

ASEAN Research Digest

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INDUSTRY-LED INITIATIVES ARE CRUCIAL TO ASEAN FINANCIAL INTEGRATION

Lifting-the-Barriers Report 2014: Financial Services & Capital Markets

OVERVIEW



RETAIL



LEGAL & TAX



FOOD & BEVERAGES



AUTOMOTIVE & MANUFACTURING



FINANCIAL SERVICES & CAPITAL MARKETS



MINERALS, OIL & GAS

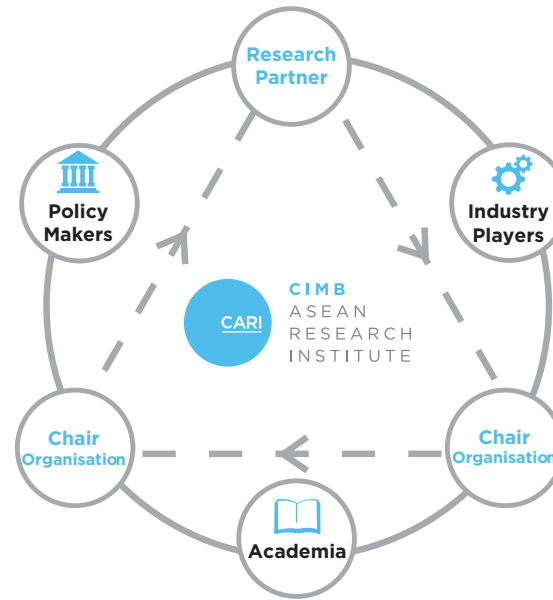
Research objectives:

The CIMB ASEAN Research Institute (CARI) in collaboration with the ASEAN Business Club (ABC) launched the Lifting-The-Barriers Initiative (LTBI) in 2013 as an integrated year long research platform involving core research as well as stakeholder engagement.

The objective was to adopt a vertical approach by means of identifying bottlenecks and barriers hindering free trade of prioritised sectors in the context of the ASEAN Economic Community (AEC).

The LTB Initiative 2014 targets six identified sectors which have pressing relevance to the business landscape in ASEAN and will play a major role in the successful formation of the AEC. The six sectors were Retail, Legal & Tax, Food & Beverages, Financial Services & Capital Markets, Minerals, Oil & Gas and Automotive & Manufacturing.

RESEARCH STRUCTURE



Two leading **ASEAN corporations** were selected to champion each sector, providing the direction and experiential insight into their industry. The input from these champions, or chair organisations, were key to understanding the issues faced by industry stakeholders and to develop the recommendations as part of the discourse.

CARI's Research Working Committee and its Strategic Advisors also worked closely with each of the six nominated Research Partners in producing these reports.

The Research Partners were either top management consulting firms or academic institutions who provided the technical knowledge and quantitative analysis required.

METHODOLOGY

The Lifting-The-Barriers Initiative (LTBI) is divided into four phases.

PHASE I

PRELIMINARY RESEARCH

Core research and compilation of qualitative and quantitative input from targeted sectors.

PHASE II

ABC FORUM



LTB Roundtables



Plenary Sessions

PHASE III

LTB REPORTS

The final outcome, a set of white papers, for ASEAN policy makers and community to effect real changes in the region.

PHASE IV

FINDINGS SOCIALISATION

The findings from the LTB reports will be prioritised and presented to various stakeholders including policymakers.



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Title of Study: Lifting the Barriers Report: Financial Services & Capital Markets
By: Accenture Published by: CARI, September 2014



BACKGROUND

Research objective:

To explore the key challenges to ASEAN integration in financial services and capital markets and to provide some suggestions as to what ASEAN should do in light of these challenges. The report also looks at what ASEAN can learn from the EU experience of integration.

Why is an integrated financial and capital market important to ASEAN?

- Financial and capital markets are important for emerging economies.
 - Bank lending is crucial to finance activities in all types of enterprises.
 - Capital markets provide a more diverse source of long-term finance for investment and infrastructure development.
- Well functioning domestic capital markets in individual ASEAN countries are a good starting point but an integrated ASEAN financial and capital market would bring significantly more benefits for its members by:

Improving the efficiency of capital allocation

&

Helping to attract foreign investment

- The rapid growth of the private sector translates into rising funding needs and requires robust financial and capital markets to provide the required capital.
- Small and medium enterprises (SMEs), as well as large corporates, are the region's growth engine so prioritising their development is critical for promoting inclusive economic growth.
- Bank lending to date remains the main source of financing, especially in less-developed economies, but there is already a supply-demand gap which will grow with Basel III further constraining banks' ability to lend in the future.
- The capital market is a good alternative source of funding, especially for corporates. Corporate bond demand is on the rise across ASEAN but capital flows to corporate bonds are constrained by a lack of pan-ASEAN lending standards, coordinated reporting standards, and central credit agencies.

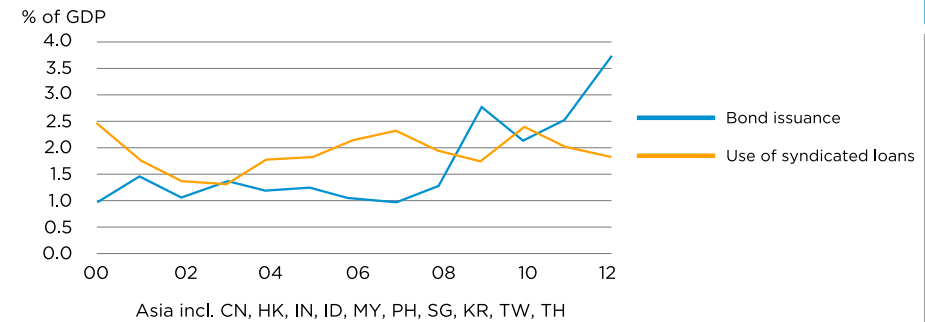
Corporate bond demand is on the rise

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Capital flows to corporate bonds constrained by lack of:

- Corporate bond demand is on the rise
- coordinated reporting standards
- central credit agencies

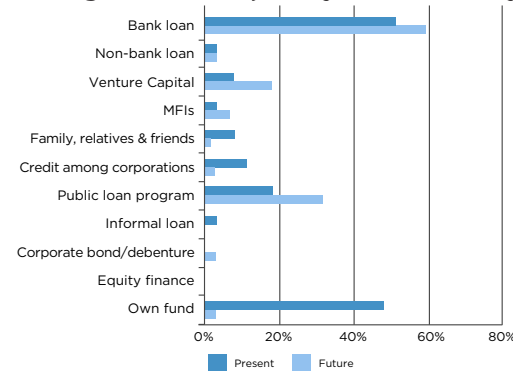
Corporate bonds accelerate vs. syndicated loans



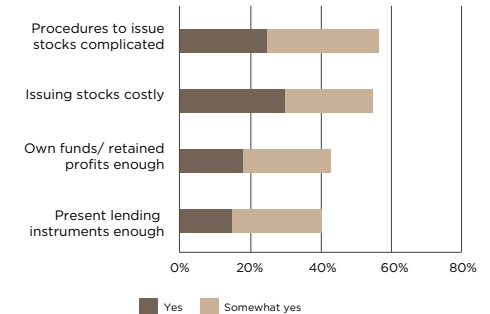
Source: Deutsche Bank Research, Dealogic

- This graph, which compares corporate bond vs syndicated loan issuance, shows how corporate bond demand has been on the rise across Asia, including ASEAN countries Indonesia, Malaysia, the Philippines, Singapore and Thailand.
- Securing adequate financing is even more challenging for SMEs.
 - The financing demand (approx. US\$2.54 million on average) of Malaysian SMEs significantly outstrips actual raised funds (approx. US\$0.64 million on average), according to a 2014 ADB report.
 - The report also showed hesitation towards the use of capital market instruments such as bonds and equity, mainly due to complexity and cost.

Funding Instruments, Malaysia SME Survey



Reasons For Capital Markets Hesitation



Source: ADB, Capital Market Financing for SMEs: A Growing Need in Emerging Asia



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- Lenders have generally been hesitant to lend SMEs due to:
 - ▶ poor consistency of financial/credit reporting standards,
 - ▶ lack of credit ratings,
 - ▶ concerns related to cross border ownership right.
- Adequate market structures are required to support the requirements for growth capital. Access to a larger pool of finance, ideally at a lower cost of funds, would go a long way to support the sustained growth of the industry.
- An integrated, efficient capital market would facilitate this, while offering numerous other benefits to market participants as laid out below.

Significant benefits to all ASEAN market participants to be reaped

Benefits for

Corporates

- Access to deep pool of financing and lower cost of funds
- Easier regional expansion
- Broader investor base through entry of foreign investors and retail participation
- Reduced transaction cost through harmonised clearing, regulatory and tax frameworks

Financial Services Institutions

- Address maturity gap through use of capital markets instruments rather than lending
- Economies of scale and scope through access to larger customer base
- Greater access to investment opportunities across borders
- Larger pool of investors, including stronger buy side participation in markets

Investors

- Enhanced product and service innovation with access to mutual funds, exchange traded funds, and bond pool
- Lower prices for financial services as competition lowers transactions costs and allows larger regional firms to exploit economies of scale and scope

Governments & Regulators

- More efficient allocation of capital
- Regulation of cross-border traders and investment will be strengthened and regulators are able to offer greater protection for investors
- Improvement of regulatory standards by adopting best practices
- More resilient banking sector through the creation of regionally competitive banks
- Enhanced ability to respond to financial shock due to improvements in financial infrastructure.

AEC initiatives lay the foundations for financial and capital market integration

- The ASEAN member states recognised the importance and laid out a foundation for capital market integration in the ASEAN Economic Community (AEC) Blueprint 2015 and the Implementation Plan 2015, as well as the ASEAN Financial Integration Framework (AFIF).

AEC 2015 Blueprint for Capital Markets Integration

- The AEC 2015 Blueprint, adopted in 2007, calls for freer movement of capital, easier capital raising and open opportunities for portfolio investment across ASEAN, allowing for greater cross border access to investors and issuers, and helping to broaden the investor base and range of products.
- Key initiatives of the ASEAN Capital Markets Forum (ACMF) implementation plan:
 - ▶ A mutual recognition framework for fund raising, product distribution, investment and market access
 - ▶ An ASEAN exchange alliance and governance framework
 - ▶ New products and ASEAN as an asset class
 - ▶ The strengthening of the bond markets
 - ▶ Alignment of domestic capital markets development plans to support regional integration
 - ▶ Reinforcement of ASEAN working processes
- Several achievements have been made, such as the **ASEAN Trading Link** or the **ASEAN framework for cross-border offering of collective investment schemes (CIS)** which allows retail investors to buy and sell funds issued in Singapore, Malaysia and Thailand.
- There are however significant differences in the levels of development of financial and capital markets in the AMS, as well as the extent to which global standards are observed. Liberalisation of financial services has also been constrained by concerns regarding financial stability and perceived risks related to financial policies and sovereignty of individual countries.

ASEAN Financial Integration Framework

- The ASEAN Financial Integration Framework (AFIF) was established to provide a general approach to financial liberalisation and integration.
- It calls for **'Qualified ASEAN Banks' (QABs)** to be able to enter and operate in banking markets across ASEAN, and for the elimination of discrimination against foreign banks.
- Aiming for financial liberalisation by 2020, the guiding principles and frameworks are in place, but implementation plans are yet to be defined.
- A study from the Asian Development Bank (ADB) projected that only a semi-integrated market will be achievable with some compromises:
 - ▶ A small number of QABs will gain access to the banking markets of all AMS
 - ▶ Some market restrictions still remain at the discretion of the host country
 - ▶ Progress in the sub-dimension of regulatory harmonisation will be slow



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What can ASEAN learn from the EU experience?

- While the integration of the European Union is still a work in progress, there is general consensus that the union creates a number of benefits for all members that far outweigh the potential negatives, when properly executed.

Key milestones towards an integrated financial and capital market

1977	First Banking Directive – first step towards the harmonisation of banking regulation
1979	Launch of EMU - coordination of central exchange rate under the Exchange Rate Mechanism (ERM)
1989	Second Banking Directive - “single passport” rule for banks
1992	Maastricht treaty - EEC becomes EU - agreement to develop a monetary union
1998	Establishment of ECB - sets monetary policy for Euro countries and manages their foreign reserves
1999-2001	Launch of Euro. Financial Services Action Plan (FSAP) for full integration of European banking and capital markets
2007	Markets in Financial Instruments Directive (MiFID1) - governs provision of investment services
2008	Financial crisis - closer economic cooperation. ECB launches Target2-Securities (T2S) project
2011	MiFID2 – more efficient, resilient and transparent markets
2012	European Markets and Infrastructure Regulation (EMIR)
2013	EU Corporate Debt issuance in 2013 just over US\$100b vs. US\$5-10b in 2004

Benefits of the EU financial and capital market integration

- While the single currency provided a major impetus to the integration of financial markets, benefits go well beyond currency integration.
 - ▶ A 2014 study by the Bertelsmann Stiftung in Germany found that increasing integration has had a positive impact on growth in all founding countries.
 - ▶ The impact on growth varies and depends for example on how well trade relations are developed, or how well the national economy has been able to adapt to economic developments within the EU.
 - ▶ As a general rule, the deeper and tighter the integration, the more economic benefits are realised.

Other benefits include:

- ▶ A level playing field for financial services providers across the EU through mutual recognition of banks through a “single passport”.
- ▶ More efficient allocation of credit, aided by lower cross border spreads through free flow of information and capital.
- ▶ A Single Rulebook which creates a unified regulatory framework for the EU financial sector, such as Basel III, the Single Supervisory Mechanism (SSM), the Single Resolution Mechanism (SRM) including the Single Resolution Fund

Integration flaws surfaced during the financial crisis of 2008

- The financial crisis of 2008 created significant challenges and several integration flaws surfaced:
 - ▶ The EU had created a currency union without fiscal union or sufficient monetary policy coordination.
 - ▶ Smaller, peripheral nation states adopted lenient policies to attract foreign investment which inflated the banking sector.
 - ▶ A lack of coordination by Eurozone governments created macroeconomic imbalances of divergent wages and prices.
 - ▶ There were serious failings in the cooperation, coordination, consistency, and trust between national supervisors.
 - ▶ Nationally-based supervisory models have lagged behind the integrated and interconnected reality of European financial markets in which many financial firms operate across borders.
 - ▶ Existing supervisory arrangements have not been able to prevent, manage or resolve crises.

What can ASEAN learn from this?

- **Disparities between ASEAN members are even larger** – ASEAN needs to consider how to best address individual sovereign interests vs. common goals of the integration, and how to share benefits.
- **Adequate safeguards need to be put in place** - Safeguards will need to be clearly defined to protect against macro-economic instability and systematic risks, especially for countries of less financial markets maturity.
- **Regulatory and policy harmonisation is imperative** - ASEAN should strive for policy and regulatory alignment regarding capital controls, economic policies, tax regimes, and banking regulations. Cross border resolution mechanisms should be put in place and a pan-regional supervisory system will be required to coordinate initiatives and deal with crisis situations.



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KEY FINDINGS

Key barriers to ASEAN financial and capital markets integration



Policy & Regulation

Concerns regarding financial stability, perceived risks to individual countries' financial policies and sovereignty, time consuming legislation



Infrastructure

Poor infrastructure links, lack of sufficient technical capacity for implementation, limited financial resources



Capital Flows

Capital flow controls result in a misallocation of resources and limitation of foreign investment



Cross Border Banking

Need for a strong regional supervisory structure that regulates and promotes cross border banks



Talent

Markets across ASEAN struggle to get the right amount of quality talent to fuel growth and development priorities



Policy & Regulation

- The harmonisation of policies and legislative frameworks among member countries is key to a successful integration. Key challenges include:
 - ▶ **Regulatory misalignment**
 - Capital controls and exchange restrictions
 - Differences in regulations – economic policies, tax regimes, banking regulations
 - Portfolio restrictions on institutional investors
 - ▶ **Sovereign interests vs ASEAN benefits**
 - No supra-national legal power or system to coordinate alignment
 - Risk that centralised financial policy disproportionately benefits developed nations
 - Individual countries may first focus on capacity building, then open up
 - ▶ **Safeguard measures to be defined**
 - Safeguards against macro-economic instability and systemic risks
 - Investor protection – current foreclosure laws, bondholder protection weak
 - Protection of less developed countries - capital outflows, competitive pressures
- Key considerations for ASEAN include: alleviating concerns regarding loss of sovereignty on macroeconomic, monetary and fiscal policy, achieving close alignment without a common currency, protecting and fostering relatively less developed economies, and mitigating system risks.



Infrastructure

- A currently disjointed ASEAN infrastructure needs to be harmonised to facilitate efficient financial and capital markets. Key challenges include:
 - ▶ **Disparate standards** that prevent efficient cross border payment and settlement; adopting common best practices is time consuming
 - ▶ **Lack of a centralised clearing services** establishment to enable efficient post-trade clearing and settlement
 - ▶ Existing **infrastructure capability** in member countries need to be enhanced to accommodate high-speed inter-connections among all national information infrastructures
 - ▶ Efforts required to ensure **security measures** are in place to build trust and confidence in the use of the internet and exchange of electronic transactions, payments and settlements
 - ▶ Due to **substantial financing** needs to develop the regional architecture, ASEAN needs to explore various funding mechanisms and sources, as well as governance models for regional infrastructure
- The EU offers a number of examples of regional infrastructure initiatives that help address these challenges:
 - ▶ **European Markets and Infrastructure Regulation (EMIR)** - Mitigates risks posed to the financial system by OTC derivatives transactions.
 - ▶ **Directive on Payment Services (PSD)** - Provides the legal framework for a single comprehensive system.
- Key consideration for ASEAN is the appropriate common infrastructure for a multi-currency environment.



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Capital Flows

- Even if capital is substantially allowed to move across borders, capital mobility is still not considered free. The process to address current challenges with regards to capital account liberalisation is time consuming and looks to delay significant progress towards the freer flow of capital. Key challenges include:
 - ▶ Cross border **capital flows are subjected to control** in form of permission, ex ante reporting, and quantity restrictions.
 - ▶ **Differing currencies and lack of interest rates integration** hinders the seamlessness and cost-effectiveness of FX flows
 - ▶ Potential **high costs for cross border transaction** processing due to its complex nature
 - ▶ Caution to open up due to a **variety of risks** and lack of measures to safeguard against instability
 - ▶ **Difficulties in establishing a universal capital account liberalisation** that is consistent with national agendas and economic readiness of all AMS.
- Key consideration for ASEAN is how to achieve free and seamless cross border capital flows without the establishment of a common currency or other mechanisms that force members to give up their monetary sovereignty.



Cross Border Banking

- Though cross border banking promotes regional financial stability, economic growth and capacity to withstand external shocks, it is still fragmented and hindered by regulation. Key challenges include:
 - **Significant gaps in the banking system, especially between ASEAN-5 and BCLMV**
 - ▶ Less developed capabilities in BCLMV; lack of competitiveness
 - ▶ Risk of fund outflow from less-developed countries with poorer institutional qualities causing winner-loser scenario
 - **Regulation preventing regionalisation**
 - ▶ National laws differentiating between foreign and local banks, impacting ability of foreign banks to obtain bank licenses or buy stakes in local firms
 - **Financial stability frameworks**
 - ▶ Absence of sufficient financial safety nets
 - ▶ Lack of integrated crisis management
 - ▶ No single cross border banking supervision and deposit guarantee system
 - **Trade-off between national interests and ASEAN benefits**
 - ▶ Threats from the entry of foreign banks and being dominated
 - ▶ Local banks too small to compete with regional or global peers - priority on protecting local players
- Key consideration for ASEAN will be how to protect weaker members while achieving non-discrimination and get to a 'single passport' system.



Talent

- ASEAN has the fastest-growing working age population in Asia and it will add an estimated 50 million people between 2010 and 2020. Access to skilled talent across the region is a cornerstone of the AEC, though national interests still often take precedence. Key challenges include:
 - **Movement of labour not yet free** - within countries, nationalistic restrictive legislation prevents organisations from being agile in their talent strategy and policies
 - **Talent gaps** - markets across ASEAN are struggling to get the right amount of quality talent to fuel growth
 - **Technology gaps** - technology and competency gaps in the workplace hinder organisations from growing with the digital revolution
 - **Mind-set change** - hierarchical leadership styles will need to evolve to be in line with changing Millennial expectations and technology trends
 - **ASEAN diversity** - the political, social, cultural and economic diversity of ASEAN makes it difficult to bridge talent gaps regionally
- Key consideration for ASEAN is to figure out how to address the business community's increasing need for talent across the region, including initiatives to promote talent development and mobility.



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What can be done in light of these challenges?

- The integration of ASEAN financial and capital markets is best addressed with a **two pronged approach**, with the financial services business community on one hand and policy makers on the other.
 - Industry participants** could come together and establish regional industry utilities that help foster an integrated capital market. This allows the market to lead with industry best practices, laying the foundation for policy and regulation enhancements. Internet financial services and alternative funding platforms could be used to provide funding options while mitigating existing constraints.
 - Policy makers** have an opportunity to create a greater sense of trust in the financial markets through enhanced regulatory alignment and policy harmonisation. To address major financing needs, they also could consider the creation of a pan-ASEAN “growth” bank that supports economic development.

Opportunities to foster the integration of ASEAN financial and capital markets



Financial Services Industry

Establish regional industry utilities to foster an integrated financial and capital market

- Leverage exchange infrastructure (e.g. the ASEAN trading link)
- Participant-led utilities driven by a consortium of banks
- Lead with industry practices especially in new domains, laying the foundation for policy and regulation

Leverage new phenomena such as internet financial services platforms to provide alternative funding options that mitigate constraints

- Crowdfunding
- Peer-to-peer financing

- Financial market utilities can turn these challenges into opportunity by creating a centralised, shared and distributed infrastructure to collectively perform a set of non-differentiating functions, using a common technology employed across multiple enterprises and thereby creating efficiencies.
- What makes ASEAN unique is that the existing infrastructure is less developed compared to other economies, which is in fact an opportunity to build new infrastructures without having to cope with interoperability challenges of legacy system integration.
- Building a cohesive utility based infrastructure now will save time and money.



Policy Makers

Build trust through enhanced regulatory alignment

- Move towards a common regulatory framework (e.g. alignment and coordination of policies)
- Standardised rule making body
- Capital flow liberalisation

Creation of an ASEAN “growth” bank to support economic development

- Foster greater financial and development cooperation among ASEAN member states
- Provide financing for infrastructure projects

Support industry-driven initiatives

Focus on talent development and mobility

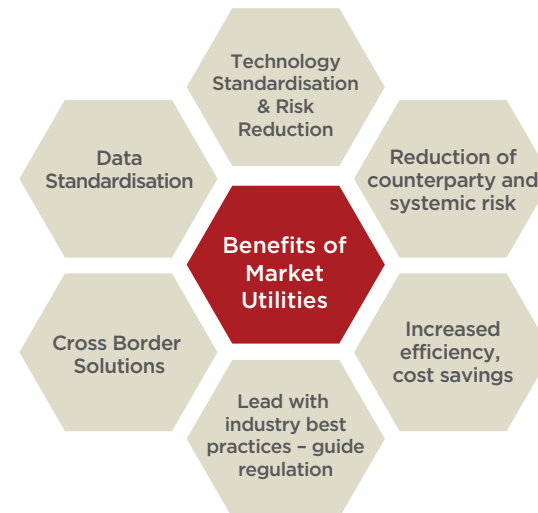
What is market utility?

- A true utility would be an industry or exchange led initiative which is member or consortium owned, and can be a for-profit or not for-profit entity. Such a service would entail shared governance, investment, cost savings, profits/losses (if applicable), and fees for data paid by members and non-members alike.
 - Examples of financial services utilities include those related to post trade processing and/or data including reference data, client data & documentation, client on-boarding, corporate actions, LEI, etc.

Benefits of Utilities

- The most obvious benefit of a shared utility is cost savings as non-differentiated functions are shared through a single shared data or processing centre with positive implications for manpower, storage, and computing power economics.
- Another less obvious benefit is the “golden source” nature of the shared data.
 - The number of failures and amount of human intervention is decreased as all participants are using the same sets of data.
 - This also affords the industry to lead the creation of best practices for regulatory reporting requirements for items such as KYC, anti-money laundering, and client record retention.

Benefits of Market Utilities





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Other market led initiatives

- Other market led initiatives often arise from a perceived need or unmet demand:
 - For example, the Intercontinental Exchange (ICE) was originally created as an internet based platform for energy trading, fostering transparency, efficiency, and lower cost in what was at the time a highly inefficient market. Over time the ICE expanded both in terms of membership and products, today comprising 11 exchanges, 5 clearing houses, and over 12,000 listed contracts and securities.
- The question for ASEAN policy makers is if they are open to fostering innovative market-driven solutions and create regulatory guidelines for such enterprises that are beneficial for all, or hinder efforts over concerns related to national interests or oversight.
- Platforms for alternative funding, such as peer-to-peer lending and crowdfunding, can facilitate access to capital for smaller, less established firms or in less developed markets.

Internet financial services examples

Peer-to-peer financing

- Online lending leveraging digital platforms and credit checking tools.
- Lenders set interest rates by competing in a reverse auction market, while mitigating risk through diversification and choice of borrowers.
- Borrowers do not give away any equity, but rather pay interest on the borrowed money to lenders.
- Financing is done through an intermediary who receives a fee for funded loans from the borrower and a loan servicing fee to investors

Crowdfunding

- Commercial purposes equity-based and credit-based funding. Two primary types:
 - Reward-based, non-monetary payback
 - Equity-based, investors receive unlisted shares
- Early stage SME capital raising.
- Inputs from investors can influence the valuation and size of an offering, leveraging the knowledge of the “crowd”
- These platforms can have a positive economic impact through the rebalancing of investible asset and may increase participation of retail and institutional investors in new local investment.
- Access to common reliable credit ratings is crucial for such platforms to flourish as investors need to be able to judge the risk level of investment.
- Framework and standards also need to be clear and backed by the rule of law in all AMS.
- ASEAN policy makers** should decide on the future of alternative financing options in ASEAN, and if non-financial services providers should be allowed into the system.

- ASEAN banks** should consider creating such platforms in conjunction with policy makers, after deciding what level of disintermediation risk banks are willing to accept.

Talent is a critical success factor

- The right deployment and management of talent is also critical to the success of ASEAN.
 - Business leaders** need to develop differentiated talent management strategies and recalibrate operating models to respond to regional changes.
 - Public sector leaders and policy makers** must put in place the right policies and capability development infrastructure to build relevant skills and promote talent mobility across borders.

	Business Leaders	Government	Educational Institutions
 Diverse workforce	<ul style="list-style-type: none"> Build capabilities to manage multi-generational, diverse, virtual workforces 	<ul style="list-style-type: none"> Build awareness around potential hidden pools of talent while ensuring social protections are in place 	<ul style="list-style-type: none"> Instill an understanding of cultural context and adaptability in students
 Skills and mindset	<ul style="list-style-type: none"> Ensure culture of the company is open to new technologies and change Forward-thinking in acquisition and development of new skills 	<ul style="list-style-type: none"> Ensure access to advanced technological infrastructure and other enablers of digital literacy 	<ul style="list-style-type: none"> Ensure sufficient emphasis on developing soft skills - team building, innovation, collaboration
 Work experience	<ul style="list-style-type: none"> Provide flexible working frameworks and arrangements for employees to lead self-actualized lives 	<ul style="list-style-type: none"> Provide their own employees with flexible working arrangements to set an example for private sector organisations 	<ul style="list-style-type: none"> Focus on developing modular curricula enabling employees to develop and up-skill talent continuously
 Organisation structures	<ul style="list-style-type: none"> Diffused decision-making authority through organisation based on new structures of collaboration 	<ul style="list-style-type: none"> Transformed into leaner, flatter, less hierarchical organisation 	<ul style="list-style-type: none"> Emphasize development of leadership skills, critical thinking, project management, collaboration and initiative in students
 Business Ecosystems	<ul style="list-style-type: none"> Be prepared to work with external talent, partners, and suppliers in a seamless way 	<ul style="list-style-type: none"> Enhance competitiveness by investing in talent hubs Develop regional talent and growth policies Create social nets for growing independent talent pool 	<ul style="list-style-type: none"> Develop education clusters to build capabilities aligned with key priority growth sectors



CONCLUSIONS

What can policy makers do to support ASEAN integration?

- While the ASEAN vision of integrated financial and capital markets is courageous and ambitious, political opposition and inadequate institutional infrastructure hinders the effective implementation.
- In an “ideal” world, the ASEAN member states would standardise macroeconomic policies, align legal & supervisory regimes, create a framework for bank and investor dispute resolution, create a central governing body with a ‘single passport’ system for cross-border operations, and institute safeguards against macroeconomic stability and systematic risk issues.
- Opportunities for harmonisation and coordination of regional regulations exist in areas of mutual interest that would benefit all ASEAN members, including:
 - ▶ Creation of a working committee to draft rules to be adopted across ASEAN
 - ▶ Development of a framework for a governing body for professional licensing
 - ▶ Standardised central bank reporting of interest rates, account balances, capital accounts, and currency targets
 - ▶ Creation of a regulatory authority or framework to harmonise standards for financial disclosure and reporting among companies accessing capital markets
 - ▶ Creation of a binding arbitration board for cross-border dispute resolution with each ASEAN nation represented in an equal manner
- At the LTB roundtable, a select group of ASEAN financial services professionals discussed next steps to advance the integration of financial and capital markets and as a result of a productive discussion, a two-pronged approach was suggested:

Implications for public and private sector

Industry-led initiatives

- Industry-led initiatives where industry participants come together to define and drive specific industry agenda through the application of best practices, especially in areas where there is no clear regulation, such as cross interaction and arbitration.
- Examples may include a reference data utility, KYC/AML, or similar common functions that are jointly set up.

Initiatives driven by policy makers

- Initiatives driven by policy makers, such as a dedicated working group to drive financial and capital markets integration, with focus on expedited implementation.

- In conclusion, the authors believe that such a two-pronged approach - with industry and policy maker participation - must be pursued to realise the vision of the ASEAN Economic Community Blueprint.

Industry-led initiatives

- An industry-led initiative would entail a number of market participants from across ASEAN jointly creating or sharing a specific common function or utility to collectively perform non-differentiating functions.
 - ▶ Possible examples may include a common reference data utility, a joint approach for determining credit ratings for SMEs, or a utility covering KYC and client on-boarding.
 - ▶ Such initiatives, or utilities, could facilitate the integration of ASEAN through the creation of best practices and cross border solutions, which in turn can help shape regulation.
 - ▶ Additional benefits may include cost savings, standardisation, improved efficiency and automation.
- Policy makers can contribute by recognising such initiatives as a potential foundation for the enhancement of policies and regulations, and should establish an environment in which such cross border transformation can thrive.

Initiatives driven by policy makers

- The integration progress could be significantly improved through the establishment of a small, dedicated team within the government machinery with the sole purpose of achieving integration goals.
 - ▶ This team could be part of the ASEAN Secretariat, may pair up government agencies and regulators with industry participants, and proactively drive integration based on an agreed agenda and action plan.
 - ▶ It should also recommend and implement quick-wins expediently without waiting for any pre-set schedule.
- As outlined in this report, a number of opportunities for quick wins exist which can be addressed and implemented without having to address fundamental differences between AMS.
 - ▶ This includes standardised reporting, the creation of an arbitration board for cross-border dispute resolution, or the development of a framework for professional licensing.
 - ▶ In contrast to the pursuit of a broad agenda by each individual member country, such an approach - especially when clearly showing initial success - has the potential to instil much needed confidence within the industry that the AEC 2015 and 2020 goals will be met on time.

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