

SUMMARY OF ACHIEVEMENTS OF ASEAN FINANCIAL INTEGRATION

A Introduction

1 In 2007, ASEAN Leaders declared their intention to establish an Economic Community (AEC) by 2015 as envisioned by the AEC Blueprint. It is intended to be a smoothly functioning regional financial system, with more liberalised capital account regimes and interlinked capital markets that will facilitate greater trade and investment flows in the region. Financial integration in ASEAN will be accomplished through:

- financial services liberalisation (progressive removal of restrictions to the provision of financial services by ASEAN financial service suppliers to ASEAN domestic markets and presence of Qualified ASEAN Banks (QABs) in other ASEAN countries);
- capital account liberalisation (freer flow of capital across the region); capital market development (building capacity and infrastructure for development of ASEAN capital markets); and
- harmonisation of payments and settlements systems (harmonization of domestic laws and regulations and linkage of systems).
- supporting initiatives include capacity building, regional financing arrangements, and regional surveillance and policy dialogues.

2 In 2011, the ASEAN Central Bank Governors adopted the ASEAN Financial Integration Framework (AFIF) which was acknowledged by ASEAN Financial Ministers to provide a general approach to the liberalization and integration initiatives under the AEC. The AFIF aims to have a *semi-integrated financial region by 2020*. The ASEAN Central Bank Governors agreed on the end-goal of financial integration which recognises that: (a) each ASEAN Member State (AMS) has its own initial conditions; and (b) each AMS may define its own milestones and timelines to achieve the common end goal of financial integration.

3 The broad thrusts for financial integration under the AFIF include: (a) differentiated timelines and integration milestones for ASEAN 5¹ and BCLMV², reflecting different stages of development and readiness; (b) accord of equal access, treatment and environment to QABs; (c) regard to safeguard financial and monetary stability in the process of financial services liberalisation, capital market development, capital account liberalisation and harmonisation of payments and settlement systems; and (d) shared responsibility among AMS for enhanced collaboration on financial stability and capacity building.

4 In 2013, the Central Bank Governors from ASEAN member states launched the Summary Report entitled “The Road to ASEAN Financial Integration - A Combined Study on Assessing the Financial Landscape and Formulating Milestones for Monetary and Financial Integration in ASEAN”, which was an important reference for ASEAN to further guide its financial integration process. The Summary Report highlighted ASEAN’s financial

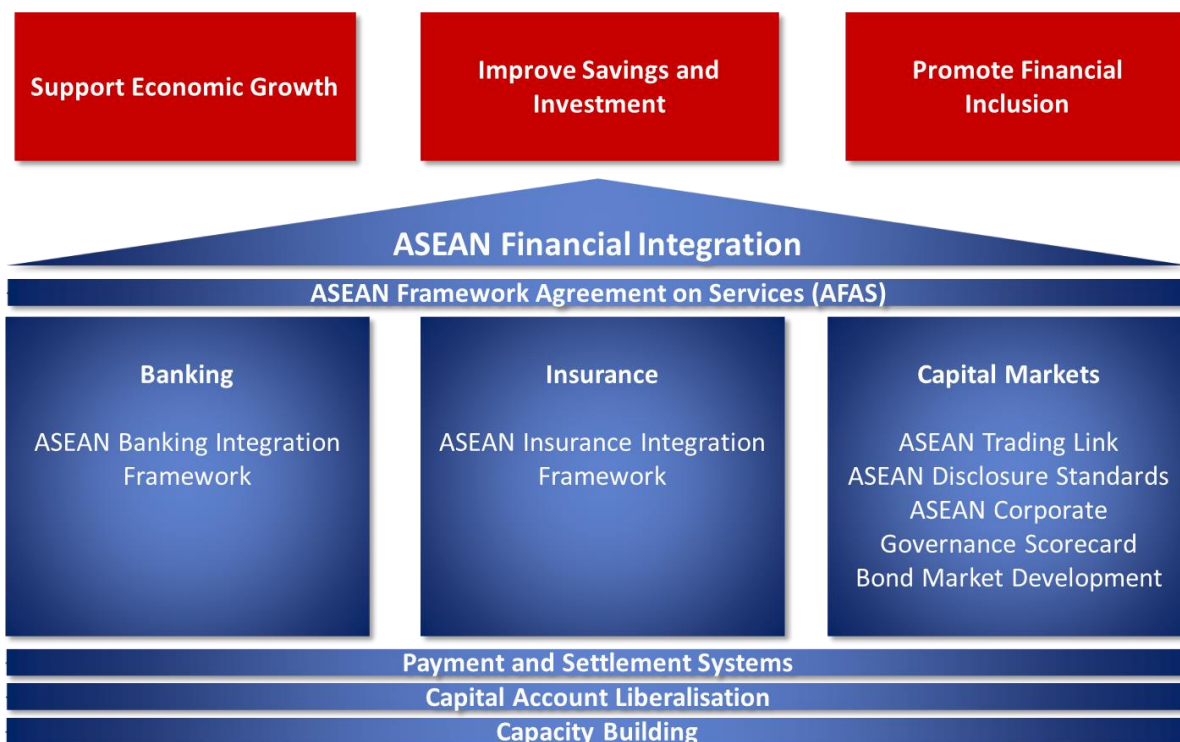
¹ Original ASEAN-5: Indonesia, Malaysia, Philippines, Singapore and Thailand

² Newer ASEAN: Brunei, Cambodia, Lao PDR, Myanmar and Vietnam

integration framework in the areas of financial services, capital account, payments and settlement systems, and capital markets, complemented by capacity-building initiatives, infrastructure building, and an enabling intermediation environment that is effective and efficient for financial flows.

5 **As this is the milestone year of 2015, it is useful for ASEAN to take stock of the achievements and benefits of ASEAN financial integration.**

B Benefits of ASEAN Financial Integration



I Support Economic Growth

6 **Strong regional banks, competitive insurance markets, deep and liquid capital markets, supported by efficient payment and settlement systems, will facilitate greater economic growth in ASEAN.**

7 **The ASEAN Banking Integration Framework is a platform to provide greater market access and operational flexibility for Qualified ASEAN Banks to encourage the Qualified ASEAN Banks having a greater role in facilitating intra-ASEAN trade and investment.** Stronger regional banks will provide improved banking services to corporates, facilitating trade and investment contributing to the improvement in the region's growth of economic activity. In particular, small- and medium-sized enterprises (SMEs), an important employer class, will benefit from greater access to financing. Improved financing services could include more infrastructure financing, especially for greenfield projects, which will also help to boost economic development in ASEAN.

8 The ASEAN Insurance Integration Framework was finalised and agreed upon to guide the progressive liberalization to ensure more competitive insurance markets and greater choice for consumers. Competitive insurance markets will lower the cost of insuring business risks, which will stimulate economic growth and spur intra-ASEAN trade. For instance, ASEAN members have agreed to prioritise the liberalisation of cross-border supply of Marine, Aviation and Goods in International Transit (MAT) insurance. Savings from lower business costs can be passed on to customers. Increasing insurance penetration in the area of natural catastrophe insurance will help to strengthen ASEAN economies' resilience to such events, enabling economic activity to rebound more quickly in the wake of natural catastrophes.

9 The ASEAN Framework Agreement on Services (AFAS) enshrines the progressive commitments by ASEAN member states to liberalise their finance services sector through successive rounds of AFAS negotiations. ASEAN members have completed six rounds of negotiations, the last of which was completed in 2014. Key commitments that ASEAN member states have made include the liberalisation of reinsurance and retrocession markets, which enables ASEAN members to benefit from the diversification of risks across the region, resulting in a lower cost of insurance and better coverage for risk exposures which are growing in scale and complexity, enhancing the protection of ASEAN communities and economies against such risks. Another key commitment is the liberalisation of financial leasing services, which lowers the financing costs for businesses when acquiring equipment. AMS have also made commitments to provide market access and national treatment to banking services, subject to identified limitations. The binding of specific commitments will promote predictability of the regulatory regime in financial services sectors, which is expected to help in attracting foreign investments into the country.

10 The ASEAN Trade in Services Framework Agreement on Services (ATISA), a comprehensive agreement on par with international best practices, is currently being discussed by ASEAN and will soon replace the AFAS. The ATISA will strengthen the platform and legal framework to realise the free flow of services, including financial services, in ASEAN. For financial services specifically, the ATISA will update the existing agreement by granting equal, if not more liberal commitments than what have been granted in ASEAN Plus FTAs and incorporating elements which are present in existing ASEAN Plus FTAs. Increased competition through the liberalisation of ASEAN's financial services sectors encourages financial services providers in the region to level up and allows them to better support their corporate customers' business activities across the region.

11 The Principles for Product Transparency and Disclosure on Cross-Border Trade Settlement enable businesses to make informed decisions on trade settlement services. The Principles outline the best practices in product disclosure of cross-border trade settlement services for financial institutions in ASEAN. This provides businesses with clear, timely, easily accessible and comparable key information to enable them to make informed decisions, enhancing the competitiveness of such services and lowering business costs.

12 The agreement to adopt ISO20022 as a common standard for fund transfers in ASEAN, upon readiness of individual countries, would foster interoperability and enhance efficiency in cross-border payments. National ISO20022 workshops were conducted with

the aim of creating awareness, better understanding and promoting the local adoption of ISO20022.

II Improve Savings and Investment

13 Better-developed capital markets in the region, underpinned by efficient payment and settlement systems and freer capital flows, will benefit both investors and issuers. Deepening capital markets strengthen their resilience to external shocks, while also helping to channel funding to where it is most needed.

14 The ASEAN Trading Link electronically connects exchanges in Malaysia, Singapore and Thailand. Through the establishment of the electronic trading link, investors will have easier and more seamless access into ASEAN markets from one single access point. The trading link, together with the ASEAN Corporate Governance Scorecard, is expected to increase the visibility of ASEAN publicly listed companies (PLCs) in the global financial market.

15 To facilitate multi-jurisdictional offering of equity and debt, the AMS has harmonised disclosure standards by adopting the ASEAN Disclosure Standards. This provides significant efficiencies to issuers as they need only to adopt a single set of disclosure standards for prospectuses in an offering across multiple ASEAN jurisdictions. Malaysia, Thailand and Singapore are signatories to the Scheme. The Scheme is benchmarked against the International Organisation of Securities Commissions' ("IOSCO") disclosure standards on cross-border offerings and fully adopts the International Financial Reporting Standards and the International Standards on Auditing.

16 Through the Memorandum of Understanding (MoU) on Expedited Entry of Secondary Listings among regulators and exchanges from Malaysia, Singapore and Thailand, the time-to-market for corporations seeking a secondary listing in a participating ASEAN country has been reduced from the normal timeframe of up to 16 weeks to 35 business days.

17 The ASEAN Corporate Governance Scorecard is based on a corporate governance ranking methodology which leverages on methodologies already implemented in ASEAN countries, as well as those applied by multilateral agencies such as the OECD. The Scorecard aims to raise corporate governance standards and practices, showcase and enhance the visibility of well-governed PLCs and promote ASEAN as an asset class internationally.

18 The ASEAN Capital Markets Infrastructure Blueprint aims to enhance connectivity of ASEAN capital markets through post trading linkages. Having greater access to different markets helps ASEAN investors to diversify risks and issuers to lower borrowing costs, while keeping transactions efficient.

19 The ASEAN Bond Market Development Scorecard monitors development of bond market development. ASEAN members have made progress in terms of market access and transparency for issuers, such as through making available benchmarks at regular intervals. Starting with Malaysia, Singapore and Thailand, ASEAN member states have also developed

and adopted the ASEAN Debt Securities Standards. For investors, ASEAN members have also improved the funding and hedging instruments available. For instance, most ASEAN member states now have an active repurchase and securities borrowing and lending market. More developed bond markets with greater depth and liquidity would allow issuers to tap on more sources of funding. ASEAN has progressively enhanced the granularity of the Scorecard to improve the monitoring of development and provide greater clarity and guidance.

20 ASEAN members monitor the progress of capital account liberalisation through the ASEAN Capital Account Liberalisation Heatmap and Individual Milestones Blueprint. Freer capital flows allow issuers and investors to access more markets, which in turn enhances the development of markets by improving depth and liquidity. Managed properly, the freedom for capital to move across borders will aid in the efficient allocation of savings in ASEAN to facilitate economic growth and welfare.

21 The Policy Dialogue Process on Capital Flows and Safeguard Mechanisms for Capital Account Liberalisation allow ASEAN members to monitor capital flow trends and exchange experiences on capital flow management. This deepens ASEAN members' understanding of one another's capital flow situation and policy stance, aiding individual members in their policy formulation while helping them identify policies that are compatible from a regional and global perspective, helping to maintain financial stability through sound policies and safeguards.

III Promote Financial Inclusion

22 Capacity building and financial integration will help to narrow the development gap among ASEAN economies and improve the quality of financial services to the under-served, under-banked and under-insured.

23 ASEAN Member States are committed to capacity building to enable all ASEAN economies to fully participate in the ongoing integration efforts. Countries are at different economic, financial and political stages of their development. Capacity building will narrow the development gaps among ASEAN economies to allow all members to reap the benefits of financial integration.

24 As ASEAN economies integrate financially, the quality of financial services being provided to ASEAN consumers will improve and financial services will reach a wider community that is currently under-served. Strong regional banks and competitive insurance markets will facilitate the access of individual consumers to banking and insurance services, as well as lower the costs of such services.

25 The Principles and Guidelines on Pre-Departure Orientation Program ensure that migrant workers receive adequate information to prepare them for their new life in their new destination, supporting a large group in ASEAN that may lack access to financial education. In this way, financial integration allows for crucial information on financial services to reach the groups that need them.