G20/OECD High Level Roundtable on Institutional Investors and Long Term Investment
From solutions to actions: implementing measures to encourage institutional long term investment financing

Organized under the aegis of the G20 Australian Presidency, the OECD and the Singapore Ministry of Finance
4 June 2014, Intercontinental Hotel, Singapore

Discussion summary

Building on last year's event, the Roundtable brought together senior government officials, institutional investors, private sector representatives and international organisations to discuss opportunities and measures to encourage institutional long term investment financing. Singapore's Deputy Prime Minister and Minister for Finance, Mr Tharman Shanmugaratnam, and OECD Secretary General, Mr Angel Gurria delivered opening addresses, while Australia's G20 Finance Deputy, Mr Barry Sterland presided over the Roundtable.

The participants recognised that long term investment in infrastructure will contribute to global efforts to return to self-sustaining growth. As traditional financing sources such as governments and banks become increasingly constrained, institutional investors like pension funds and insurance companies could help fill the financing gap. The key issue is the intermediation of available private capital into infrastructure. Investors will compare the risk return of an infrastructure investment opportunity with investments opportunities in other asset classes.

Key messages raised by participants during the Roundtable included the following:

- The lack of bankable projects is one of the major bottlenecks in emerging Asia.

- Governments should have a clear, strategic and long-term infrastructure vision, which should include a credible and realistic infrastructure project pipeline, a viable role for investors in projects and a good communication strategy to both potential investors and the public.

- Governments should create an enabling and stable policy and regulatory environment to support their long-term strategic infrastructure vision. Examples of policies include the introduction of contract mechanisms aimed at reducing political and renegotiation risks, and efforts at streamlining procurement and permitting processes.

- International organisations such as the World Bank and the regional development banks could consider ways to do more to assist emerging and developing governments on upstream activities such as project prioritisation and planning, with the eventual aim of increasing the supply of bankable projects.

- At the project level, there is a need to create a clear investor value proposition, which involves maximizing the value for governments and at the same time, ensuring a competitive risk adjusted return for investors.

- Investors appreciate clear allocation of infrastructure project risks. At the project level, an illustrative risk allocation matrix can be drawn up to clearly assign the potential risk owner (i.e. government or investor or both) for each individual risk that may arise over the project's lifecycle. The matrix could serve as a useful high level communication tool, and should be complemented by an in-depth risk assessment and quantification effort, where the drivers of each risk are identified and assessed for likelihood and impact.

- Market sounding is a useful way to share information and gather feedback from potential bidders and other stakeholders before the start of the formal procurement process.

- Investors appreciate a certain degree of standardisation and common elements in project and project loan documentation, for consistency, quality and governance.

- Greater participation of non-bank private capital in infrastructure financing is hindered by differing interests of the various stakeholders in the project loan market. To bridge the different needs and risk appetites, it would be efficient if capital could be right-sited i.e. commercial banks can finance projects at the construction stage, while institutional investors take over post-construction projects with stable cash flow.

- Investors would like to see an increase in transferability of project finance loans and in portability of guarantees when a loan is transferred from a commercial bank to an institutional investor. Guarantees should not become void when the loan is transferred.

- Further work can be done to improve the transparency of project finance loan credit grades. Borrowers could procure private or public credit ratings on projects to increase transparency and information availability so as to facilitate objective assessment of assets by investors.

- Investors need a stable and reliable regulatory framework that makes long term investments attractive and that does not discourage their long-term orientation. It is essential that retroactive changes in regulation do not hinder the appetite of private investors in countries' future infrastructure needs.

- Accounting standards can play a role in enhancing transparency, an essential part of attracting finance, and helping investors make informed decisions about long-term investment. Some investors view current regulatory and accounting treatments as favouring mark-to-market accounting and low risk liquid assets instead of long term investments.

- The standard setters outlined their comprehensive consultation process with the private sector, where they seek an appropriate balance of transparency and disclosure, with many seeing this as the appropriate process.

- By considering the primacy of the business model over the type of financial instrument held by an investor, some investors argue that accounting standards would not accentuate capital market fluctuations and thus disincentivise long-term investments.

- Designing a clear and predictable accounting framework, and getting the investor community's acceptance were identified as important steps to facilitate infrastructure investments. The standard setting bodies are the appropriate forum for addressing these issues.

- To incentivise institutional investors to undertake more long term investments, performance measurements and compensation should be based on longer term metrics and should not be penalised for short term market fluctuations.

- Governments should continue efforts to deepen and broaden capital markets. It will be useful to expand the spectrum of financial instruments available (e.g. bonds, equity, basic securitisation of loans) to ensure that long term investment is sound and sustainable.

- It was suggested that inflation linked debt is attractive to certain classes of institutional investors e.g. pension funds. Introducing instruments that have a clear and explicit link with inflation and attractive risk-return characteristics would contribute to a better matching of institutional investors' investment assets and their liabilities.

Background

Leaders of G20 countries, at their meeting in St Petersburg in September 2013, endorsing the G20/OECD High-Level Principles on Long Term Investment Financing, asked their Finance Ministers and Central Bank Governors to identify approaches to their implementation working with the OECD and other interested participants by the next Leaders' Summit, in November 2014 in Brisbane, Australia. Follow up work is being carried out by the G20/OECD Task Force on Institutional Investors and Long-Term Financing and will be based on work undertaken for the OECD Long-Term Investment project.

Research produced by the Task Force and the OECD project on Institutional Investors and Long-Term Investment was presented at the G20/OECD High-Level Roundtable on Institutional Investors and Long-Term Investment “From problems to solutions: policy measures to address constraints in long-term investment” organised by the OECD together with the G20 Russian Presidency and held on 28 May 2013 at the OECD Conference Centre in Paris.

Building on last year’s event and current G20 work, the G20 Australian Presidency and th4 OECD held the second G20/OECD High Level Roundtable: “From solutions to actions: implementing measures to encourage institutional long-term investment financing”. The meeting was co-hosted by Singapore Ministry of Finance.

The OECD has been making contributions to this global initiative through its project on “Institutional Investors and Long-Term Investment”, launched in February 2012, building on long-standing work (www.oecd.org/finance/lti). The aim of the project is to promote long-term investment (LTI) such as infrastructure addressing both potential regulatory obstacles and market failures.

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AGENDA

4 June 2014, Singapore

8.30-9.00	**Breakfast and registration**
9.00-9.20	**Opening remarks:** **Tharman Shanmugaratnam,** Deputy Prime Minister and Minister for Finance, Singapore **Angel Gurría,** Secretary General, OECD
9.20-10.45	**SESSION I: New public and private initiatives to bridge the gap between institutional investors and policymakers** **Moderator: André Laboul,** Head of Financial Affairs division, OECD • **Robert Milliner** Sherpa, B20 Australia • **Laurence Carter,** Director of IFC's PPP Advisory Department • **Lim Chow Kiat**, Group CIO, GIC • **Richard Abadie,** Global Head, Capital Projects & Infrastructure PwC • **Mark Machin,** Senior Vice-President & Head of International, President of Asia Canada Pension Plan Investment Board, CPPIB Asia Inc.
10.45-11.00	**Coffee Break**
11.00-12.15	**SESSION II: Through the spectrum of investment: a role for various actors (banks, institutional investors)** **Moderator: Claus Happe.** Head of Division, Federal Ministry of Finance, Germany • **James Courtenay,** Global Head of Infrastructure Finance and Advisory, Standard Chartered • **Raffaele Della Croce,** Lead Manager Long Term Investment project, OECD • **Walter Winrow,** MD, Moody's Global Project and Infrastructure Finance Group • **Clive Kerner,** CEO, Clifford Capital • **Guus Warringa,** Board Member, Chief Counsel, APG

12.15-13.15	**Lunch**
13.15-14.15	**SESSION III: Better institutional investors governance for better investment** **Moderator: Alejandro Diaz de Leon Carrillo,** Deputy Undersecretary, Public Credit, Ministry of Finance, Mexico • **John Saunders,** Managing Director, Blackrock Inc Hong Kong • **Scott Sleyster**, Chief Investment Officer, Prudential • **Brett Himbury**, CEO, IFM Investors • **Garry Hawker,** Director of Strategic Research, Growth Markets, Mercer • **Dilhan Pillay Sandrasegara**, Head, Singapore, Co-Head, Americas, Temasek
14.15-15.15	**SESSION IV: Revisiting the accounting of long term investment by institutional investors** **Moderator: Christophe Bories**, Head of International Financial System and Summits Preparation Office, Ministry of Finance, France • **Dominique de Crayencour**, Secretary General, Club of Long Term Investors • **Florence Mangin**, Director of Institutional Relations and the European & International Cooperation, Groupe Caisse des Dépôts • **Christian Edelmann**, Head of Asia-Pacific region, Oliver Wyman • **Makoto Okubo**, General Manager, Nippon Life Insurance Company • **Philippe Danjou,** Member of the IASB
15.15-15.30	**Concluding remarks** **Barry Sterland,** Australian G20 Finance Deputy