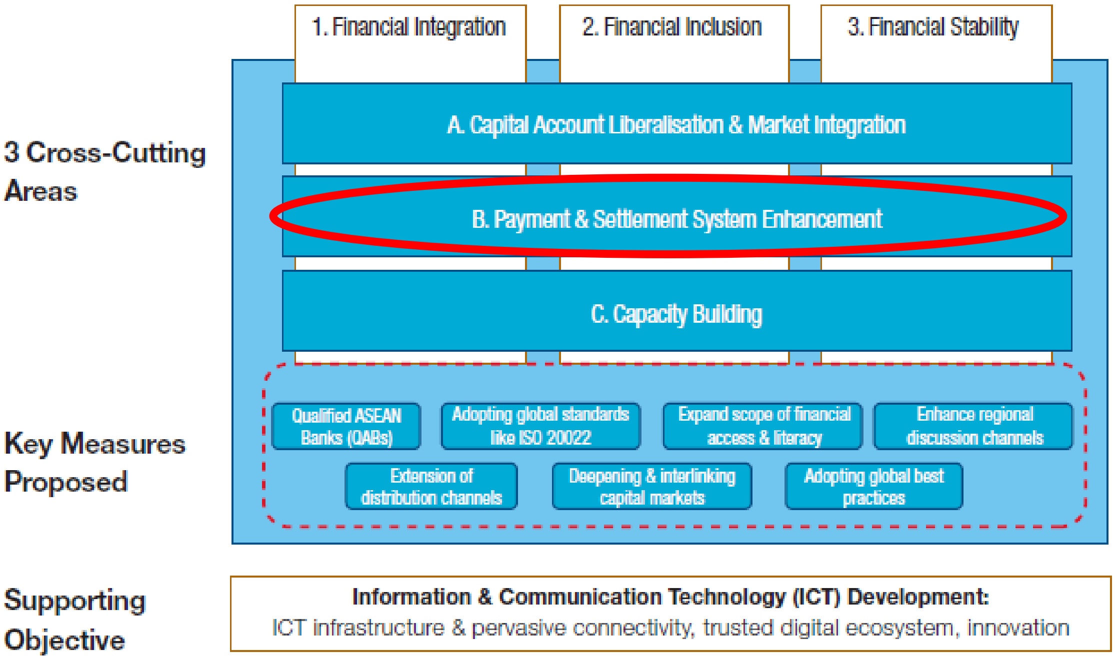
[4] Know Your Customer

[5] ISO 20022 is a common global standard for financial messaging and provides an extensible repository of messages supporting all business processes in the financial industry. ISO 20022 provides an approach to unifying multiple existing financial standards and is today accepted as the de facto standard promoting global interoperability. The AEC 2025 Blueprint specifies adoption of ISO 20022 by 2025 as a key objective for regional financial integration and development of payments and settlements systems within ASEAN Markets.

Figure 1: ASEAN 2025 Vision: Strategic Objectives for ASEAN Financial Integration



Source: SWIFT - Achieving Financial Integration in the ASEAN Region, March 2017

However, global standards must be used for domestic and cross-border interoperability. Government-driven domestic payments systems will need to be based on global standards, i.e. ISO 20022, EMV[6], and PCI DSS[7] specifications. This will allow financial services providers to provide customers and merchants with secure and reliable payment solutions, which are crucial in the promotion of non-cash transactions. National retail payments infrastructures based on globally interoperable standards will be also be able to use the global supply chain to reduce costs.

ISO 20022 is a universal business language for financial industry that is increasingly acting as an enabler for new and emerging technologies. As a common business language for the financial marketplace, ISO 20022 is firmly positioned as a unifier for new and contrasting FinTech innovations, such as Distributed Ledger Technology (DLT), Smart Contract (SC) and Application Programming Interfaces (APIs). ISO 20022 is an advanced standard agreed at the business/contextual level regardless of different technologies in use within and across the financial industry. SWIFT is the registration authority for the business standard for financial messaging and is contributing as standing members to the ISO technical committees on the development of standards for technologies such as DLT.

In terms of notable payments system enhancements outside ASEAN, one of the most advanced retail payment systems globally has been launched in November 2017 in Australia - the New Payments Platform (NPP). As Australia's national real-time retail payments system, NPP supports 24X7 instant payments, ISO 20022 messaging, a simpler addressing service (using mobile numbers or email ids instead of account numbers) and high scalability through ease of integration with "overlay services" created by Banks, Fintechs or others. SWIFT has built the underlying infrastructure for NPP and now plays a key role in operating the same.

[6] **EMV** -- which stands for Europay, Mastercard and Visa -- is a global standard for cards equipped with computer chips and the technology used to authenticate chip-card transactions.
[7] The Payment Card Industry Data Security Standard (**PCI DSS**) is a set of security standards designed to ensure that ALL companies that accept, process, store or transmit credit card information maintain a secure environment.

The EU-ABC also recommends central banks and financial services authorities across ASEAN to also consider the aspects of technological innovations and consumers' convenience in developing regulations and national payment schemes. Regulatory frameworks in the payments sector must facilitate participants' quick adoption of innovative payment technologies, such as the latest chip, contactless, mobile contactless, and digital payment solutions. The adoption of such technologies will support the governments' financial inclusion goals.

Consistent cross-border regulatory expectations, interpretation and licencing regimes including safety and soundness measures like cybersecurity and anti-money laundering will be of utmost importance to facilitate such progress. Due considerations will also need to be given to the trade-off between viable business cases, transaction fees required for sustainability and users' needs for lowest cost payment that is the most efficiently transmitted.

Conducive and efficient national retail payment schemes are and will be foundations for a closer e-commerce ASEAN economy and to build them with a balance between costs, usefulness and future expansion capabilities for cross-border uses. Central banks and financial services authorities must do so in consultation and collaboration with industry players and impacted stakeholders. This will ensure that the regulatory frameworks are holistic, non-discriminatory and inclusive, and can provide both existing and future industry players with sufficient room to innovate.

For a lower cost, efficient and secure ASEAN cross-border e-payment environment that can support existing and new payment methods, we recommend the following next steps:

i) Review the availability of the "last-mile" connectivity of bank branches in ASEAN so that cross-border payments can flow from senders in one country to recipients in another country efficiently. The low costs and time efficiency benefits of such payments will come from the straight-through processing of payment transactions without manual interventions;

ii) The use of ISO 20022 message format. Transmission of cross-border payments need to include information necessary for Anti-Money Laundering, Sanctions and other compliance checking ("compliance checking") by banks. Otherwise, without such needed information, cross-border Business-to-Business (B2B) payments will be rejected on good compliance basis and therefore not as cost effective nor time efficient as they could be.

   The industry standard ISO20022 message type has the flexibility to contain the necessary information required for such compliance checks and lends to automated checking with only manual intervention on exception basis. Therefore, agreement and commitment on the payment message format (ISO 20022) for the region is necessary for efficiency benefits.

iii) To ensure compliance information and interpretation consistency. Consistent information required for compliance checking by financial intermediaries in the different ASEAN countries on cross-border B2B low value payments need also to be available to avoid rejections of these cross-border payments.

   For example, Country A-based money transmitter will be in compliance with that country's Anti-Money Laundering (AML) requirements. However, an incoming transaction from outside of Country A into Country A may not contain sufficient information for the receiving bank in Country A to comply with its local AML regulations. This will cause the transaction to be rejected.

   Across ASEAN, a consistent regulatory agreed level of compliance information and a consistent interpretation of requirements across the banking industry will be required. Without such agreements, payments' costs and inefficiency can remain relatively high due to incomplete information necessary for efficient processing.

iv) To review FX processes. An efficient FX settlement and central bank reporting procedure is a key area to facilitate lower cost, efficient and central bank-compliant B2B cross-border local currency payment initiation and local currency payment receipt. How this area can work for high volume low value payment is another complex area and we recommend central banks and regulators to work with the industry to understand the key details to solve including local currency/FX regulatory requirements and reports.

v) If ASEAN e-payment is to be "near-instant" in addition to being cost and time efficient, it needs to consider all the above points (i) to (iv) and to leverage on national retail payment schemes and available Faster Payment infrastructures, as well as initiatives like SWIFT gpi that are delivering speed, transparency and predictability to cross-border payments. However, authorities will need to note that there not all banks may be on such faster payment infrastructure and therefore, the implications on choice, fair and equitable competitiveness. The different availability and functionalities of such payment infrastructures should also be factored in, as well as the trade-offs between viable business case and low-cost instant payments.

These and other considerations to support sequenced execution can lead to a more integrated, efficient, secure and inclusive ASEAN e-payment system to benefit ASEAN economic vitality in the digital age.

SUSTAINABLE FINANCE IN ASEAN

> IN 2013, THE WORLD ECONOMIC FORUM GREEN INVESTMENT REPORT ESTIMATED THAT THE "ADDITIONAL INVESTMENT NEEDED TO MEET THE CLIMATE CHALLENGE–FOR CLEAN ENERGY INFRASTRUCTURE, SUSTAINABLE TRANSPORT, ENERGY EFFICIENCY AND FORESTRY – IS ABOUT USD0.7 TRILLION PER YEAR."
>
> http://www.gbm.hsbc.com/solutions/sustainable-financing

The need for sustainable development, and more environmentally and socially conscious policies from governments and the private sector, is now at the forefront of thinking for regulators and corporates the world over. Global concerns about climate change, as highlighted by the signing of the 2015 Paris Agreement[8], now mean that businesses and governments the world over need to take more account of sustainability when making their business and policy decisions: not just to protect the planet, but also to ensure that the living environment is improved for employees and citizens.

As a result of this movement, green or sustainable finance has begun to move to the front and centre of the investment arena, with many financial institutions, and indeed governments, looking to develop investment finance solutions that take account of the need to be "greener" and more "sustainable". As ASEAN continues to develop rapidly, with high levels of urbanisation and an ever-increasing demand for more infrastructure (roads, airports, railways, urban development etc.), the need for the region to take greater account of the impacts of its economic development on the local environment (both physical and social) has never been more important.

Green or Sustainable finance promotes the efficient flow of capital towards activities and developments that are either more sustainable or more responsive to climate change and social concerns. It is estimated that the potential market for Sustainable Finance will run to tens of trillions of dollars in the coming decade[9]. The key stakeholders in this - governments, corporations, the financial system - are beginning to realise that the part they play (in the way they allocate capital) will shape the speed of low carbon transition and future economic growth. To this end, various sustainable finance products are now being actively developed and marketed, including in the areas of debt, equity, green bonds and insurance.

A key driving force behind change is the global task force set up by the G20. The Task Force on Climate Related Financial Disclosure[10], whose recommendations have also been embraced by High Level Expert Group for the European Commission, was mandated to develop a voluntary framework for companies to disclose the financial impact of climate-related risks. It also calls for greater disclosures on exposure to environmental, social and governance (ESG) risk, as well as provide recommendations on governance, metrics and targets. Investors are now more than ever factoring sustainability issues into their investment decisions, and chief investment officers are integrating the key themes of Environmental, Social and Governance (ESG) into investments as a

[8] See: http://unfccc.int/paris_agreement/items/9485.php
[9] http://unepinquiry.org/wp-content/uploads/2017/07/Green_Finance_Progress_Report_2017.pdf
[10] https://www.fsb-tcfd.org/

CASE STUDY: SUSTAINABLE LOAN FOR PHILIPS

Philips signed an agreement for a new €1 billion loan with an interest rate that is coupled to the company's sustainability performance and rating. ING is the Sustainability Coordinator of the facility, as part of a syndicate of 16 banks.

Philips' sustainability rating has been benchmarked by Sustainalytics, a leading provider of environmental, social and corporate governance research and ratings. If the rating goes up, the interest rate goes down—and vice versa.

The construction for the revolving credit facility was created together by ING and Philips, and is the first deal in the syndicated loan market where the pricing is linked to a Sustainalytics rating.

See: https://www.ing.com/Newsroom/All-news/ING-and-Philips-collaborate-on-sustainable-loan.htm

matter of urgency. An HSBC study in 2017 found that 68 percent of surveyed investors planned to increase their low-carbon related investments[11]. The same research showed that 53 percent of corporates have a strategy in place to reduce their environmental impact, yet only 34 percent currently hold green bonds in their portfolios.[12] Given that the green bond market is still relatively small (at US$232.2bn issuance outstanding in July 2017[13]), this is perhaps not so surprising.

Clearly, the world is experiencing a mindset shift but there are still some obvious hurdles to overcome. A key challenge relates to companies and investors moving at different speeds. Nevertheless, Europe, and its financial institutions in both the private and public sector, has been at the forefront of developments in sustainable finance.

Green Bonds

According to HSBC, green bonds will become an increasingly important piece of the puzzle as investors move towards a more transparent reporting regime[14]. In the first half of 2017, green bond issuance rose 56 percent over the same period in 2016[15] and in 2016, over US$90 billion was raised – more than double the 2015 amount[16]. That included the first ever sovereign green bond, a €750 million issue by Poland[17]. Furthermore, in January 2017, France issued a €7 billion, 22-year green bond – a milestone in terms of its size and long tenor - and all the more remarkable because investor demand, at more than €23 billion, far outstripped the size of the offering[18]. There is clearly an increased demand for such products, which the current market is not fully satisfying.

At present, green bonds still account for less than 1% of the overall global bond market, but the market is rapidly growing for a number of reasons. First, there have been profound changes in the way businesses, consumers and investors perceive the risks stemming from pollution and rising global temperatures. This has galvanised global green-tech investments and financing.

Second, technological advances are making more and more low-carbon alternatives (from alternative energy technologies, to electric vehicles and batteries) economically viable. Green investments are increasingly not just ethically but also financially sound.

[11] http://www.hsbc.com/news-and-insight/media-resources/media-releases/2017/sustainable-finance-survey: The survey was conducted by industry research firm East & Partners over a four-week period, ending 11 July 2017. It surveyed the Group Treasurers and CFOs of 507 corporates and the Chief Investment Officer, Head of Portfolio and Head of Investment Strategy of 497 investment houses, with an even geographical split between Europe, the Americas, Asia and the Middle East.
[12] http://www.hsbc.com/news-and-insight/media-resources/media-releases/2017/sustainable-finance-survey
[13] HSBC Global Research, *Global Green Bonds: Europe picks up the baton*, 7 July 2017
[14] See: "Bringing sustainable investing into the mainstream", Business Times, Sean Henderson, 14 December 2017
[15] HSBC Global Research, *Global Green Bonds, Europe picks up the baton*, 7 July 2017
[16] HSBC Global Research, *Global Green Bonds, Outlook for 2017*, 11 January 2017
[17] https://www.environmental-finance.com/content/news/poland-issues-green-bond-markets-first-sovereign-bond.html
18 http://www.gouvernement.fr/en/success-for-france-s-first-sovereign-green-bond

Third, the authorities in China and India have thrown their considerable weight behind efforts to green their economies. By launching green bonds for the first time in 2015, Chinese and Indian institutions added geographical diversity to a market that had until then been dominated by the likes of Scandinavia, the United States and Britain[19].

It is also worth noting that at the first-ever Belt and Road Summit in Beijing China demonstrated its ambition to green the Belt and Road Initiative to include renewable energy and other green infrastructure. While initial BRI plans were for more traditional infrastructure (fossil fuels, roads etc.), the statements about greening the BRI was a positive step and we have already seen major banks including China Development Bank, ICBC and Bank of China issuing green bonds to support green infrastructure in countries along the Belt and Road. A lot more Belt and Road green bonds are expected to come in 2018 and beyond[20].

HSBC sees another challenge being the lingering skepticism over the "greenness" of specific bonds. Are proceeds really deployed to finance climate-related or environmental projects? Who assesses whether a particular issue is as "green" as another? Many investors are wanting to see more consistency and transparency in these areas before dipping a toe in the water. On the flip-side, issuers shy away from the additional efforts and costs associated with tracking and reporting on use of proceeds and certifying "green" issues. Despite current perceptions, the advantages of issuing a green bond are actually substantial.

For a start, issuing green bonds allows companies to tap the growing demand for these instruments among pension funds, sovereign wealth funds and other investors who are concerned about their portfolios' exposure to high-carbon and unsustainable issuers and activities. Moreover, the launch of a green bond allows an issuer to demonstrate they are aware of and preparing for the long-term challenges of global warming[21].

There is also mounting evidence that some green bonds trade inside non-green bonds and are less volatile in times of market stress.[22] These characteristics, coupled with increased investor appetite for low-carbon related investments, could be a catalyst for more companies to issue. An example of a green bond is the one arranged by ING Bank for the UK's leading water company, Anglican Water, in 2017 (see side bar)[23].

All said and done, the increasing momentum behind green bonds means issuers and investors can no longer afford to ignore them. As of 2016, there were some US$23 trillion of assets professionally managed under responsible investment

CASE STUDY: GREEN BONDS IN UK WATER

In August 2017, ING Bank was joint mandated lead arranger in the GBP 250 million bond for Anglian Water, the UK's largest water company. This green bond was the UK's first in the water sector. Funds were designated be used to finance projects related to drought, resilience, energy efficiency, and water recycling.

"Issuing the very first public utility sector green bond amplifies our commitment to sustainability, and demonstrates how we operate as a leading business," said Anglian Water's Group Treasurer Jane Pilcher in a press release at the time.

The bond is in line with Anglian Water's Love Every Drop sustainability strategy, which includes cutting pollution, waste and water leakages. This earned the company the Business In The Community's Responsible Business of the Year 2017 award.

[19] See: http://www.nationmultimedia.com/detail/Economy/30320589 - Green Bond: Now a critical source of capital ten years on by Gordon French, Head of Global Banking & Markets, Asia Pacific, HSBC.
[20] See: http://www.sustainablefinance.hsbc.com/our-reports/chinas-bri-challenge
[21] See: Gordon French, Head of Global Banking and Markets, Asia Pacific: " The Green Bond Market turns 10", published in the Hong Kong Economic Journal in August 2017
[22] HSBC Global Research, *Global Green Bonds, Value or vanity?*, 5 September 2017
[23] https://www.ing.com/Newsroom/All-news/ING-part-of-UKs-first-water-sector-green-bond.htm

strategies. That's up 25 percent since 2014 and represents more than a quarter of all professionally-managed assets globally.[24]

It is clear that changing investor behavior in response to global initiatives around managing ESG risk can only help to raise awareness of and spur interest in green bonds, and as such will be an important catalyst to the development of this market. To that extent there is, perhaps, a continued educational need with governments, corporates and issuers to increase awareness and understanding of the benefits of Green Bonds.

Singapore & Sustainable Finance – a way ahead for ASEAN?

In Singapore, HSBC[25] has found there to be increased interest in more retail buying of green instruments, as investors look for more socially responsible financing solutions. Corporates are also increasingly thinking about how they can adopt financing strategies to improve the environmental impact of their businesses.

While still in its infancy, the presence of a green bond market will no doubt add to the breadth and depth of Singapore's debt market. Given what is at stake, Singapore has to ensure it is ahead of the curve to secure its credentials as Asia's hub for sustainable financing. Lessons can be learned for the rest of the region from what the authorities in Singapore undertake in this regard.

Among the Asian markets, Singapore is making notable progress in the green capital market, where the government has played a key role as an advocate for sustainable financing. For example, the Singapore Exchange has introduced a new 'comply or explain' sustainability reporting requirement, signed up on the Sustainable Stock Exchanges Initiative as a partner exchange, and published a range of sustainability indices[26]. Additionally, the MAS supported the launch of an industry-led initiative to develop a vision for green finance in Singapore. It should also be noted that EU law also requires large companies to disclose certain information on the way they operate and manage social and environmental challenges[27].

Efforts have also been undertaken to make Singapore's capital markets more attractive both to issuers and investors through the introduction of initiatives such as the ASEAN Green Bond Standards and the Asian Bond Grant scheme in November 2017. The AGBS were developed based on ICMA's Green Bond Principles (GBP) tailored to meet the needs and commitment of ASEAN. The AGBS label is to be used only for issuers and projects in the region and specifically excludes fossil fuel power generation projects.

This is starting to bear fruit, with City Developments launching the country's first Singapore dollar green bond in April 2017[28], followed by the first US dollar offshore offering by DBS in July 2017[29], and most recently, Manulife's SGD500 million offering[30], the first benchmark sized Singapore dollar green bond issue. HSBC, a EU-ABC Member, was the lead arranger for two of the first three green bonds ever issued in Singapore and ING Bank, another member, lead arranger for the DBS offering.

In their recent position paper on financial services in Singapore, EuroCham Singapore's Financial Services Committee (FSC) stated that they believed there was large potential in Singapore and the region to develop a green bond market[31]. They agreed with a recent MAS' statement that the presence of a green bond market will add to the breadth and depth of Singapore's debt market, providing investors with more investment opportunities, and supporting the growth of ancillary

[24] http://www.gsi-alliance.org/wp-content/uploads/2017/03/GSIR_Review2016.F.pdf
[25] Sean Henderson, "Pushing sustainable investing into the mainstream" Deputy Head of Debt Capital Markets, Asia Pacific," HSBC, Published Channel News Asia – 14 December 2017
[26] http://www.mas.gov.sg/News-and-Publications/Speeches-and-Monetary-Policy-Statements/Speeches/2017/Keynote-Address-at-the-Investment-Management-Association-of-Singapores-20th-Anniversary-Conference.aspx
[27] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095 - (Directive 2014/95/EU).
[28] http://www.responsiblebusiness.com/wp-content/uploads/2017/04/News-Release-CDL-Green-Bond.pdf
[29] See: https://www.reuters.com/article/dbs-bonds-green/dbs-group-plans-us-dollar-green-bond-debut-idUSL3N1K81EL
[30] http://www.manulife.com/Master-Article-Detail?content_id=a0Q5000000PKcOPEA1
[31] https://eurocham.org.sg/wp-content/uploads/2018/01/EuroCham-Singapore-Banking-Position-Paper-Dec-2017.pdf

services as well[32]. Increased government participating elsewhere in the region – perhaps in the form of incentives – will heighten awareness of sustainable finance and promote its greater use.

Sustainable Finance Initiatives in Asia

Sustainable Development Investment Partnership

The Sustainable Development Investment Partnership (SDIP) is a platform comprised of public, philanthropic and private entities with ambitions to scale sustainable investments in developing countries through the use of blended finance. In 2017 the SDIP established a focused ASEAN Hub that will promote dialogue and adoption of best practices that can increase blended finance activity and enhance the bankability of projects. Through the Hub, the SDIP will establish an engaged network of leading blended finance practitioners in the region by raising awareness of best practices and sources of blended finance capital, scale and replicate blended finance mechanisms that can advance projects towards financial close in ASEAN and provide feedback to governments on project pipelines in the region.

Sustainable Finance Collective Asia

the Sustainable Finance Collective Asia (www.sfc-asia.com) is an online, collaborative funding platform formed by financial institutions providing a wide variety of funding including debt, equity and developmental capital, together with technical, social and environmental impact, and legal experts with the aim to support funding proposals in three broad sustainability themes – Circular Economy, Sustainable Energy and Social Impact – in Asia by aiming to provide feedback to help these proposals become stronger propositions and fund some of them.

Recommendations

In order to develop the market for sustainable finance instruments in ASEAN further, the EU-ASEAN Business Council recommends:

- ASEAN Governments should continue to work closely with financial institutions and trade bodies to develop and ASEAN-wide framework for Green Bonds and blended finance e.g. as ACMF has done on the development of ASEAN Green Bond Standards[33]
- ASEAN Governments should actively encourage the use of sustainable finance, linked to ESG measures, when seeking to raise funds for projects under their direct control, and also encourage SOEs and Private corporations to make greater use of ESG measures in their everyday planning and operations. In this respect recommendations by the High Level Expert Group on Sustainable Finance for the European Commission should be considered for ASEAN measures.
- More education for issuers and investors to raise awareness of the commercial imperative of Green Bonds should be undertaken by Governments across the region.

[32] See: https://www.channelnewsasia.com/news/business/mas-to-offset-cost-of-issuing-green-bonds-with-new-grant-scheme-8603578
[33] See: http://www.theacmf.org/ACMF/upload/ASEAN_Green_Bond_Standards.pdf .

BANKING REGULATORY FRAMEWORK IN ASEAN

Most of the text here is from the position paper, *Enhancing the Singapore Regulatory and Investment Climate*[34], produced by the Financial Services Committee (FSC) of the European Chamber of Commerce (Singapore) in 2017 and is reproduced with their kind permission. The European Chamber of Commerce (Singapore) is a founding member of the EU-ABC.

The sentiments and recommendations contained within it are endorsed and supported by the EU-ASEAN Business Council. Whilst the text below, naturally, focusses on concerns with regulation from the EU and the Monetary Authority of Singapore (MAS), there is also read across to actual or potential regulatory oversight regimes in other ASEAN Member States. **We feel that there is a need for a unified regulatory regime across ASEAN to reduce bureaucratic requirements and costs to the financial services sector. Whilst there are elements of individual regimes across the World that our members either feel are overly burdensome or overly restrictive, the general principle of having a unified and consistent approach to regulation is accepted to avoid the need to produce essentially the same information in multiple formats for multiple regulators.**

Enhancing the Singapore Regulatory and Investment Climate

The EU should consider reassessing European regulation applied in Singapore and wider Asia through regulatory dialogue to facilitate cross-border business while safeguarding the financial markets.

Background

The implementation of the G20 financial reform agenda is substantial, especially when taken cumulatively and implemented in multiple jurisdictions. For the G20 financial reforms to work across multiple jurisdictions, especially in an inter-connected global financial market with cross-border flows, it is important that regulations are harmonised and do not result in duplicative or contradictory requirements. As financial markets become increasingly inter-connected, the regulations in one jurisdiction may have an impact in another jurisdiction. The members of the EuroCham FSC fully support the implementation of the G20 reforms to create robust financial markets while facilitating economic growth.

When the United States (US) and the EU implemented the G20 financial reforms, some of the regulations were extra-territorial in nature, resulting in contradictory or duplicative or equivalence requirements for cross-border transactions. The consequences of regulations being extraterritorial in nature are not specific to the US or EU alone and were understandably formulated to protect the local financial market. Unfortunately, due to the inter-connectedness of the financial markets, these regulations have resulted in the unintended consequences of becoming extra-territorial in nature.

When assessing the current EU financial services regulatory landscape, European banks in Asia Pacific and Asian financial institutions face a plethora of regulations with new legislation coming into force in 2018; namely Markets in Financial Instruments Directive (MiFID), Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation, EU Benchmarks Regulation (EU BMR) and implementation of Capital Requirements Directive IV (CRD IV). Meanwhile, the European Market Infrastructure Regulation (EMIR) is currently under review.

Where there are cross-border impacts, EuroCham Singapore FSC believes there is a strong need for regulators to work together to ensure there is no duplicative or conflicting requirements that may result in a market disruption. This is reflected in the implementation of the non-centrally cleared margin requirements which is a good example of globally coordination, harmonisation and recognition of a home jurisdiction's regulations to date.

[34] https://eurocham.org.sg/wp-content/uploads/2018/01/EuroCham-Singapore-Banking-Position-Paper-Dec-2017.pdf

Main issues & challenges

EU-based financial companies active in Singapore and/or local companies involved in dealing with EU-based counterparties have raised some practical questions, for example on the LEI [35] registration, on how to implement measures enacted in both jurisdictions, as well as the impact of EU legislation on their day-to-day business.

EU financial services legislation provides for a "third country regime", which allows non-EU firms to offer services on a cross-border basis across the EU, subject to a registration requirement with EU regulatory bodies. Registration can be stringent on the Asia Pacific (APAC) firm being licensed in its home country and the legal and supervisory framework in the home country will have to be determined "*equivalent*" by the EU. To encourage economic growth, a simplified and outcomes-based equivalence assessment process should be considered.

It should also be noted that the EMIR equivalence assessments for third country central counterparties (CCPs) and developing cooperation arrangements has taught us that such equivalence decisions may not be quickly forthcoming. In fact, the volume of equivalence assessments will increase rather than decrease simply due to the requirements under the EU BMR and MiFID II.

In order to prevent market disruption, facilitate cross-border flows, encourage economic growth and avoid similar concerns with the EMIR equivalence assessments, for other equivalence determinations such as 3rd country trading obligations; "similar" trading venues and non-EU benchmarks, the equivalence process must be simplified and outcomes-based rather than rules-based to ensure equivalence determinations are forthcoming before the respective EU legislation comes into force. In addition, a proportionate equivalence process based on systemic impact to the EU financial markets could be considered.

Among other EU regulations with extraterritorial effect that came up in discussions, EuroCham FSC members raised particular concerns regarding MIFID II, EMIR, EU BMR as well as BASEL III & IV.

MIFID II / EMIR / Benchmarks

On 3 January 2018, the revised Markets in Financial Instruments regime (MiFID II) came into force and impacted market participants in Asia Pacific, either directly for EU-based institutions or indirectly when firms in APAC interact with EU firms. Although MiFID II did not result in a major market disruption as feared, firms are still working through the vast suite of MIFID II requirements. Any unintended consequences as a result of MIFID II may not be seen until market participants have had the time to fully understand the MIFID II implications and requirements.

On 22 September 2017, based on data from the International Swaps and Derivatives Associations (ISDA), Bloomberg reported that only less than 5% of the 530,000 LEI issued globally has been issued for Asia. ISDA estimates that tens of thousands of Asian organisations need to obtain LEIs ahead of the 03 January 2018 implementation deadline; if they are to continue trading with European financial entities. We appreciate ESMA's briefing note[36] on LEI to raise the industry's awareness for a LEI ahead of MiFID II coming into force. The LEI uptake has improved since 3 January 2018, however, market participants continue to face issues regarding the take-up of LEI with certain types of non-EU entities due to the perception that the mandatory use of LEI is an EU/ US requirement and non-EU entities are not impacted by these requirements.

A similar principle applies to EMIR margining rules. The current margining rules are generally considered workable and are well coordinated. However, EuroCham Singapore FSC believes the upcoming revision of EMIR after 3-year implementation would provide for a suitable opportunity to discuss margining standards, in particular the product scope subject to variation margin under the EU margin requirements. The Review should seek alignment with the margin rules in other jurisdictions to ensure a level playing field, i.e. the EU imposed Variation Margin (VM) for

[35] Legal Entity Identifier
[36] https://www.esma.europa.eu/sites/default/files/library/esma70-145-238_lei_briefing_note.pdf

physically settled FX swaps and forwards whereas the United States (U.S.) and APAC regulators have not.

Key concern of the EuroCham Singapore FSC members relate to EMIR and MiFID II transaction reporting. While an entity based in Asia will have no obligation under MiFID II, an EU counterparty will be in scope and therefore required to collect data points to comply with the MiFID II reporting rules. The infrastructure and compliance costs incurred by the EU entity is substantial to meet these requirements, additionally, an Asian entity may not wish to provide the extra data points as they are not directly impacted by these EU regulations. EuroCham Singapore FSC would also like to highlight a key challenge faced by EuroCham Singapore FSC members for their MAS reporting requirements. There are two different reporting requirements under MAS, the MAS 610 reporting and the MAS transaction reporting requirements which requires slightly different data. As a result, EuroCham Singapore FSC members need to ensure data is accurate for both these reports which increases the amount of reporting required; and increases operational risks and compliance costs without increasing any duplicative reporting requirements.

MAS may wish to consider a single set of reporting requirements to meet the MAS reporting obligations. We believe better coordination and information sharing between the home regulator (EU) and the Singapore regulator would streamline reporting (IT) processes and avoid any duplication in compliance efforts and reduce costs. Transaction reporting requirements should not be duplicative or allow the use "substitute compliance" to reduce cost and operational risks, where possible.

Given the amount of data an entity has to submit for their various reporting requirements and the substantial costs associated with delivering such data, the burden on entities to meet both home and host jurisdiction's reporting requirements is tremendous and prohibitively expensive. In addition, many jurisdictions are now looking at data privacy and/or protection of personal data which would likely increase compliance costs and may impede or hinder cross-border transfer of data to meet regulatory requirements. It is important that the data being collected is relevant and useful for that jurisdiction. Requiring more data to be submitted may not necessarily be useful nor contribute to the protection of local financial markets from systemic risks. There needs to be a single global reporting requirement which would not further increase the compliance and infrastructure costs but would meet the needs of the supervisory authorities of the various jurisdictions.

Under the EU BMR a non-EU benchmark that is used by an EU supervised entity needs to be recognised, endorsed or deemed equivalent by the EU authorities. We are encouraged with the 2-year transition period granted for non-EU benchmarks and by the steps taken to provide different methods for a non-EU benchmark administrator to seek EU approval. However, the recognition process requires a non-EU administrator to have a legal representative in the EU while the endorsement process requires an administrator located in the EU who is authorised or registered with a clear and well-defined role within the control or accountability framework of a 3rd country administrator. For a non-EU administrator, it is unlikely they would have a legal representative in the EU or an entity authorised or registered in the EU with a role in the framework of a 3rd country administrator.

This will mean that the most likely path available for 3rd country administrators would be to seek equivalence. However, this would require similar legislation in the 3rd country which not all countries may choose to adopt or be able to implement within the 2-year transition period. Consideration should be given to the extra-territorial impacts this will have on the liquidity of benchmarks in 3rd countries and the ability for EU supervised entities to access 3rd country financial instruments after 1 January 2020.

EuroCham Singapore FSC received similar feedback regarding the implementation of International Financial Reporting Standards (IFRS). EuroCham Singapore FSC is encouraged to see regulatory alignment in harmonising IFRS globally and would suggest to all supervisors involved making sure a similar level of alignment is taking place on the implementation level.

Basel III & IV

The EuroCham Singapore FSC generally believes banks are well positioned to meet the Basel III minimal requirements ahead of implementation in 2019. Many Asian economies, including Singapore, have existing capital regulations more stringent than Basel III requirements. In addition, a number of Asian regulators implemented liquidity requirements prior to the Basel NSRF rules[37]. Asian economies, including Singapore, have had prudential liquidity standards in place prior to Basel III. Most of these economies are following the BCBS introduction date and phase-in arrangements for the NSFR rules.

With the current implementation of the Basel III, the impact of the Basel III requirements on the sector will become clearer over the coming months. In a recent speech titled "*Financial Regulation: The Way Forward*" - Mr Ravi Menon (Managing Director, MAS) stated: *"We need to be mindful of proportionality when applying international regulatory standards. Subjecting banks of different sizes, different scope of activity and different degrees of internationalisation, to the same rules is not appropriate."*

EuroCham Singapore FSC encourages regulators to conduct in-depth research on any potential unintended consequences, particularly for non-systemically important local financial institutions and foreign financial institutions located in that jurisdiction where it may be appropriate to apply proportionate rules. This must be balanced with the need to maintain the Basel international standards, developed to ensure a minimum set of standards, are adopted by all jurisdictions. If each jurisdiction only adopts a portion of the Basel standards, it will no longer be an international standard and the fundamental foundation of the Basel standard will be eroded. We support the proportionate roll out of the NSFR in Asia such as under MAS NSFR requirements, the NSFR standard applies to D-SIBs in Singapore, where foreign headquartered D-SIBs shall maintain a NSFR ratio of over 50%.

EuroCham Singapore FSC does welcome the flexibility on timetables on the implementation of the Basel standards, in particular, as certain aspects of the Basel standards have yet to be finalised at the BCBS level. Although there is an internationally-agreed Basel timetable, certain jurisdictions have indicated a delay in implementation due to outstanding clarifications at the BCBS level. We encourage all jurisdictions to align the implementation dates of the various components of the Basel standards to ensure a level playing field on a global level. For example: the timeline for NSFR has been delayed in the US and EU till 2020 while several Asian regulators have indicated a go-live date of 1 January 2018.

Recommendations

The impact of extra territorial legislation resulting in contradictory or duplicative or equivalence requirements can be mitigated through co-operation, coordination and dialogue amongst regulators. This is reflected in the implementation of the non-centrally cleared margin requirements which is a good example of globally coordination, harmonisation and recognition of a home jurisdiction's regulations to date.

The EU should be more conscious of the impact on non-EU markets and the market participants would benefit from better regulatory coordination when drafting new legislation. Improved coordination in implementation and monitoring of compliance will ultimately lead to more stable and accessible financial markets and a level playing field.

The volume of equivalence assessments will increase rather than decrease simply due to the requirements under the EU BMR and MiFID II. In order to prevent market disruption, facilitate cross-border flows and encourage economic growth, the equivalence process must be simplified and outcomes-based or a proportionate equivalence process allowed based on systemic impact to the EU financial markets.

[37]http://www.mas.gov.sg/~/media/MAS/News%20and%20Publications/Consultation%20Papers/Draft%20NSFR%20Notice%2016%20Nov%202016.pdf

EuroCham Singapore FSC encourages regulators to conduct in-depth research on any potential unintended consequences, particularly for non-systemically important local financial institutions and foreign financial institutions located in that jurisdiction where it may be appropriate to apply proportionate rules.

ABOUT THE EU-ASEAN BUSINESS COUNCIL

The EU-ASEAN Business Council (EU-ABC) is the primary voice for European business within the ASEAN region.

It is recognised by both the European Commission and the ASEAN Secretariat. Independent of both bodies, the Council has been established to help promote the interests of European businesses operating within ASEAN and to advocate for changes in policies and regulations which would help promote trade and investment between Europe and the ASEAN region. As such, the Council works on a sectorial and cross-industry basis to help improve the investment and trading conditions for European businesses in the ASEAN region through influencing policy and decision makers throughout the region and in the EU, as well as acting as a platform for the exchange of information and ideas amongst its members and regional players within the ASEAN region.

The EU-ABC conducts its activities through a series of advocacy groups focused on particular industry sectors and cross-industry issues. These groups, usually chaired by a multi-national corporation, draw on the views of the entire membership of the EU-ABC as well as the relevant committees from our European Chamber of Commerce membership, allowing the EU-ABC to reflect the views and concerns of European business in general. Groups cover, amongst other areas, Insurance, Automotive, IPR & Illicit Trade, Customs & Trade Facilitation, Healthcare and FMCG.

Executive Board

The EU-ABC is overseen by an elected Executive Board consisting of corporate leaders representing a range of important industry sectors and representatives of the European Chambers of Commerce in South East Asia. The Executive Board is led by its Chairman Mr Donald Kanak.

Membership

The EU-ABC's membership consists of large European Multi-National Corporations and the nine European Chambers of Commerce from around South East Asia. As such, the EU-ABC represents a diverse range of European industries cutting across almost every commercial sphere from car manufacturing through to financial services and including Fast Moving Consumer Goods and high-end electronics and communications. Our members all have a vested interest in enhancing trade, commerce and investment between Europe and ASEAN.

To find out more about the benefits of Membership and how to join the EU-ASEAN Business Council please either visit www.eu-asean.eu or write to info@eu-asean.eu .

Notes: