



ANNEX TO THE REPORT ON EFFECTIVE APPROACHES TO SUPPORT IMPLEMENTATION OF THE G20/OECD HIGH-LEVEL PRINCIPLES ON LONG-TERM INVESTMENT FINANCING BY INSTITUTIONAL INVESTORS

As agreed in the Prioritisation of Work to Inform Effective Implementation Approaches of G20/OECD High Level Principles on Long-term Investment Financing by Institutional Investors, the G20/OECD Task Force on Institutional Investors and Long Term Financing has developed the first set of Effective Approaches to support implementation of the High-Level Principles, covering Principles 3, 5 and 7 in their entirety and selected sub-principles of Principles 1 and 2.

This document contains the Annex to accompany the Report on Effective Approaches to support implementation of the High-Level Principles by the G20/OECD Task Force on Institutional Investors and Long Term Financing. The document provides information on national approaches and is presented here to the G20 Finance Ministers and Central Bank Governors.

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TABLE OF CONTENTS

PRINCIPLE 1.1	4
PRINCIPLE 1.5	46
PRINCIPLE 2	108
PRINCIPLE 3	149
PRINCIPLE 5	158
PRINCIPLE 7	209

The final document will contain a reference table in the annex document for each principle which will provide a cross-reference of the concepts within the Effective Approaches in the Report with the citation in the country specific practices as identified in the annex. It should be noted that the Effective Approaches for Principle 3 were based on existing guidelines or principles at international level and were not extracted from survey based information. More generally, some of the effective approaches for the other principles are based on discussions undertaken within the Task Force or provided in writing and do not necessarily refer to information gathered from the survey.

PRINCIPLE 1.1

Preconditions for long-term investments

1.1 Governments¹ should put in place framework conditions that are favourable to long-term investment financing. When evaluating policies to promote long-term investment by institutional investors, policymakers should ensure its consistency with the best interest of members, investors, beneficiaries, policyholders and other relevant stakeholders, and consider its wider potential public impact. In particular, long-term investment can help achieve broader policy goals such as financial stability, debt sustainability, job creation, inclusive growth, higher living standards, competitiveness, sustainable economic development and green growth.

Please answer the following questions²

Note: The questions related to Principle 1.1 will address the issues at a general level.

Have you developed specific policies or strategies to promote long-term investment by institutional investors (Yes/No)?

Australia

1. Yes

Brazil

2. Yes, mainly legal policies.

Canada

Questions 1-3

3. Canada has in place a policy framework that is favourable to long-term investment. It features several aspects that, while not being specifically targeted at the goal of promoting long-term investment by institutional investors, are nonetheless beneficial in this regard. These aspects include responsible fiscal management, a stable macroeconomic environment, a strong financial sector and a well-developed system of channelling public and private savings into longer term investments. Overall, Canada's policy framework is based upon the rule of law, an openness to trade and investment and a competitive and neutral tax system.

4. Canada continues to demonstrate responsible fiscal management. The planned return to a federal government balanced budget will provide investors with confidence in the long-term fiscal health of the Government, in turn providing a good climate for private sector investment.

¹ Government is defined broadly, including all competent authorities at international, national and sub-national level.

² As required, Members may wish to consult with relevant sectoral and /or sub-national agencies.

5. Canada also maintains a credible monetary policy framework, supported by a floating exchange rate that is focused on inflation control. This framework, combined with an open capital account and sound public finances, fosters enhanced macroeconomic stability. A stable macroeconomic environment is conducive to longer-term investment because it reduces uncertainty and improves the ability of firms and households to make forward-looking decisions.

6. Canada has a strong three-pillar retirement income system based on a balanced mix of public-private responsibility and voluntary-compulsory programs (see answer to Question 1 under Principle 2 for details). This system effectively channels certain public and private savings into vehicles conducive to long-term investment. The second-pillar Canada Pension Plan has its assets managed by the Canada Pension Plan Investment Board (CPPIB). The CPPIB maintains a large fund for this purpose, operated globally, with assets of C\$201.5 billion as of December 31, 2013. The CPPIB invests exclusively for longer-term considerations, with withdrawals not expected until 2023. Third-pillar arrangements, such as Registered Pension Plans and Registered Retirement Savings Plans, provide tax-assisted savings opportunities to encourage Canadians to accumulate additional savings for retirement. The legislative and regulatory framework for third pillar arrangement supports their long-term sustainability, including through pension plan funding requirements.

7. Canada is also open to trade and investment. Canada has actively promoted the use of Foreign Investment Promotion and Protection Agreements (FIPAs), aimed at protecting and promoting foreign investment through legally-binding rights and obligations. Canada currently has a total of 24 FIPAs in force. Canada also continues to actively negotiate and conclude tax treaties to reduce barriers to international trade and investment, combat international tax evasion and aggressive tax avoidance, strengthen Canada's bilateral relationships, and create enhanced opportunities for Canadian businesses abroad. Canada now has more than 90 tax treaties in force.

China

8. Yes

France

9. Yes

Germany

10. Yes, in relation to long-term investment financing, but not limited to institutional investors. See the European Commission' roadmap to "meet the long-term financing needs of the European economy"

(http://ec.europa.eu/commission_2010-2014/barnier/headlines/news/2014/03/20140327_en.htm). For details please see response to question 2.

Italy

11. There are no comprehensive policies or strategies specifically aiming at promoting long-term investment by institutional investors. However, several sectoral measures and initiatives, including recent ones, have targeted institutional investors.

Japan

12. Yes. In order to adjust resource allocation where sufficient money was not provided under the market mechanism, Fiscal Loan and Investment Program (FLIP) had played a central role in Japan. FLIP is

long-term low interest loans and investments by the government to achieve policies, such as financial support for small and medium enterprises, construction of welfare facilities and infrastructure etc.

13. Procuring the capital through issuing FILP bonds, (a kind of Japanese Government Bond), FILP enables the execution of providing long-term and low-interest funds and large-scale and long-term public projects, which have strong support for rapid economic growth in Japan. (At the peak: 37.3 trillion yen (FY1996)).

14. Considering the harsh fiscal conditions, in 2001, the Japanese government reformed FILP scheme and sought for harmonization with market mechanism, efficient money spending under the policy cost analysis. Preserving the public-sponsored scheme as catalysis for long-term financing, the government has developed several policies to expand long-term investment by institutional investors.

15. Especially, since 2013, nearly the same time when the G20 encouraged OECD to develop High-level Principles, the government had been developing the Growth Strategy to get rid of deflation and achieve sustainable economic growth. This strategy, called “the Third Arrow of Abenomics” proposes “Promotion of Investment” as one of four fundamental principles.

16. Based on the Strategy, the several Ministries have developed/been developing several policies that would lead to the promotion of long-term investment, such as public pension fund reform, infrastructure financing, and financial support for start-up firms and SMEs. (Refer to the answers below.)

Mexico

17. Yes

New Zealand

18. Yes

Portugal

19. The Portuguese Financial Regulators have been closely following the initiatives and discussions with regard to this topic in other international instances (e.g. European Commission, EIOPA, ...) and we consider that any future measure that would be implemented at national level should take into account and be articulated with the policies and strategies that are under development (e.g. Solvency II for the insurance sector, Basel II for the Banking sector, MiFID II and EMIR for the securities sector ...), including the interaction and synergies between different reforms.

20. The Portuguese Government has recently issued a Program for investment in infrastructures (2014-20), which may create new opportunities in this field.

21. The ongoing regulatory reforms should effectively address the regulatory shortcomings that contributed to the crisis.

22. In parallel, the Portuguese Ministry of Finance is also deeply involved in the negotiation of a proposal of the European Commission of a EU Regulation of European Long Term Investment Funds, conceived to invest in long-term infrastructures projects, which, though raising some serious problems at the level of the targeted investors (the proposal includes the possibility of distribution of the said long-term investment funds to retail investors) may be in the future and once the main questionable issues are removed, an important instrument for the financing of long-term projects.

23. From a Supervisory perspective, the contribution to economic growth and long-term investment is tackled by ensuring efficient market functioning through adequate regulation and supervision.

24. Two main areas of concern are:

i) Investor Protection and Support:

- a) Risk prevention
- b) Information sharing
- c) Efficient complaint handling
- d) In the long term, elevate the level of financial literacy

ii) Enhance the transparency of the market:

- a) Approval of prospectuses and marketing materials
- b) Accompanying communications
- c) Special attention to complex financial products

Russian Federation

25. Yes. The official “Strategy 2020” (2012), Presidential Decree of May 7, 2012 №596 “On the long-term national economic policy” and other conceptual documents of the government envisage development of domestic institutional investor base. As for international institutional investors, “The Development strategy for the Russian financial markets” and “The action plan for the development of an international financial centre in Russia”, which have been implemented since 2009, include the measures aimed at opening up Russian financial markets for them.

South Africa

26. Yes

Spain

27. Yes, although not a single policy, we have adopted several measures that promote long-term investment, including by institutional investors.

Switzerland

28. Yes

Turkey

29. Yes

United Kingdom

30. Yes. The UK Government believes there is significant scope for institutional investors to provide a growing source of long-term financing. Institutional investors such as insurers and pension funds should be well placed to do this for three main reasons:

- They need long duration assets to match their long-term liabilities and should be able to hold these assets over the long-term.
- The long-term nature of liabilities means that institutional investors can often hold their matching assets to maturity (to an extent they are insulated from fluctuations in the market value of such assets).
- With demographic changes and pressures driving the need for fiscal sustainability, individuals will have to save more for their future, providing a growing pool of savings for life insurers and pension funds to invest.

United States

31. Yes

EU

32. Yes

If yes, what main types of measures have been adopted? With what success?

Australia

33. Superannuation is a key part of Australia's financial system and contributes to two of the three elements in Australia's provision of retirement incomes, with the three elements being:

- the means-tested and publicly funded Age Pension;
- compulsory private savings through the Superannuation Guarantee arrangements; and
- incentives for voluntary savings.

34. Superannuation funds provide a pool of capital that can be invested in a variety of asset classes, including infrastructure investment. Infrastructure is considered a good investment by many superannuation funds as the long-term nature of the assets are a good match for the long-term nature of superannuation liabilities. Given these benefits, a range of superannuation funds already invest in infrastructure.

35. However, investment decisions are ultimately a matter for trustees of superannuation funds. Trustees should make decisions to invest in infrastructure balancing the potential risks and potential returns, while being mindful of their duty to look after the best interests of their members and the long-term nature of superannuation liabilities.

Brazil

36. In the recent years, several changes have been made in the legal framework for investment of pension funds to promote long-term investment, like:

- Incentives in investment in specific purpose company;
- Broader limits for Private Equity investments;

- Specific regulation to stimulate the increase in the maturity of investments;
- Legal procedure for dismiss to mark-to-market specific securities.

37. Furthermore, there is an effort of government representatives and employees to emphasize the importance of long-term investment in seminars and workshops.

Canada

38. Canada has in place a policy framework that is favourable to long-term investment. It features several aspects that, while not being specifically targeted at the goal of promoting long-term investment by institutional investors, are nonetheless beneficial in this regard. These aspects include responsible fiscal management, a stable macroeconomic environment, a strong financial sector and a well-developed system of channelling public and private savings into longer term investments. Overall, Canada's policy framework is based upon the rule of law, an openness to trade and investment and a competitive and neutral tax system.

39. Canada continues to demonstrate responsible fiscal management. The planned return to a federal government balanced budget will provide investors with confidence in the long-term fiscal health of the Government, in turn providing a good climate for private sector investment.

40. Canada also maintains a credible monetary policy framework, supported by a floating exchange rate that is focused on inflation control. This framework, combined with an open capital account and sound public finances, fosters enhanced macroeconomic stability. A stable macroeconomic environment is conducive to longer-term investment because it reduces uncertainty and improves the ability of firms and households to make forward-looking decisions.

41. Canada has a strong three-pillar retirement income system based on a balanced mix of public-private responsibility and voluntary-compulsory programs (see answer to Question 1 under Principle 2 for details). This system effectively channels certain public and private savings into vehicles conducive to long term investment. The second-pillar Canada Pension Plan has its assets managed by the Canada Pension Plan Investment Board (CPPIB). The CPPIB maintains a large fund for this purpose, operated globally, with assets of C\$201.5 billion as of December 31, 2013. The CPPIB invests exclusively for longer-term considerations, with withdrawals not expected until 2023. Third-pillar arrangements, such as Registered Pension Plans and Registered Retirement Savings Plans, provide tax-assisted savings opportunities to encourage Canadians to accumulate additional savings for retirement. The legislative and regulatory framework for third pillar arrangement supports their long-term sustainability, including through pension plan funding requirements.

42. Canada is also open to trade and investment. Canada has actively promoted the use of Foreign Investment Promotion and Protection Agreements (FIPAs), aimed at protecting and promoting foreign investment through legally-binding rights and obligations. Canada currently has a total of 24 FIPAs in force. Canada also continues to actively negotiate and conclude tax treaties to reduce barriers to international trade and investment, combat international tax evasion and aggressive tax avoidance, strengthen Canada's bilateral relationships, and create enhanced opportunities for Canadian businesses abroad. Canada now has more than 90 tax treaties in force.

China

43. In 2011, Chinese government announced *The Twelfth Five-Year Plan for National Economic and Social Development (2011-2015)*, which included the overall planning for the development of investment from 2011 to 2015.

44. In 2004, Chinese government issued *Some Opinions of the State Council on Promoting the Reform, Opening up and Steady Growth of Capital Market*, which clearly indicated that developing institutional investors was an important strategic task.

45. From 2012, Chinese government began to revise *Measures for Administration of Foreign Investors in Listing Corporation Investment Strategy* in order to create an open, fair and just investment environment for all types of foreign investors, including foreign institutional investors.

46. In 2006, Chinese government issued “*Pilot Measures for Administration of indirect investment of insurance resources in infrastructure projects*”, allowing insurance resources to be invested in key national infrastructure projects such as transportation, communication, energy, municipal projects and environmental protection projects through Debt Investment Plans.

France

47. French regulation has been amended, in conformity with Solvency I directive, to make investment rules for insurance companies more flexible in order to facilitate debt financing for SMEs and other financing like infrastructures debts. French insurance companies have invested more than 5bn€ since the entry into force of this initiative last summer, and further extensions are being considered.

Germany

48. Germany supports EU initiatives and measures to promote long-term investment by institutional investors, both in terms of instruments as well as in terms of an adequate regulatory framework. Outstanding in this context shall be mentioned the future Solvency II regime, which will be applicable from 1 January 2016.

49. More measures on European Level:

- Draft ELTIF-Regulation
- EUSEF-Regulation

50. Furthermore, we examine ways to support capital markets based financing of German small and medium-sized enterprises (SMEs), in particular by means of increased transparency and establishment of quality standards. See also response to question 5.

Italy

51. Long-term investments depend crucially on the country business climate. Starting in the second half of 2011, Italy has taken several measures aimed at creating a more business-friendly environment. This includes measures to improve business regulation by reducing administrative burdens and simplifying bureaucratic procedures, increase the quality of contract enforcement and prevent and fight corruption.

52. During the last 10 years Italy has enacted a number of significant reforms that have substantially improved the insolvency and the debt collection legal regimes, in particular by accelerating the judicial process for foreclosing and debt restructuring, by promoting the rescue of still viable businesses and by favouring market-based solutions for the realization of assets. The “*concordato preventivo*” (i. e. a reorganization procedure based on a restructuring plan to be confirmed by creditors) has been fully reshaped in order to make it easier to reach an agreement; incentives for the debtor to an early revelation of the difficulties have been set. New tools have been introduced to encourage the conclusion of out-of-court voluntary agreements with creditors. Winding up proceedings have been rationalized with a view at

allowing a speedier conclusion of the process and better outcomes in terms of recovery rate. More efforts are needed to reduce the length of judicial proceedings, which is still high in international comparison (see Principle 1.5, Question 6).

Equity markets (ACE)

53. The growth of the stock market could also benefit from the introduction, in 2011, of fiscal incentives to support firms' capitalization, according to a scheme of allowance for corporate equity (ACE)³. These incentives are intended to reduce the fiscal advantage of debt financing compared with equity. Moreover, the ACE has been recently strengthened with the Stability Law for 2014, which further increased the deductibility rates of new equity contributions to firms' capital structure, further reducing the fiscal advantage of debt financing. The ACE should therefore favour the growth of firms' size and the strengthening of the capital structure of the Italian economy. The ACE will presumably fully deploy its effects in the next years: with respect to previous ones, the economic recovery should, in fact, increase the number of entrepreneurs wishful to put new equity in their firms.

Pension funds

54. In 2012 the regulatory authority (COVIP) has issued a regulation containing guidelines for proper investment policy. Pension funds must prepare a document defining the investment strategy adopted, specifying, among other things, the financial instruments in which it intends to invest and the relative risk and return profile. The new rules also provide that the funds should adopt an internal function responsible for the financial management (or management control, in cases where this is delegated), carried out by individuals with the appropriate level of skill.

55. Gradual innovation in portfolio selection will be fostered by a revision of regulations to relax some of the quantitative limits on investment in financial assets and, simultaneously, provide for an adjustment of funds' organizational structures. Regulations on investment limits are currently under revision and will be finalized in the next months.

Investments in infrastructure

56. Italy is taking steps towards the systematic use of value-for-money analysis and the enhancement of the transparency of infrastructure projects. In particular: (i) to rationalize the use of PPPs through a greater use of value-for-money analysis (for example, it has been established that the feasibility studies have to indicate the advantages of resorting to PPP rather than to traditional procurement); (ii) to assure greater information transparency (disclosure obligations for the contracting authorities have been increased and a portal of public procurement has been activated to make public some of the information provided); (iii) to promote the use of project bonds (i.e., bonds issued to finance core infrastructure projects) through a favourable legal and tax regime (see Principle 5, Question 10).

³ Under an ACE, corporations deduct a notional return to shareholders' equity. ACE is thus ultimately levied only on profits in excess of investors' required return, so that it is fully neutral. In the Italian ACE, the benefit only applies to increases in equity since 2011. Due to its incremental nature, the measure implies limited public revenue losses, but at the same time provides companies with strong incentives to increase equity financing. Thus companies may end up in a better position to deal with innovative and potentially more profitable investment projects. For tax periods 2014, 2015 and 2016, the rate of notional return has been increased from 3% to, respectively, 4%, 4.5% and 4.75%.

National development bank

57. *Cassa Depositi e Prestiti*⁴ (CDP) - the Italian National Development Bank - participates in Government sponsored private equity funds. *Fondo Italiano di Investimento*, established in 2010, is the first private equity fund promoted by the Italian Ministry of Economy and Finance in cooperation with the main financial and industrial institutions of the country. The Fund aims at boosting capitalisation and promoting consolidation among small and medium-sized firms⁵. *Fondo Strategico Italiano*, of which CDP is the strategic and majority shareholder, acquires stakes in firms deemed to be of “significant national interest”, which are financially stable and offer significant growth and profit-generation prospects⁶.

58. CDP has recently had meetings with the Commission for the Supervision of Pension Funds (COVIP) and with the association of financial intermediaries to discuss and eventually promote LTIs by institutional investors. Within CDP, potential LT financial instruments are evaluated on an ongoing basis and subsequently submitted to the Government with specific proposals to promote LTIs by institutional investors. Moreover, an informal Working Group with the pension funds of the largest workers’ union (CGIL) was set-up in order to offer technical assistance on policies and strategies for their asset allocation as far as LTI and alternative investments with significant impact on the real economy are concerned.

59. While no concrete measures have been taken yet a dialogue has been opened as regards specific CDP’s financial instruments that can be of particular interest for institutional investors (i.e. equity funds for SMEs and for Infrastructure, debt funds focusing on the underwriting of SMEs’ bonds, the Italian Strategic

⁴ CDP is one of the largest European national development institutions (total assets reached EUR 305 billion in 2012). Its institutional mission is to support the growth of the country, acting as a financial intermediary at market conditions. This is pursued in three ways: (1) financing the investments of public entities; (2) being a catalyst for the development of infrastructure; (3) supporting enterprises. It is a private joint-stock company under public control, with the Italian government holding 80.1% and various bank foundations holding the remaining shares. CDP manages a major share of the savings of Italian households – postal savings – which represent its main source of funding. In addition to investing in several joint-stock companies and providing medium- and long-term financing to SMEs, CDP is active also through private equity vehicles both domestically and internationally. It invests in infrastructure in Italy (F2i Fund), in the EU27 countries (Marguerite Fund) and in the South-East Mediterranean countries (Inframed Fund). CDP invests also in Social Housing (FIA – *Fondo Investimenti per l’Abitare*) and enterprises (through FSI and FII, see below). CDP is also a founding member of the Long-Term Investors’ Club (LTIC), which brings together long-term institutional investors from around the world. In Europe, CDP operates in close cooperation with other LTIC members (EIB, KfW, CDC, and others) in different projects like, for example, the European Commission Project Bond Initiative.

⁵ The Fund has a commitment of EUR 1.2 billion: EUR 1 billion subscribed equally by *Cassa Depositi e Prestiti* and the largest Italian banking groups (250 million each), and EUR 200 million provided by other banks. The endowment is used both in direct investments and in third party managed funds. As for direct investments, the Fund targets high-growth companies with indicative turnover between EUR 10 million and EUR 250 million, wishing to expand their business especially through internationalization. It mainly holds minority stakes. As for indirect investments, the Fund targets private equity vehicles whose investment strategy is consistent with its own policy.

⁶ *Fondo Strategico Italiano* S.p.A. is an Italian joint stock company created in 2011. On March 2013, the Bank of Italy became investor in FSI with approx. 20%. FSI committed and paid-in funds amount to approx. € 4.4bn, that could increase up to EUR 7 billion. FSI invests in the following perimeter (as provided by the Ministerial Decree 3 May 2011): a) 8 strategic sectors (defense, security, infrastructure & public services, transportation, telecom., energy, financial services & insurance, high-tech & research); b) large corporates (> € 300m revenues and > 250 employees) in any sector. In March 2013, FSI and Qatar Holding incorporated a 50-50 joint venture “IQ Made in Italy Investment Company” (“IQ MIIC”) focused on investments in: (i) Food & food distribution, (ii) Fashion & luxury, (iii) Furniture & design, and (iv) Leisure, tourism & lifestyle, with a total capital of up to € 2billion.

Fund which invests in minority stakes of promising medium and large companies operating in strategically relevant sectors, RE Funds for an efficient privatization of public real estate assets, or eventually, just as a working hypothesis, setting up a CDP special dedicated fund in order to catalyse investment opportunities for specific institutional investors).

Japan

60. Main measures are as below. Refer to the answers in each section.

- Policy support
- Reform of the public pension fund
- Measures to support funding for SMEs and start-up firms
- Principles for institutional investors (the Japanese version of the Stewardship Code)
- New schemes for investment in starting new business (crowd funding)
- Utilizing private sector funds for infrastructure (PPP/PFI)
- Tax exemption measures to promote individual investment (NISA)

Mexico

61. Recent changes in Pension Funds (AFORES) investment regime have allowed them to invest in private equity funds and productive projects through structured instruments called Development Capital Certificates (CKD's). Institutional Investors are able to diversify their resources in different financial infrastructure products in Mexico, such as Equity, Fixed Income, Securities (CEBURES), CKD's, Real Estate Trusts (RETS - FIBRAS) and Private Equity Funds.

62. Since 2008, there have been 30 CKD's issuances with a total amount of USD 6.1 billion.

New Zealand

63. We have developed a general regulatory environment conducive to investment. Recent reforms brought in by the Financial Markets Conduct Act 2013 (FMC Act) are specifically geared towards facilitating capital market activity. The implementation process of the FMC Act is ongoing, and will put in place the regulatory settings needed to achieve fair, efficient and transparent financial markets, encouraging investment from a broad range of sources, including long-term investment by institutional investors.

64. The government is also continuing to explore and implement the use of Public-Private Partnerships (PPP), with work having been underway since 2009. Given the depth available in the technical, commercial and financial adviser markets to support PPP transactions, it is considered that NZ is currently at its full capacity in regards to PPP procurement.

Portugal

65. No comment

Russian Federation

66. Lowering the inflation rate, as a preliminary condition for institutional investors' activity (It has decreased from 8.8% in 2008-09 to 6.6%-6.5% in 2012-13).

67. Consolidation of financial market supervision under the auspices of the Bank of Russia (creating a financial mega regulator). Since September 2013, the Central Bank of the Russian Federation has become the overall financial market regulator.

68. Conducting pension reform, in particular, reorganizing the status of non-state pension funds. The pension savings are not formed in 2014, but they will in 2015, and then the savings will start to flow only to non-governmental pension funds in a form of joint-stock entities. Also, non-state funds will have to join the system of savings insurance (somewhat similar to the deposit insurance system for banks).

69. As for investment in large long-term infrastructure projects it's worth mentioning Government decree of November 5, 2014 №990 "On the order of using the funds of the National Welfare Fund in securities of Russian issuers related to the implementation of self-supporting infrastructure projects" and recent Government decisions to finance construction of Central Circular Road in Moscow region and reconstruction of the Baikal-Amur and Trans-Siberian Mainline railways in through this Fund in amount of 150 bn. rubles (approx. 4,3 bn. USD) assigned for each project.

70. Development of financial literacy and financial consulting services. According to OECD Surveys (e.g. National surveys of financial literacy (2012-3, WB + OECD/INFE Survey), Russia is on the advanced stage of design of the national financial literacy strategy.

71. Russian financial markets has been opening up for foreign investors – government bonds (OFZ) since 2013, corporate bonds since 2014. Also international clearing depositories will get access to the Russian equities market, by legislation, on July 1, 2014 (but due to technical reasons, probably they will start to operate in 2015). As a result, the share of foreign holders in the OFZ market increased in 2013 from 10% to 25%.

South Africa

72. South Africa has a very well developed self-funded long-term savings industry to the tune of 75% of GDP- life insurance and pension fund industry

a) For pension funds there is Regulation 28 of the Pension Funds Act which stipulates the maximum percentage of assets that can be invested in various instruments, like listed equity, unlisted equity, government bonds, etc. This has worked in that funds do adhere to the required percentages.

b) Government and institutional investors have been working on a strategy to reduce bottlenecks in long-term investment by institutional investors, especially in infrastructure. The strategy has not been formally adopted as yet. There has been a pilot scheme in private sector investment in independent power production in the energy sector.

Spain

73. ICO, the State-owned bank, is adapting its product portfolio in order to promote institutional investment through (i) Performance Bonds, (ii) Bridge-to-bonds, and (iii) Revolving Credit Facilities (RCF). In 4Q 2013 and 1Q 2014, ICO has executed several performance bonds to ensure the completion of investment projects and one RCF that supports the issuance of bonds. Besides, they have analysed some Bridge-to-bonds.

- In the EU framework we are negotiating a regulation on European long-term investment funds in order to promote financing for infrastructure projects or unlisted companies of lasting duration that issue equity or debt instruments for which there is no readily identifiable buyer.

- With the aim of promoting the establishment of new enterprises and their internationalization along the year 2013, the Directorate for Insurance Regulation adopted a new rule: investments that insurance companies make in assets admitted for negotiation in alternative markets (“*Mercado Alternativo Bursátil* or Fixed Income Alternative Market”) can be considered as assets representative of technical provisions under certain percentages.
- In the Pension Funds field a similar decision has been taken: the investment that a pension fund makes through an alternative market will be considered as assets representative of the technical provisions.
- An ambitious Program on Market Unity has already been adopted to rationalize the existing regulation and to reduce the domestic market fragmentation. The reform is still being implemented. Simulations using the General Standard Spanish Economy Model (REMS) show an economic impact of the complete application of the Program on Market Unity of an additional GDP growth of 1.54% of the Spanish economy in the long term and a reduction of administrative burdens of 35%.
- Finally, the Government has created the National Competition Authority and Network Industry Regulators Reform, which will be responsible for the enforcement of the competition Law in all the markets and supervision of sectors such as telecommunications, postal, media, energy and transport.

Switzerland

74. The extensive pension fund system of Switzerland promotes long-term saving of the workforce and is also a long-term investment pool on the investment side.

75. The Swiss solvency regime for private insurers (“Swiss Solvency Test”, SST) fully introduced in 2011 is among the first being fully risk based. Instead of imposing quantitative limits to specific asset classes, each insurer is required to quantify his risks on an economic basis using stochastic modelling techniques. Therefore, long-term investments are not artificially encumbered. As long-term investments in infrastructure projects typically have individual characteristics (profitability, underlying risks, diversification), it is difficult to treat different long-term investments (LTI) in a standard approach: if LTI are considered using a standard approach in the solvency measurement, an incentive is created to invest in overly risky LTI. This unintended consequence is avoided in the SST by requiring insurers to use internal models for non-standard positions, e.g. LTI.

76. To finance long-term credits for Small and Medium Enterprises (SME) in Switzerland, the Swiss government supports a guarantee system and created a start-up platform. Through the government supported guarantee system, SMEs have an easier access to bank credits. The start-up platform CTI (Commission for Technology and Innovation) is a private-public-partnership and supports Start-ups, which are in search of capital.

77. The Swiss government is always keen to maintain and improve its favourable general business and investment conditions. Apart from the measures mentioned above, further specific policies or strategies to promote long-term investment by institutional investors are currently not necessary in Switzerland.

Turkey

78. Regulations on Private Pension Funds, Real Estate Investment Companies, Lease Certificates (*Sukuk*) and Real Estate Investment Funds are introduced with a view to finance long-term projects. The number of pension funds increased substantially since the regulation was adopted. Due to newly revised incentives to the pension fund system the number of investors participating in the system and the flow of capital has increased. Moreover the Capital Markets Board of Turkey (CMB) has re-regulated Infrastructure Investment Companies and consolidated them under Real Estate Investment Company together with new administrative flexibility and tax incentives.

79. The number of capital market instruments issued to finance long-term finance projects, market capitalization and number of investors are the most important indicators of the effectiveness of these regulations. In this sense the development of capital markets is visible through an increased numbers of the actors in capital markets as follows:

- i) Real estate investment companies/investment funds: There are 30 real estate investment companies in Turkey which have a market capitalization of TL 21,500 million as of April, 2014. The portfolios of these real estate investment companies, the shares of which are listed on the stock exchange, are composed of real estate, real estate based projects and capital market instruments based on real estate. CMB also introduced real estate investment funds to promote long-term investments at the beginning of 2014.
- ii) Pension funds: With the incentives introduced to promote pension funds, the portfolio size and investor number of pension funds increased rapidly in 2013.

80. In Strategy and Action Plan for Istanbul International Financial Center, there are measures for developing collective investment instruments and insurance products. Moreover, in the 10th Development Plan, which covers the years 2014 to 2018, there is a policy for improving development banking, which provides long-term investment financing.

81. In order to improve collective investment instruments, new instruments like venture capital investment funds were defined in new Capital Markets Law No. 6362 and tax incentives were provided for venture capital investment funds and venture capital investment trusts.

82. The Law No. 6327 on Private Pension Saving and Investment System enacted in June 2012, introduced crucial amendments regarding the private pension system to increase the effectiveness of the system and increase long-term savings. According to the amendments, state incentive of tax deduction from income tax base of participants was replaced by a new state incentive as of January 2013. Under the new incentives, the state pays a matching contribution of 25 percent for every contribution paid by the participant. Moreover, the amendments contains provisions for promoting group pension plans with institutional participation, increasing the value added to the participants by reducing operational costs & fees and increasing effectiveness of operations in the system. With the support of the new state incentive of matching contribution, the private pension system accelerated its growth in 2013.

83. Lastly, the new regulation on the government incentives for the funds of venture capital funds has come into force in March 2014. This regulation forms a frame for selection criteria of the funds and their investment fields, the limits of both government contributions to the funds and cost incurred in the system, supervision of the funds of funds and time limit on exit strategy. There is no implementation under the regulation since it was published in March 2014. However, further studies are underway.

United Kingdom

84. The UK sees incentives for equity investment as a core tool to support the financing of long-term investment, for example through funded pension schemes and Venture Capital Trusts.

85. The UK Government commissioned an independent review by Professor John Kay to examine investment in UK equity markets and its impact on the long-term performance and governance of UK public companies. Following the Kay Report in 2012, the Government has committed – working with companies and investors - to reform the culture of equity markets to ensure equity investment supports companies to invest and build value over the long-term. Central to this has been work to encourage institutional investors to take a long-term view of equity investment: engaging with companies on matters of governance, performance and strategy in order to make investment decisions based on an understanding of the company's fundamentals, rather than simply on the basis of short-term market movements.

86. The Stewardship Code, published by the UK's Financial Reporting Council (FRC), was introduced in 2010 to set out good practice for institutional investors on the monitoring of, and engaging with, the companies in which they invest. It aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders, while making the investment industry more accountable to their clients and beneficiaries for their stewardship activities. It was updated in 2012, following the recommendations of the Kay Report, to strengthen the emphasis on investors engaging on long-term company strategy. It applies on a comply or explain basis.

87. The UK continues to work with the FRC and the investment industry to promote good practice and monitor take-up with the Code. For instance, the National Association of Pension Funds (NAPF) has developed a Stewardship Framework, encouraging asset managers to clearly articulate their approaches to stewardship: promoting more meaningful commitments to the Stewardship Code and facilitate clearer choices on stewardship for their institutional clients.

88. A number of specific corporate governance policy measures introduced following the Kay Report are described later in this survey response. The UK Government will publish a progress report on implementation of the report's recommendations in October 2014.

89. In addition, the UK Government is using the ISAs regime to promote share ownership and support long-term investment.

- ISAs are savings accounts in which the dividends, gains and interest arising are tax-free. There are two types of ISA: a cash ISA and a stocks and shares ISA. The annual ISA subscription limits for 2014-15 have recently been significantly increased, (from £11,520 of which up to £5,670 could be saved in a cash ISA) to a significantly higher limit of £15,000 per annum which can be saved in any combination of cash and stocks and shares.
- At Autumn Statement 2012, the Government announced it would consult on permitting shares traded on stock markets for small and medium sized enterprises (SMEs), such as the Alternative Investment Market (AIM) and other comparable markets, to be held directly in ISAs.
- Access to finance for SMEs is key to promoting private investment and delivering a sustainable economic recovery. But investment in equity markets, including AIM and similar markets for smaller businesses, has been subdued since the financial crisis. This policy could lead to a significant capital injection for SME equity markets, encouraging more investment in growing businesses.

- Widening the range of shares eligible to be held in an ISA will improve choice for ISA investors by offering tax relief on an even wider range of investments than at present. Investors will be free to choose the investments they hold in their ISA, so do not have to invest in assets that they do not want to.
- The Government introduced the necessary legislation to enable SME equity shares admitted to trading on a recognised stock exchange to be held in a stocks and shares ISA in July 2013 and it took effect shortly after. The London Stock Exchange recently noted that inclusion in ISA has had a positive impact on the value of average daily trades on the FTSE AIM All Share in the 12 months following ISA inclusion.

90. The UK supports the Commission proposal for an EU-Regulation on European Long-Term Investment Funds (ELTIF), which are aimed at encouraging long-term financing for the real economy.

United States

91. The United States promotes strong, reliable, and transparent financial markets for equity and debt. The United States stock exchanges are consistently the most popular venues on which domestic and foreign companies choose to list. The U.S. corporate and municipal bond markets are the largest in the world and ensure access to reliable debt financing for companies and state and local governments. Historically, long-term investments in the U.S. have attracted domestic and foreign investors.

EU

92. First of all, it is worth mentioning the proposal for European Long Term Investment Funds (COM/2013/0462); these private European Long-Term Investment Funds (ELTIFs) would only invest in businesses that need money to be committed to them for long periods of time.

93. In the framework of the Communication on long-term financing of the European economy (COM 2014 168), the Commission announces several actions, several of which are of an exploratory nature:

a) Adoption at the latest in September 2014 of the Delegated Act for Solvency II, including a number of incentives to stimulate long-term investment by insurers.

b) The revision of the IORP Directive, which could contribute to more long-term investment by occupational pension funds by limiting the possibilities for Member States to restrict certain types of long-term investment.

c) The Commission services will issue a comprehensive Call for Advice to EIOPA in the second half of 2014 with the objective of creating a single market for personal pensions and thus potentially mobilising more personal pension savings for long-term financing.

d) Work on the differentiation of “high” quality securitisation products across financial sectors and possible preferential regulatory treatment compatible with prudential principles.

e) Improving SMEs information: mapping of the EU and national legislation and practices affecting the availability of SME credit information, with a view to considering possible EU approaches to the credit scoring industry and assessing the feasibility of harmonising/increasing the comparability of SME data across the EU.

f) Study on the merits of introducing an EU framework for covered bonds.

g) Study to map out the private placement markets in Europe against other locations/practices, analyse their key success drivers and develop policy recommendations on how this success can be replicated more widely in the EU.

h) Evaluation by the Commission services of the feasibility to voluntarily make available and, where possible by way of a single portal, existing information on infrastructure investment plans and projects by national, regional and municipal authorities as well as another evaluation of the feasibility and practical arrangements of collecting and, where possible, making available comprehensive and standardised credit statistics on infrastructure debt within a single access point.

i) Proposal for the revision of the Shareholder Rights Directive to better align long-term interests of institutional investors, asset managers and companies as well as a Recommendation aimed at improving the quality of corporate governance reporting, a report on incentives for institutional investors and asset managers to take better account of ESG (environmental, social and governance) issues, and a study on fiduciary duties and sustainability.

j) The Shareholder Rights Directive (see <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52014PC0213&from=EN>) will incentivise (large) shareholders in listed companies to become more long-term engaged shareholders that provide long-term finance. A longer term perspective creates better operating conditions for listed companies and improves their competitiveness. Key elements of the proposal include stronger transparency requirements for institutional investors and asset managers on their investment and engagement policies regarding the companies in which they invest as well as a framework to make it easier to identify shareholders so they can more easily exercise their rights.

k) A major part of the shares of listed EU companies is owned by institutional investors and managed by their asset managers. Although the interests of many pension fund members and insurance policy holders are long-term oriented, institutional investors often do not engage with companies they invest in about their long-term prospects. Share-price movements and the structure and performance of capital market indexes are often more important, although they lead to suboptimal returns for the end beneficiaries of institutional investors and puts short-term pressure on companies. Asset managers investing the assets of institutional investors also often have a short-term focus in their investment strategies.

l) Long-term shareholder engagement is the key role played by the owners of companies to hold company boards accountable and to promote the success of companies in the long term. They can do so by:

- monitoring the company
- exercising their shareholder rights, such as voting or
- by establishing a dialogue with the company to constructively challenge boards and to promote better governance, risk management, etc.

More focus on long-term shareholder engagement is likely to result in more long-term financing.

m) Accounting standards: three actions consisting of an evaluation of the appropriateness of the use of fair value within the endorsement process of the revised IFRS, a recommendation to the IASB to give due consideration to the effect of its decisions on the investment horizons of investors, and, an evaluation of the IAS Regulation to explore the appropriateness of the endorsement criteria, taking account of Europe's long-term financing needs.

What particular barriers or impediments to investment are you targeting? With what success?

(for instance: Lack of appetite among investors for infrastructure and other long-term investments? Insufficient scale or financial capital of investors? Short investment horizons? Inadequate skills for evaluating technical aspects of investment projects? Inadequate risk assessment and risk management capabilities? Impediments inherent in the legal or regulatory environment? A lack of transparency or historical data on existing long-term projects? Lack of suitable pipeline of investment options? Lack of suitable investment vehicles? Other weaknesses or limitations? (please describe))

Australia

94. *Lack of suitable pipeline of investment options* – In 2008, a national institution called Infrastructure Australia was established to provide independent advice to government, investors and infrastructure owners on Australia's current and future economic infrastructure needs; mechanisms for financing infrastructure investments; and policy, pricing and regulation and their impacts on investment, and on the efficiency of the delivery, operation and use of national infrastructure networks.

95. Infrastructure Australia uses a transparent and rigorous process to identify the infrastructure priorities, policy and regulatory reforms which are necessary to provide a commercially attractive environment for long-term investors. Alongside this, it promotes long-term investment in infrastructure and identifies barriers to such investment. Infrastructure Australia also provides rigor and discipline to the selection of national significant projects and when they are ready to proceed, including by using an assessment methodology that requires thorough cost-benefit analysis. The Government is currently considering options to improve the operation of Infrastructure Australia.

96. In addition, the Government is implementing an 'asset recycling initiative', providing incentive payments to state and territory (sub-national) governments to sell their state-owned assets and reinvest the proceeds into economic infrastructure. Incentive payments, based on a fixed percentage of the sale price of an asset. The initiative will increase the overall level of funding for productive infrastructure by unlocking government funds and also enhance private sector investment where projects prove to be financially viable, where a lack of suitable brownfield investment opportunities has been identified as an impediment to long-term investment.

97. *Impediments inherent in the regulatory environment* – The Government is cutting regulation that is unduly hindering project delivery and private participation (see <http://www.cuttingredtape.gov.au/>).

98. *Lack of suitable investment vehicles* – Public-private partnerships have been an important vehicle for infrastructure investment in Australia. However, in recent years a number of high-profile PPP toll-road projects in major Australian cities have suffered significant losses, somewhat reducing investor appetite for PPPs. To revitalise the use of PPPs as a suitable investment vehicle, the Government is promoting the use of PPPs that have robust incentive structures, deliver value for money and efficient service delivery.

99. The Government is also using alternative funding and financing models for infrastructure investment. For example, in its 2014-15 Budget (released on 13 May 2014), the Government provided for a loan facility of up to \$2 billion to bring forward construction of stage 2 of the WestConnex motorway in Sydney.

Brazil

100. The main barrier in the Brazilian market is the historical short-term horizon of investments, due to the unstable economic and financial history. Another problem is the small amount of alternatives of

private equity and venture capital alternatives and short record of historical Investment Returns in this market.

Canada

101. Canada has in place a policy framework that is favourable to long-term investment. It features several aspects that, while not being specifically targeted at the goal of promoting long-term investment by institutional investors, are nonetheless beneficial in this regard. These aspects include responsible fiscal management, a stable macroeconomic environment, a strong financial sector and a well-developed system of channelling public and private savings into longer term investments. Overall, Canada's policy framework is based upon the rule of law, an openness to trade and investment and a competitive and neutral tax system.

102. Canada continues to demonstrate responsible fiscal management. The planned return to a federal government balanced budget will provide investors with confidence in the long-term fiscal health of the Government, in turn providing a good climate for private sector investment.

103. Canada also maintains a credible monetary policy framework, supported by a floating exchange rate that is focused on inflation control. This framework, combined with an open capital account and sound public finances, fosters enhanced macroeconomic stability. A stable macroeconomic environment is conducive to longer-term investment because it reduces uncertainty and improves the ability of firms and households to make forward-looking decisions.

104. Canada has a strong three-pillar retirement income system based on a balanced mix of public-private responsibility and voluntary-compulsory programs (see answer to Question 1 under Principle 2 for details). This system effectively channels certain public and private savings into vehicles conducive to long-term investment. The second-pillar Canada Pension Plan has its assets managed by the Canada Pension Plan Investment Board (CPPIB). The CPPIB maintains a large fund for this purpose, operated globally, with assets of C\$201.5 billion as of December 31, 2013. The CPPIB invests exclusively for longer-term considerations, with withdrawals not expected until 2023. Third-pillar arrangements, such as Registered Pension Plans and Registered Retirement Savings Plans, provide tax-assisted savings opportunities to encourage Canadians to accumulate additional savings for retirement. The legislative and regulatory framework for third pillar arrangement supports their long-term sustainability, including through pension plan funding requirements.

105. Canada is also open to trade and investment. Canada has actively promoted the use of Foreign Investment Promotion and Protection Agreements (FIPAs), aimed at protecting and promoting foreign investment through legally-binding rights and obligations. Canada currently has a total of 24 FIPAs in force. Canada also continues to actively negotiate and conclude tax treaties to reduce barriers to international trade and investment, combat international tax evasion and aggressive tax avoidance, strengthen Canada's bilateral relationships, and create enhanced opportunities for Canadian businesses abroad. Canada now has more than 90 tax treaties in force.

China

106. a. In order to remove the barriers such as "Impediments inherent in the legal or regulatory environment" and "Lack of suitable investment vehicles", Chinese government has developed a set of policies to allow insurance companies to invest in infrastructure projects, improved the legal and regulatory environment, and provided multiple investment tools, such as Infrastructure Debt Investment Plans and Real Estate Investment Plans.

France

107. From a global perspective, we support G20 diagnosis and top priorities in order to foster investment from institutional investors.

108. On the demand side, institutional investors report enthusiasm and appetite for long-term 'seasoned' projects such as in the infrastructure sector, especially in the post construction stage when cash flows are relatively stable. However there are challenges in: (i) acquiring suitable risk management expertise and in the costs and availability of suitable financial hedging products in some areas; (ii) ensuring regulatory and fiscal predictability, legal certainty (and contractual enforceability), etc.; (iii) improving the credit statistics on infrastructure loans.

109. On the supply side, there is a need for ensuring a strong pipeline of viable long-term investments and increasing availability of information on infrastructure investment plans.

Germany

110. The Federal Government will strengthen investment by increasing public investment especially in infrastructure as well as by improving the conditions for private investment. Important elements of the government's strategy are:

- A total of € 5 billion of additional money (from the federal budgets) is to be provided for investments in transport infrastructure over the next four years (till 2017), primarily for maintenance purposes.
- The Federal Government will evaluate the effects of the revision of the Act against Restraints of Competition that came into effect in 2013. Further steps to improve the administrative and court procedures for antitrust violations will be considered and the enforcement of cartel law by authorities and private parties will be strengthened.
- The Federal Government will regulate the railways in a proportionate manner in order to ensure transparency and non-discriminatory market access.
- The implementation of the new EU procurement rules should be used to make procurement procedures simpler, more flexible and more user-friendly in Germany as well.
- Another objective is to reduce barriers impeding the financing of SMEs.
- Furthermore the Federal Government will adopt a comprehensive Digital Agenda 2014 – 2017. The platform for the digitization will be efficient broadband networks. There is to be nationwide coverage of at least 50 Mbit/s by 2018.

111. Because of the trade-off between the places to produce energy by renewables and to consume energy, the German "*Energiewende*" needs additional investments in power grids. The Government has started some legislative processes in 2012/13 (e.g. NABEG, EnLAG, BBPIG, EnWG-reform) to reduce the planning time and investment risks in transmission lines. These processes are now being implemented and one of the further steps will be to link the investments in renewables more closely to the grid extension.

Italy

112. Several steps have been taken in the last period to foster the development of a more diversified financial system, where the contribution of institutional investors to firms' financing could become more relevant than today. However, the effects of these recent measures may require time before becoming apparent as structural changes in the financial system can only take place in the medium term

- A major obstacle to long-term investments by Italian institutional investors is the lack of expertise for evaluating and managing the risks associated with illiquid and often relatively risky instruments. Regulatory measures aiming to improve the governance of institutional investors have been taken, but they will take time to be effective. Moreover, mostly within different Working Groups including institutional investors, CDP is trying to address the skills' inadequacy in evaluating technical aspects of investment projects and therefore the resulting lack of risk assessment and risk management capabilities for specific LT asset classes such as infrastructure, SMEs and RE. So far, feedbacks are positive.
- The limited size of many institutional investors also represents an obstacle. In view of the economies of scale that characterize asset management and financial risk control, one impediment to pension funds adopting more complex investment strategies is their small average size, due both to the relative underdevelopment of supplementary pension provision and to the fragmentation of supply. At the end of 2011 occupational pension funds' sub-funds had average assets of €224 million; balanced and bond sub funds were larger (€314 million and €284 million respectively) and equity sub-funds smaller (€48 million).
- Long-term investments is also hampered by the short supply of pooled investment vehicles (such as credit funds, private equity funds and venture capital funds) that could help investors in managing liquidity and credit risks. Institutional investors, in fact, may have difficulties in investing directly in risky and illiquid assets as typically are long-term assets. Several credit fund initiatives have been recently created with the aim attracting major investors by managing portfolios of bonds and loans of small and medium-sized companies. The activity of the Italian Investment Fund, and the national development bank (CDP) and the recent changes in the investment limits for insurers may help the development of such vehicles.
- There is also a problem on the demand side. With reference to firms, the high percentage of SMEs in the non-financial sector (99% of the total), which are characterized by low transparency and a reluctance to access capital markets, make it difficult for investors to assess risks. This also feeds into the lack of performance indicators for specific long-term asset classes.

Japan

113. Illiquidity and long duration may hinder private sector from long-term investing under the economic mechanism; therefore, certain public policies and mechanisms are needed to promote it and remove the barriers.

Mexico

114. To fully develop local capital markets and channel more resources into long-term project financing more active involvement of local institutional investors is needed. Also, current incentives among institutional investors provide for a low risk appetite for infrastructure products. In this sense, the Mexican Federal Government is encouraging a reform of capital market regulation, regarding the participation of institutional investors in infrastructure, in order to:

- Improve incentives for investment portfolio management, leading to better investments and more efficient asset managers.
- Simplify the regulatory framework for infrastructure products, making CKD's a more flexible instrument.
- Extend the range of institutional investors that can invest in CKD's, including insurance companies.

115. This policy will contribute to strengthen local institutional investors' participation in infrastructure projects, fostering private capital mobilization for this sector, which is fundamental to promote domestic demand in the short run and lead to improvements in productivity in the medium to long term.

New Zealand

116. In general, the FMC Act addresses many of our current barriers/impediments to investment through facilitating capital market activity and providing a regulatory environment that encourages investment and lifts confidence in our financial markets. The government has also established a superannuation scheme – KiwiSaver – to increase our national saving rate as a way to support investment. For further information see the answer to question 2.2.

Portugal

117. No comment

Russian Federation

118. Transport bottlenecks and insufficient private investment in the economy remain on the policy agenda, along with the need to improve business environment. As follows from the surveys of the Russian economy (World Investment Report 2013, UNCTAD), the key role plays the so-called agglomeration effect (presence of foreign investors in this and neighbour regions) and the quality of transportation network. The latter is addressed in the federal program “Development of Transport System”, which implies increase in overall road construction rate, as total length of federal highways is to reach 44.1 thousand km by 2018, reduction of transport costs in the economy, improve in accessibility of transport services for population, enhancing external competitiveness of national transport system, ensuring proper safety and sustainability of transport.

119. As for the business climate issues, Russia continues implementing roadmaps on improvement of business climate, including some measures to decrease time and monetary costs for the entrepreneurs. During the last year Russia has raised its position in Doing Business (2014) by 19 points. Apart from these actions, Russia aims at improvement of the PPP legislation, special economic zones, business-incubators etc.

South Africa

120. There are a range of issues that constraint institutional investors from investing in infrastructure to their full potential, which are very similar to those highlighted in other countries and in OECD research. However, firstly it should be mentioned that institutional investors are investing quite substantially in infrastructure in South Africa through buying bonds of state-owned entities that build infrastructure, and buying other debt products – the support is roughly equivalent to R3-4trn (US\$300-400m). However, more

could be done, and this will depend on improving the following areas: providing of a clear pipeline of project investment opportunities; need for more efficient bid transaction/procurement processes; avoiding situations of regulatory or policy uncertainty in some sectors; ability of institutional investors to assess project opportunities to make direct investment in projects – only a few very large institutions are able to do so; need for client mandates of institutional investors to support greater allocation of investment funds in infrastructure; and a need to develop intermediation mechanisms further, e.g. find new financing structures for projects that allow institutional investors a greater role in financing alongside banks, particularly that brings them in to the design of financing structures at the origination stage.

121. There are other issues that also play a role, but that are more minor; and once again include those identified by the OECD. It should also be noted that there is no particular lack of funding (at this stage) or appetite for investment by institutional investors.

122. On the major issues identified, South Africa has a Task Team consisting of government, the finance industry and labour, that is looking at addressing these issues, beginning with the issues identified above as priorities.

Spain

123. Economic operators and international institutions stress that Spain has a problem of domestic market fragmentation, caused by excessive regulation and dispersion of production in the economic sectors. This fact hampers effective competition and prevents the exploitation of economies of scale of operating in a larger market. This discourages investment, reduces productivity, competitiveness, economic growth and employment and is therefore a cost to citizens in terms of welfare.

124. Attempts conducted so far in Spain to rationalize the existing regulatory framework and avoid market fragmentation have not been enough. Despite the momentum of Law 17/2009 of 23th November and Law 2/2011 of 4th March, which has extended a regulatory model based on the better regulation principles of necessity, proportionality and non-discrimination in all economic activities, heavy regulation and market fragmentation persist in certain economic areas. Because of this, we are now implementing the already mentioned “Program on Market Unity”.

125. Another barrier to investment is the lack of homogeneous criteria in regulated sectors with the same economic features and thus legal uncertainty. The already mentioned Program on Market Unity as well as the new National Competition Authority will help to combat this problem.

126. We are aware of the lack of experience of institutional investors in some kind of investments such as Bridge Bonds and Performance Bonds. We are dealing with the hesitation of non-qualified investors supporting the infrastructure sector, but in some cases the price is not adjusted to the risk of project.

127. Pension Funds find that insurers have to overcome considerable non- regulatory barriers: many of the asset classes are relatively heterogeneous and access to relevant performance data is complicated given the absence of market prices. There are also new risks involved like construction and political risks. At the same time, the illiquidity of these assets with maturities that may extend over several decades makes it difficult to reverse investment decisions.

Switzerland

128. For SMEs it can often be more difficult to attract investments, given their small size, investors or banks have less information about business prospects. For this reason, the government regularly observes whether measures are necessary to support the financing needs of SMEs.

129. Institutional investors look for legal certainty, predictability, strong creditor rights and stable and foreseeable political and macroeconomic conditions in the internal but also in foreign markets, as far as this is possible.⁷ Such foreign investments might also have a stabilizing effect, as investments are distributed over different countries and different branches. The risk that e.g. real estate prices in a specific country will rise sharply because of its internal institutional investors are minimized when many countries have sound investment regulations in place and liberalize their access to investment. Thus, Switzerland negotiates the terms for market access of (direct) investments so as to ensure that international law provisions apply to all economic activities carried out by Swiss companies in the recipient country, i.e. that no restrictions are placed on the right to establish business activities and that discriminatory practices are avoided in investment chapters of free trade agreements (FTAs).

Turkey

130. One of the major challenges Turkey faces with respect to the channelling of necessary funds to the real economy for growth is identified as low saving rates. Furthermore, the majority of savings are channelled through the banking system with a short term nature, leaving securities markets a small share in the overall economy. Due to the preference of investors for short term investments even the funds that are channelled through the capital markets by institutional investors tends to be of a short-term nature which causes the long-term financial instruments to have a lower liquidity. Therefore several policy priorities have been taken up with regard to the encouragement of long-term investments and the introduction of relevant instruments such as institutional investors. As a result especially pension funds have been successful in attracting investments as demonstrated by their impressive growth. Pension funds have shown steady growth since their inception in 2003 and with the introduction of new incentives on the pension fund system through the government contributions; the number of the pension fund investors have increased from 3.13 million to 4.47 million and the net assets of the pension fund industry increased from USD 9.7 billion to USD 13.1 billion from the beginning of 2013 to 18.04.2014. Nonetheless further steps need to be taken to increase long-term investments. By adopting 2014-2016 Medium Term Program of Republic of Turkey, enhancing transparent and effective financial markets has been determined to be among the most important objectives. Within this context strengthening the supply and demand sides of capital markets particularly through an increased variety of instruments and a more developed institutional investor industry both aiming to increase the viability of longer term investments are also among the strategic objectives of the Capital Markets Board of Turkey for the 2014 – 2016 term. In order to change the dominant short-term investment perspective the CMB also plans to conduct education programs to increase the appetite for long-term investments among investors.

131. Another important problem in the long-term finance area relates to the level of knowledge of investors, intermediaries, and issuers. Therefore the first and foremost objective is to increase awareness and knowledge among the market participants mentioned above. In this sense the CMB plans to conduct regular meetings with institutional investors to develop regulations in line with the needs of the institutional investors. Additionally in cooperation with the Turkish Institutional Investment Managers' Association it is planned to make periodical publications in relation to capital market instruments the main objective of which is to increase the interest of individual investors on these products. Besides these periodical publications, the Internet and brochures will be used to increase the awareness and knowledge of mentioned market participants.

132. In order to mitigate the market deficiencies in the provision of equity for innovative start-ups, fund of funds and angel investment mechanism are introduced. The market deficiency occurs when banks are not willing to extend loans to early stage companies due to the high risk and inadequate collateral. An

⁷ Pension funds etc. might be limited in their possibilities to invest in foreign securities or foreign real estate.

effective mechanism is created for business angels to exit from firms they invested and increase effectiveness of the business angel system. Being aware of the fact that there is a need for comprehensive government policy, a decree of council of ministers that authorizes the Turkish Treasury to contribute to the funds of venture capital funds that directly invest in venture capital funds as well as early stage companies together with angel investors has come into force in March 2014. Thereby, early stage companies will easily access to finance and utilize the angel investors' experience and networks in an economic fluctuation. A substantial increase in the volume of venture capital, which would support early stage companies not only financially but also in terms of institutionalization and corporate governance, is expected

United Kingdom

133. As has been highlighted in a number of studies (e.g. Oliver Wyman “The €200 Billion Opportunity – Why Insurers Should Lend More”) institutional investors appear to be relatively under invested in long-term assets. The reasons for this warrant further investigation, but have often been identified as:

- Lack of expertise and/or incentives to take on risk associated with a wider range of assets.
- Avoidance of short-term balance sheet volatility, where accounting standards and prudential regulation have an important role to play. Where appropriate and prudentially sound, regulation should mitigate against the effects of short-term volatility. The Long-Term Guarantees measures in the Solvency II Directive for insurance are a good example of this approach. In particular, the Matching Adjustment offers capital relief for annuity providers who cash-flow match assets with their illiquid annuity liabilities. This close matching means that annuity providers can hold their assets to maturity and are highly unlikely to become forced sellers. The Matching Adjustment recognises the absence of market risk by allowing a more favourable discount rate to be used to value liabilities and incentivises long-duration assets to be held until maturity.
- Regulatory regimes which disincentivise investment in relatively illiquid assets or assets which support economic growth – where prudential rules are crucial. In its earlier stages of design, the Solvency II Directive risked putting in place real disincentives for insurers to invest in long-duration or illiquid assets. The development and agreement of Solvency II's long-term guarantees package should now mean that the Solvency II will help support the role of insurers as long-term investors. However, Solvency II is a major reform in insurance regulation and its impacts following implementation will need to be carefully monitored, with the EU ready to take action where it becomes apparent that any element of Solvency II is impairing the ability of insurers to invest over the long-term in assets which support economic growth.

United States

134. Barriers that have limited private sector participation in surface transportation infrastructure investment are the size and complexity of projects and uncertainty over timing of revenues; these have hindered private sector access to capital markets for large and complex projects. Another obstacle has been the lack of a pipeline of infrastructure projects suitable for public private partnerships (PPPs). The Transportation Infrastructure Finance and Innovation Act (TIFIA) provides federal credit assistance to surface transportation projects. A key objective of TIFIA is to improve access to capital markets by supplementing private and non-federal sources of finance with TIFIA credit assistance. In addition, TIFIA helps facilitate a pipeline of PPP-suitable projects by requiring eligible projects to foster partnerships that attract public as well as private investment.

<http://www.fhwa.dot.gov/ipd/tifia/defined/>
http://www.fhwa.dot.gov/ipd/pdfs/tifia/program_guide/tifia_program_guide_022414.pdf
http://www.fhwa.dot.gov/ipd/tifia/guidance_applications/tifia_applications.aspx

135. The Transportation Investment Generating Economic Recovery or TIGER Discretionary Grant program gives priority to projects that demonstrate significant partnerships between state and local governments and private entities.

http://www.dot.gov/sites/dot.dev/files/docs/TIGER_INNOVATION_AND_PROJECT_DELIVERY.pdf

136. On June 10, the President signed the Water Resources Reform and Development Act of 2014 into law, which, among other things, establishes a five year pilot program for major water infrastructure projects, including public private partnerships.

<http://www.uswateralliance.org/2014/06/11/president-obama-signs-wrrda-first-water-bill-since-2007/>

EU

137. a) and j) Impediments inherent in the legal or regulatory environment;
- b), c), g) and h) not a fully developed single market in the EU;
- d) and ELTIF lack of suitable investment vehicles;
- e), h) and i) lack of transparency or historical data on existing long-term projects;
- i) short investment horizons;

What measures exist to ensure that steps taken to promote long-term investment by institutional investors are consistent with the best interests of members, investors, beneficiaries, policyholders and other relevant stakeholders and fiduciary duties of institutional investors? How is the concept of “best interests” defined in this respect?

Australia

138. Within the Australian superannuation system, members’ benefits are held in trust on behalf of members until their death or retirement upon reaching their preservation age (currently increasing to age 60). Given the long-term nature of superannuation, long-term investment is very much aligned to superannuation members’ best interests, although there are no specific requirements for superannuation funds to match the maturity of assets and liabilities.

139. More specifically, as highlighted in question 1 and 2, under existing superannuation legislation, trustees of superannuation funds are required to perform their duties and exercise their powers in the best interests of members and beneficiaries. Broadly speaking, ‘best interests’ are defined by the sole purpose test in the Superannuation Industry (Supervision) Act 1993, which focuses upon maximising post-retirement benefits. The trustee’s ability to form a fund strategy that generates good long-term returns, while operating within reasonable risk bounds, is a critical element in serving any member’s best interests.

140. Trustees are also required to formulate an investment strategy that has regard to the risk and return of the fund's investments, expected cash-flow requirements, diversification and liquidity of investments, and the ability of the fund to discharge its liabilities.

Brazil

141. The main method to ensure the alignment of interest of the diverse stakeholders is the proximity of the regulation makers to market associations who represents different interests.

Canada

142. The Canadian pension and life insurance regulatory framework is designed to ensure that assets are invested in the best interests of members and policyholders. In federal and provincial pension standards legislation, pension administrators owe a fiduciary duty to plan members. Under the new Pooled Registered Pension Plan (PRPP) framework, a low-cost and large-scale retirement savings option for Canadians who do not have access to a workplace pension plan, licensed administrators – such as life insurance and investment management companies – also owe a fiduciary duty to plan members and are similarly required to act in the best interests of plan members. Plan administrators are also subject to the “prudent person” standard, i.e., they must exercise the degree of care that a person of ordinary prudence would exercise in dealing with the property of another person.

China

143. N/A

France

144. Fiduciary duties of institutional investors as well as those of assets managers are precisely defined in European and national legislation. The UCITS V and AIFM directives define the engagements of the assets managers regarding their units' holders or shareholders as serving the best interests of their clients. The Solvency II directive that will come into force in early 2016 will not set rules of investment for insurance companies as long as they bear the related financial risk. The only case of investment rules will concern life insurance policies in which the policyholder directly bears the risk (e.g. unit-linked policies). However there is no specific reference to long-term investments in these rules. The aim is to protect and to serve the best interests of the policyholders and in this context, investment rules for unit-linked policies are mainly driven by liquidity issues (admission of illiquid assets in a unit-linked policy are subject to restrictions).

Germany

145. From our point of view, promotion of long-term investment by institutional investors is an iterative process, which should be based on ongoing and intense interaction between regulators on the one hand and all other relevant stakeholders involved on the other. This can be achieved i.e. via round tables, expert hearings/opinions or informal requests and exchange of views.

146. “Best interest” in this context should be defined as the balance between first and foremost, the overall objective to create and maintain a sound and stable financial system, second to achieve a sufficient degree of flexibility in terms of tool box available, and third the sharing of risks and rewards stemming from long-term investments.

147. For the protection of investments in real estate funds a regulatory framework is in place.

148. The Solvency II Directive stipulates that the solvency capital requirements under the standard formula must be set such that an insurer will have no more than a 0.5% probability of becoming insolvent in the course of the following year. So changes in the standard formula must not result in a reduction of this safety margin.

149. The aforementioned requirement was taken into account, when the solvency capital requirements were calculated. This should assure that the measures are in line with the interest of policyholders and other beneficiaries of insurance contracts.

150. On the other hand, excessively cautious capital requirements would be inappropriate - not only as far as individual insurers are concerned, but also for the economy as a whole. Therefore EIOPA set the capital requirements as low as possible without jeopardising the prudential nature of the regime. In our view this ensures the interest of all stakeholders.

Italy

151. No comment

Japan

152. Not found possible answers to this question.

Mexico

153. It is worth to highlight the creation of CKD's, which have been a useful instrument to channel pension funds resources to private equity funds specialized in infrastructure development; CKD's are listed in the stock exchange, which fosters market discipline and transparency. To ensure that these financial products are consistent with the best interests of members, investors, beneficiaries and other stakeholders, the National Banking and Securities Commission (CNBV) has established specific regulation regarding CKD's issuances, including shareholders' rights and responsibilities. Additionally, the CNBV has developed monitoring and surveillance processes according with best international practices. The recently enacted Financial Reform strengthens the CNBV to set prudential rules related to liquidity, solvency, internal controls, risk management and transparency, among others.

154. In addition, the National Commission for the Pension System (CONSAR) defines prudential regulation to foster transparency and adequate risk assessment to facilitate pension funds' investment in infrastructure products. This regulation includes guidelines for the outsourcing of portfolio management and considers different risks associated to these instruments, such as disintermediation risk, lack of transparency in the investments, AFORES capability in terms of expertise and corporate governance.

New Zealand

155. The FMC Act requires high standards and strict duties for the management of money. Part 4 of the FMC Act covers the governance of financial products. The FMC Act ensures consistency with the "best interests" concept by providing a duty for various financial product providers to comply with professional standards of care. This requires that in exercising any powers or performing any duties, that provider must exercise the care, diligence and skill that a prudent person engaged in that profession would exercise in the same circumstances.

Portugal

156. No comment

Russian Federation

157. No comment

South Africa

158. Also note the following, which applies also to question 6 below:

159. Financial stability and green growth are promoted through Regulation 28 of the Pension Funds Act. The Preamble of the regulation states that “A fund has a fiduciary duty to act in the best interest of its members whose benefits depend on the responsible management of fund assets. This duty supports the adoption of a responsible investment approach to deploying capital into markets that will earn adequate risk adjusted returns suitable for the fund's specific member profile, liquidity needs and liabilities. Prudent investing should give appropriate consideration to any factor which may materially affect the sustainable long-term performance of a fund's assets, including factors of an environmental, social and governance character. This concept applies across all assets and categories of assets and should promote the interests of a fund in a stable and transparent environment.”

160. The purpose of the regulation is to set maximum limits of investment of assets. The more risky assets like derivatives, have relatively lower limits than, for instance, government bonds. This helps to ensure stability in the system.

161. The Code for Responsible Investing in South Africa (CRISA) gives guidance on how the institutional investor should execute investment analysis and investment activities and exercise rights so as to promote sound governance. There are five key principles:

i) An institutional investor should incorporate sustainability considerations, including environmental, social and governance, into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.

ii) An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities.

iii) Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.

iv) An institutional investor should recognise the circumstances and relationships that hold a potential for conflicts of interest and should proactively manage these when they occur.

v) Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments.

162. CRISA applies to institutional investors as asset owners, for example, pension funds and insurance companies and service providers of institutional investors, for example, asset and fund managers and consultants.

163. Hence, the private sector is enthusiastic about investing in these long-term investments on the proviso that they have investment merit and the returns generated from them are commensurate with the risks inherent in them. The regulatory environment for the long-term investors has a prudential focus to ensure that the underlying owners of the products interests are looked after. Currently there are also engagements around the issue of preservation

Spain

164. The current Spanish legal system includes a framework for corporate governance, with both Codes of Recommendations for listed companies and binding regulations. But it is an objective of the Spanish government to strengthen this framework. To this end, a Committee of Experts was established in 2013, and it presented several proposals. Drawing upon these proposals, the Government is now drafting a new law, which will reinforce powers of the shareholders general meeting, increase accountability of administrators and require more transparency regarding remuneration of administrators. All companies are subject to modifications of corporate governance, but the main focus will be put on listed companies.

165. In the insurance sector (under Solvency I regime), the limitation (in percentage) of the investments qualified as a representative asset in relation with the technical provisions could be considered as a measure consistent with the protection of policyholders.

Switzerland

166. The investment policies of pension funds are regulated and supervised for the best interest of the members of pension funds.

167. The Swiss Solvency Test for insurers is fully risk based and market consistent. Therefore, the expected performance, the risk and the diversification effects of LTI are consistently measured in the SST.

Turkey

168. Capital Market Board seeks to adhere to international standards with respect to long-term finance mainly in line with the European Union regulations. “Best interest” is defined by taking into account all of the capital market participants. While making regulations there is a continuous feedback mechanism to take into account sectoral needs. Before finalizing regulations, draft versions are announced in the internet site of CMB for public consultation. Drafts are open to comments from institutional investors, individual investors, intermediaries and issuers. Resulting comments are considered in final version of regulations in order to achieve best interest for all stakeholders. Additionally the CMB also consults other related regulatory authorities and arranges consultation meetings with relevant industry participants.

United Kingdom

169. The Kay Report highlighted the widespread use of short-term relative performance metrics in the investment chain, despite the long-term investment objectives of many savers and institutional investors. It attributed this to misaligned incentives in the equity investment chain and the decline of trust-based relationships in which investment intermediaries had a clear responsibility to act in the best interests of their clients. In response the Government committed to ensuring that regulation set common minimum standards of behaviour for investment intermediaries.

170. In response to the Kay Report, the Government commissioned the UK’s Law Commission to review the common law concept of fiduciary duty as applied to investment to address uncertainties and misunderstandings on the part of trustees and their advisers. In particular the review sought to address the concern that those subject to fiduciary duties interpret them incorrectly to mean a duty to maximise financial returns over a short-time scale, precluding consideration of long-term factors which might impact on company performance.

171. The Law Commission published its final report in June 2014. The Government has welcomed its findings and in particular its conclusion that fiduciaries such as pension scheme trustees have a duty to

consider any factors which may be financially material to the performance of an investment (including over the long-term) and what weight to attach to such factors in their investment decisions.

172. The Law Commission report makes a number of recommendations aimed at embedding its findings in relevant regulations and guidance, and addressing other issues identified in the course of the review. In particular these include recommendations relating to the implementation of the Government's reforms to the governance of contract-based workplace pension schemes, for which the report signals its support. The Government is currently considering these specific recommendations, working with the UK Pensions Regulator and the Financial Conduct Authority, and will respond as part of a wider progress report on implementation of the Kay Report in October.

United States

173. Regulatory and legal frameworks exist to ensure these goals. There are various governing and regulatory bodies in the investment space which constantly engage and monitor market activities. Regulators also solicit feedback from various market participants.

EU

174. There is no obligation for EU institutional investors to act in the long-term interest of the members etc. Also in the proposal to revise the SHRD there is not such an obligation.

175. EU law contains for the different sectors a number of definitions of fiduciary duties.

176. For pension funds, Article 18 of the IORP Directive provides that "Member States shall require institutions located in their territories to invest in accordance with the "prudent person" rule and in particular in accordance with the following rules: (a) the assets shall be invested in the best interests of members and beneficiaries. In the case of a potential conflict of interest, the institution, or the entity which manages its portfolio, shall ensure that the investment is made in the sole interest of members and beneficiaries; (b) the assets shall be invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole.

177. With regard to asset managers managing portfolios under discretionary mandates, Article 19 of MIFID provides that Member States shall require that, when providing investment services to clients, an investment firm act honestly, fairly and professionally in accordance with the best interests of its clients. The MIFID implementing rules (article 35 of Directive 2006/73) provide that the asset manager should gather information about the investment objectives of the client, however, information on the length of time for which the client wishes to hold the investment should apply only with regard to retail clients and not for professional clients, such as pension funds and insurers.

178. For asset managers managing UCITS funds, Article 14 of the UCITS Directive provides that the management company shall act honestly and fairly and with due skill, care and diligence in the best interest of the UCITS and integrity of the market. Furthermore, UCITS management companies should act in such a way as to prevent undue costs being charged to the UCITS and its unit-holders.

179. Alternative investment fund managers are required to act in the best interest of the alternative investment funds or the investors of the AIFs they manage and take all reasonable steps to avoid conflicts of interests (Article 12 of the AIFM Directive).

Has an evaluation of your policies to promote long-term investment by institutional investors been planned or already conducted (Yes/No)?

If so, please describe the steps involved in making this evaluation? Which measures have had the most success in terms of achieving the intended objectives? Why?

Australia

180. No comment.

Brazil

181. There is not a specific and planned evaluation plan of the measures adopted to promote long-term investment, but there is a constant monitoring activity to verify possible misalignment between the maturities of investment and liabilities in the pension funds market.

Canada

Questions 5 and 6

182. Canadian authorities regularly review various aspects of the policy framework that affect long-term investment. The legislative and regulatory framework respecting private pensions has seen a number of recent initiatives, largely consistent with the idea of promoting long-term investment by institutional investors. Pension investment rules were modernized in 2010 to remove certain quantitative portfolio limits, while the federal Pooled Registered Pension Plan framework was adopted in December 2012.

China

183. N/A

France

184. Yes. *Ex ante* analysis is conducted, particularly in the context of fiscal reforms.

Germany

185. The European Commission issued a Green Paper on the long-term financing of the European economy which was followed by a public consultation. The Commission received comprehensive feedback.

186. Other European measures have either to be seen as work in progress, are about to enter into effect soon or have only come into effect recently. Hence we are not yet in a position to evaluate their success.

187. However, European regulation frameworks usually contain review clauses in order to check whether the intended goal had been attained. Article 111(1b) of the Omnibus II Directive, for example, states that

“By 31 December 2020 at the latest, the Commission shall make an assessment of the appropriateness of the methods, assumptions and standard parameters used when calculating the Solvency Capital Requirement standard formula. It shall in particular take into account the performance of any asset class and financial instruments, the behaviour of investors in those

assets and financial instruments as well as developments in international standard setting in financial services. The review of certain asset classes may be prioritized [...]”.

Italy

188. So far there has been no comprehensive evaluation by public authorities of policies to promote long-term investment by institutional investors.

Japan

189. An evaluation of our policies has not been conducted yet because most of the policies on long-term investment are under development at this moment. However these policies can be a scope of evaluation in the future.

Mexico

190. Yes. On April 2014, CONSAR modified pension funds’ regulation in order to foster long-term investment strategies that are not highly influenced by short-term volatility. The amendments include:

- Benchmark portfolio. Pension funds were introduced with an obligation to define a benchmark investment portfolio as a long-term investment strategy. The main objective of this amendment is to create incentives for investment decisions that are focused on long-term alternatives.

New Zealand

191. The FMC Act will be reviewed in due course.

Portugal

192. No comment

Russian Federation

193. No comment

South Africa

194. Yes. The aforementioned Task Team has reviewed the factors governing and affecting institutional investors’ investment in infrastructure. This was done by meeting individually with each institution (by a government panel together with the key institutional investor association). Fairly in-depth interviews were held and minuted, and the information gathered and very thoroughly synthesized to produce a synopsis of the current main blockages being experience by the industry. These blockages were then further analysed to assess which were most urgent for government to address, and would have the biggest impact if they are dealt with.

195. The work to assess the biggest constraints is underway. But indications are that the most important areas of success are where there are clear pipelines of opportunity to invest in projects together with a clear process on how institutions can get involved to do so – such success has been experienced in South Africa’s renewable energy independent power producer programme.

Spain

196. No

Switzerland

197. An overall evaluation of policies to promote long-term investment by institutional investors has not been conducted so far. However, the general policy framework that affects long-term investments is regularly reviewed. Some policies are reviewed on a case-by-case basis.⁸

Turkey

198. Capital Markets Board does not have specific evaluation procedure after the announcement of finalized version of the regulations. However CMB has continuous feedback procedures with the institutional investors and so whenever there is a need for amendment in the regulations this need is taken into account and the regulations are revised if necessary.

199. With respect to fund of funds, evaluation system will be established later.

United Kingdom

200. No comment

United States

201. Such policies are routinely evaluated. Regulators and the Department of the Treasury monitor domestic and global financial markets. Furthermore, the Department of the Treasury provides policy guidance on markets-related matters. Other public and private entities evaluate policies to promote long-term investment by institutional investors.

EU

202. No, except for legal proposals which always have to be preceded by an impact assessment from the Commission services.

⁸ See eg. "Bericht des Bundesrates über das gewerbeorientierte Bürgschaftswesen" from 2013 which evaluates the guarantee system for SMEs,

Do you also assess the broader impact of long-term investment on the attainment of other public policy goals?

Public Policy Goals	Yes	No	If yes, how did LTI contribute to that goal?
Financial stability	<input type="checkbox"/>	<input type="checkbox"/>	
Debt sustainability	<input type="checkbox"/>	<input type="checkbox"/>	
Job creation	<input type="checkbox"/>	<input type="checkbox"/>	
Inclusive growth	<input type="checkbox"/>	<input type="checkbox"/>	
Higher living standards	<input type="checkbox"/>	<input type="checkbox"/>	
Competitiveness	<input type="checkbox"/>	<input type="checkbox"/>	
Sustainable economic development	<input type="checkbox"/>	<input type="checkbox"/>	
Green Growth	<input type="checkbox"/>	<input type="checkbox"/>	

Note: the effective approaches developed for this Principle 1.1 (and principle 5) will include the development of a checklist to assist self-assessment by countries of their support to long-term investment financing.

Australia

203. We do not assess the broader impact of long-term investment, specifically, on other public policy goals. However, we do monitor investment flows into and out of Australia more generally, particularly with respect to financial stability and debt sustainability.

204. Australia has consistently recorded current account deficits as we have relied on foreign investment to supplement domestic savings to take advantage of investment opportunities that otherwise would not have been exploited. As a result, we have a large net international liability position. This position has clearly been sustainable, having persisted for decades, though concerns are periodically raised by sovereign credit rating agencies, which has promoted analysis of how Australia’s current account deficit is intermediated and the sustainability of this intermediation.

205. We also monitor capital flows into and out of Australia for their impact on financial stability. For example, in the context of the US Federal Reserve’s current tapering of quantitative easing, we monitor the volatility of capital flows for signs of large-scale repatriation of funds and their impact on domestic financial conditions.

Brazil

206. We don't, since these evaluations are conducted by central financial authorities in Brazil.

CanadaQuestions 5 and 6

207. Canadian authorities regularly review various aspects of the policy framework that affect long-term investment. The legislative and regulatory framework respecting private pensions has seen a number of recent initiatives, largely consistent with the idea of promoting long-term investment by institutional investors. Pension investment rules were modernized in 2010 to remove certain quantitative portfolio limits, while the federal Pooled Registered Pension Plan framework was adopted in December 2012.

China

208.

Public Policy Goals	Yes	No	If yes, how did LTI contribute to that goal?
Financial stability	Yes	<input type="checkbox"/>	LTI has a stable source of funding, which helps enhance the robustness and efficiency of financial system and prevent financial mismatching risks.
Debt sustainability	Yes	<input type="checkbox"/>	LTI helps the government to issue bonds at lower cost.
Job creation	<input type="checkbox"/>	<input type="checkbox"/>	
Inclusive growth	<input type="checkbox"/>	<input type="checkbox"/>	
Higher living standards	<input type="checkbox"/>	<input type="checkbox"/>	
Competitiveness	<input type="checkbox"/>	<input type="checkbox"/>	
Sustainable economic development	Yes	<input type="checkbox"/>	LTI helps improve growth potential and innovation capacity.
Green Growth	<input type="checkbox"/>	<input type="checkbox"/>	

France

209. The assessment of long-term investment impact on the attainment of other public policy goals is made on a project by project basis (see socio-economic analysis detailed within answers to principle 5). In addition, the macro-economic assessment of the investment decision process takes into account, within a global perspective, the achievement of these public policy goals.

Germany

210. Long-term investment may considerably impact financial stability. In our view, it is key to assess continuously whether there is a sound and sustainable balance between bank lending and capital markets based financing of long-term investments in order to mitigate pro-cyclicality.

211. More specifically, an adequate regulatory framework for an array of available long-term investment instruments helps enhance diversification of funding for corporates and infrastructure projects

and makes them less vulnerable in an economic downturn scenario with increased risk aversion and deleveraging.

212. The design and use of long-term financing instruments as well as the sector structure and activities of long-term investors have to be monitored and assessed with a view on allocation and distribution of risks in different sectors.

213. Long-term investment is also one of the major factors driving the expansion of an economy's productive capacity. It creates jobs and increases a country's competitiveness by improving its infrastructure. In order to maintain high levels of employment and competitiveness it is critical to invest in Research & Development (R&D) in order to develop new, marketable products and production processes that raise standards of living.

214. In 2012 Germany already accommodated the target set by the EU for 2020 to spend 3 % of GDP on R&D. Even though a fair amount of spending in the area is related to human resources R&D is based on long-term decision-making since it involves multi-annual processes. The R&D processes are to a large extent funded by long-term instruments such as equity. Germany has also nearly hit the national target of spending 10 % of GDP on R&D and Education. In 2011 this expenditure amounted to 9.5 % of GDP.

Italy

215. The PPP task force (UTFP – Project Finance technical Unit), which is currently encompassed in the Presidency of the Council of Ministers - Department for the Planning and Coordination of Economic Policy (DIPE), has been tasked with the responsibility of analysing the features of public private partnerships (PPPs) whereby the public subject is the main purchaser of assets and services provided - which are the objects of the Eurostat Decision “Treatment of Public – Private Partnership” on 11th February 2004 - with the aim of estimating the impact of such operations on National public accounts, including public budgets and net deficit (article 44 of Law n. 31 of 2008).

Japan

216. An evaluation of our policies has not been conducted yet because most of the policies on long-term investment are under development at this moment. However these policies can be a scope of evaluation in the future. Attainable goals of the policies are as below:

Public Policy Goals	Yes	No	If yes, how did LTI contribute to that goal?
Financial stability	<input checked="" type="checkbox"/>	<input type="checkbox"/>	-Financial institutions will access illiquidity premium and lower their turnover, thereby contributing to less pro-cyclical markets. -A higher yield investment, less maturity mismatch will enhance the soundness of financial institutions.
Debt sustainability	<input checked="" type="checkbox"/>	<input type="checkbox"/>	-Sustainable economic growth will improve the government's financial situation. -More sustainable pension system will contribute to ensure debt sustainability.
Job creation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	-Boosting the whole economy will create new jobs
Inclusive growth	<input checked="" type="checkbox"/>	<input type="checkbox"/>	-An increase in investment will stimulate the whole economy.
Higher living standards	<input checked="" type="checkbox"/>	<input type="checkbox"/>	-More developed infrastructure will enhance the living standards. -More sustainable pension system will ensure the future payment of pension benefits.
Competitiveness	<input checked="" type="checkbox"/>	<input type="checkbox"/>	-More developed infrastructure will improve competitiveness. -By providing money for companies, they will be able to invest in their capital equipment to enhance competitiveness.
Sustainable economic development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	- Growing start-up companies and SMEs will contribute sustainable economic growth. -More developed infrastructure will contribute to sustainable economic growth.
Green Growth	<input checked="" type="checkbox"/>	<input type="checkbox"/>	-By providing money for start-up companies and SMEs, green innovation and advanced environment technology will be encouraged.

Mexico

217. Mexico has enacted a wide range reform agenda that will increase the growth potential of the economy. In the economic front, the most important are:

- i) Labor Reform.
- ii) Education Reform.
- iii) Telecom Reform.

- iv) Anti-trust Reform.
- v) Tax Reform.
- vi) Financial Reform.
- vii) Energy Reform.

218. This reform agenda works on the supply side of the economy. The reforms will have a long-lasting effect on the economy, enhancing its attractiveness for investment and improving its productive capacity. This will increase Mexico’s growth potential and its ability to create more and better jobs.

219. In particular, the Energy Reform aims at increasing long-term investment across the whole sector. The new legal framework allows for substantive risk sharing between the private and public sectors, which will clearly contribute to economic growth and job creation.

220. Additionally, Mexico’s Federal Government recently presented the National Infrastructure Program 2014-2018, which includes a comprehensive infrastructure development strategy that aims to increase the country’s economic growth and productivity.

221. The National Infrastructure Program 2014-2018 estimates a total amount of public and private investment in the sector to be over 592 billion dollars for the next five years, which could contribute, along with the recently enacted Reform Agenda, to higher economic growth between

222. 1.8 and 2 per cent of the Gross Domestic Product (GDP) in 2019, creating 350,000 additional jobs per year, reaching over 1 million jobs per year.

Table 1. Estimated potential GDP growth in Mexico in a scenario with reforms
(real annual growth, %)

	2015	2016	2017	2018	2019
Inertial	3.8	3.7	3.6	3.5	3.5
With reforms	4.7	4.9	5.2	5.3	5.4
<i>(Contribution of reforms to growth)</i>					
Telecommunications	0.2	0.3	0.3	0.2	0.2
Finance	0.3	0.3	0.4	0.4	0.4
Energy	0.3	0.4	0.7	1.0	1.1
Fiscal	0.1	0.2	0.2	0.2	0.2

Source: SHCP.

223.

Public Policy Goals	Yes	No	If yes, how did LTI contribute to that goal?
Financial stability		X	
Debt sustainability		X	
Job creation	X		350,000 additional jobs per year.
Inclusive growth		X	
Higher living standards		X	
Competitiveness		X	
Sustainable economic development	X		Between 1.8 and 2 per cent of the GDP.
Green growth		X	

New Zealand

224. As a normal consequence of policy work in this area, the impact of long-term investment on other public policy goals is always considered.

Portugal

225. No comment

Russian Federation

Financial stability

226. Institutional investors provide long-term funding and deepen the financial markets, which contributes to financial stability.

Debt sustainability

227. Due to the resources of institutional investors, the average debt maturity increases, and refinancing needs in general will be mitigated

Inclusive growth

228. Long-term resources of institutional investors assist to wider investment and hence growth.

Competitiveness

229. Presence of the strong and diversified investor base is an important characteristic of competitiveness of a national financial system.

Sustainable economic development

230. All the aforementioned fosters sustainable economic development

South Africa

231. Yes – government does in looking at the type of projects to pursue, or how to undertake them. Much weight is given to job creation, poverty alleviation, service delivery (particularly to households where there are backlogs of connections to services), black economic empowerment, small business creation, industrialization and localization opportunities are all important. See also answer for question 4. These are encapsulated in a National Development Plan produced by the government that sets out major policies and policy implementation approaches.

Spain

232.

Public Policy Goals	Yes	No	If yes, how did LTI contribute to that goal?
Financial stability	X <input type="checkbox"/>	<input type="checkbox"/>	Allowing deferred payments that fit in the budget constraint
Debt sustainability	<input type="checkbox"/>	X <input type="checkbox"/>	
Job creation	X <input type="checkbox"/>	<input type="checkbox"/>	Allowing more investment
Inclusive growth	<input type="checkbox"/>	X <input type="checkbox"/>	
Higher living standards	X <input type="checkbox"/>	<input type="checkbox"/>	Improving infrastructure
Competitiveness	X <input type="checkbox"/>	<input type="checkbox"/>	Improving companies competitiveness
Sustainable economic development	X <input type="checkbox"/>	<input type="checkbox"/>	Investments are less dependent on economic cycle
Green Growth	<input type="checkbox"/>	X <input type="checkbox"/>	

Switzerland

233. No comment

Turkey

234.

Public Policy Goals	Yes	No	If yes, how did LTI contribute to that goal?
Financial stability	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<p>Long-term investments contribute to financial stability and are also important for countries with low domestic savings rates to fulfil the gap. In this regard, it is targeted to increase the number of institutional investors with more developed and profound capital markets.</p> <p>A substantial increase in the volume of venture capital, which would support early stage companies not only financially but also in terms of institutionalization and corporate governance is expected. In the long run, the fund of venture capital fund platform is expected to encourage the establishment of innovative start-ups, increase the dynamism of the economy and contribute to stronger economy and financial stability.</p> <p>The contingent effects of recent (specific) policies to promote LT's are in the agenda for Systemic Risk Assessment Group for Financial Stability Committee.</p>
Debt sustainability	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<p>In the framework of debt sustainability, Turkish Treasury assesses the impact of private sector investment in contracted PPP projects as a source of contingent liability. Private sector investment in PPP projects decreases borrowing requirement of the public sector to finance LT infrastructure projects while increasing its contingent liabilities.</p>
Job creation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<p>More than %90 of Turkish economy consists of start-ups and SMEs. For this reason access to finance of these small firms is one of the key factors to achieve fostering job creation by helping firms in order to develop new sources of growth.</p>
Inclusive growth	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<p>Entrepreneurship and small firms' access to finance is one of the key factors to achieve economic resilience and fostering entrepreneurship and job creation through supporting SMEs can enhance inclusive growth by helping countries develop new sources of growth.</p>
Higher living standards	<input type="checkbox"/>	<input type="checkbox"/>	
Competitiveness	<input type="checkbox"/>	<input type="checkbox"/>	
Sustainable economic development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<p>Fund of funds structure is a mechanism that fosters entrepreneurship and small firm' access to finance. In the long run, the funds of venture capital funds platform is expected to encourage the establishment of innovative start-ups, increase the dynamism of the economy and contribute to stronger and more sustainable economic growth.</p>
Green Growth	<input type="checkbox"/>	<input type="checkbox"/>	

United Kingdom

235. No comment.

United States

236.

PUBLIC POLICY GOALS	YES	NO	IF YES, HOW DID LTI CONTRIBUTE TO THAT GOAL?
Financial stability	<input checked="" type="checkbox"/>		
Debt sustainability	<input checked="" type="checkbox"/>		
Job creation	<input checked="" type="checkbox"/>		
Inclusive growth	<input checked="" type="checkbox"/>		
Higher living standards	<input checked="" type="checkbox"/>		
Competitiveness	<input checked="" type="checkbox"/>		
Sustainable economic development	<input checked="" type="checkbox"/>		
Green Growth	<input checked="" type="checkbox"/>		

EU

237. In the framework of the impact assessments carried prior to any legislative proposal, yes. They often relate to financial stability, competitiveness and social impact.

PRINCIPLE 1.5

Preconditions for long-term investments

1.5 A favourable business and investment climate and the consistent and effective enforcement of the rule of law are essential for long-term investment. Governments should create predictable, stable, transparent, fair and reliable business regulation and supervision and administrative and procurement procedures. In particular, policies should consider the long-term financing needs of new firms and small and medium-sized companies. They should also promote an effective framework for fair competition and sound corporate governance, and clear and reliable creditor rights and insolvency regimes.

Please answer the following questions⁹

What steps has the government taken to create predictable, stable, transparent, fair and reliable business regulation and supervision and administrative and procurement procedures?

PROCEDURES	YES	NO	IF YES WHICH ONES	WITH WHAT SUCCESS?
PREDICTABLE	<input type="checkbox"/>	<input type="checkbox"/>		
STABLE	<input type="checkbox"/>	<input type="checkbox"/>		
TRANSPARENT	<input type="checkbox"/>	<input type="checkbox"/>		
FAIR	<input type="checkbox"/>	<input type="checkbox"/>		
RELIABLE	<input type="checkbox"/>	<input type="checkbox"/>		

Australia

238.

PROCEDURES	YES	NO	IF YES WHICH ONES	WITH WHAT SUCCESS?
PREDICTABLE	Yes		Procurement	A single procurement framework governing the procurement activities of entities is well established in Australian Government procurement activities. It articulates clear procedures for conducting procurements. This framework is publicly available, includes additional explanatory material for suppliers and Australian Government entities, and agency compliance is required under legislation.
STABLE	Yes		Procurement	The governing procurement framework has remained largely unchanged since

⁹ As required, Members may also wish to consult with relevant sectoral and /or sub national agencies.

				2005. Ongoing policy changes occur in relation to specific issues raised by the Australian National Audit Office (ANAO), Commonwealth agencies and suppliers.
TRANSPARENT	Yes		Procurement	All open tenders are publicly listed on a centralised government website (www.tenders.gov.au). All procurement contracts valued above \$10,000AUD are also listed on this website, including the name of the supplier, nature of goods/services and value of the contract and any confidentiality provisions that may be in place. Suppliers in a tender process must be provided information by the Australian Government agency on why their submission was unsuccessful (or successful) on request of the supplier and completed in a timely manner. The tender evaluation criteria is also provided as part of the open tender information pack released to the market.
FAIR	Yes		Procurement	The Australian Government procurement framework is non-discriminatory and complies with Australia's international agreements. Australian Government agencies are restricted from discriminating against suppliers based on their commercial, technical and legal abilities and their degree of foreign affiliation or ownership (or origin of goods). Australian Government agencies are restricted from requiring previous experience in supplying to the Australian Government as a condition for participation in procurement activities.
RELIABLE	Yes		Procurement	The procedural basis of the Australian Government procurement policy framework creates consistency in process across Australian Government agencies. This includes minimum time limits for approaching the market, public reporting obligations when seeking tenders and in reporting the outcomes of tenders and clear obligations on delegates agreeing to procurement outcomes. Review of procurements is required through internal auditing and parliamentary reporting and through independent review by the ANAO. Suppliers are also required to be provided advice on why their bid was unsuccessful on request.

Brazil

239.

PROCEDURES	Y E S	NO	IF YES WHICH ONES	WITH WHAT SUCCESS?
PREDICTABLE	<input checked="" type="checkbox"/>		- Long before any legal alteration in regulatory framework, several market associations are invited to contribute with the revision.	- The process has been very successful allowing the market to prepare to any new demand with reasonable time.
STABLE	<input checked="" type="checkbox"/>		- New regulatory rules are evaluated carefully to ensure that they will not require further alterations or adaptations for a long time.	- Very few regulations had to be revised in the last years, indicating the good stability of the regulatory framework.
TRANSPARENT	<input checked="" type="checkbox"/>		- All processes of improvement in the regulatory framework are subject to public assessment. In addition, there are an effort to publicize the supervisory authority interpretation of applicable law.	- There have been many formal and informal consultations about the internal processes of the supervisory authority, with prompt response to the requests. Furthermore, the publication of understandings by the supervisory authority were very welcome by the market.
FAIR		<input checked="" type="checkbox"/>		
RELIABLE		<input checked="" type="checkbox"/>		

Canada

240. Canada has a sound financial sector regulatory environment that fosters stable financial markets and institutions. Canada has an active supervisory regime with close cooperation among authorities. Principles-based supervision has resulted in banks internalizing key principles of good risk management, rather than treating oversight as a compliance exercise. Canadian authorities regularly review the regulatory environment to ensure that it remains appropriate.

241. Stable financial markets and institutions promote long-term investment by strengthening the continued intermediation capabilities of the financial system. A stable, market-based financial system supported by sound regulations and vigilant supervision will support longer-term investment by encouraging efficient resource allocation and avoiding the occurrence of potential crises and disruptions.

242. The Government understands the need to ensure that investments from abroad are in the best interest of Canada in both the short- and long-term, and that investors have clarity regarding our investment review regime. Since 2012, the Government has clarified its approach to foreign investments and introduced other improvements to the *Investment Canada Act* to focus reviews on the most significant transactions while safeguarding Canada's economic and security interests. The Government will continue

to welcome foreign investment that meets the tests set out in our legislation. That is to say, the focus is on investments that offer a net benefit to Canada and respect our national security.

243. To promote outward foreign investment, Canada eliminated restrictions on outward foreign investments. This allowed domestic institutional investors to diversify and allocate their long-term investments globally and within jurisdictions with strong regulatory frameworks. The CPPIB increased its assets invested outside of Canada to 60% from 26% in 2006; the Ontario Municipal Employees Retirement System (OMERS) increased to 50% from 34% in 2009. Overall, long-term debt financing as a share of total debt financing has been stable or gradually increasing in Canada over the last three years.

China

244.

PROCEDURES	YES	NO	IF YES WHICH ONES	WITH WHAT SUCCESS?
PREDICTABLE	YES	<input type="checkbox"/>	Since the implementation of Government Procurement Law of the People's Republic of China in 2003, Chinese government has formed the basic legal framework for government procurement and the implementation scope of law continued to expand.	
STABLE	YES	<input type="checkbox"/>	Chinese government has put forward the standardization of procurement process, improved procurement mechanism and strengthened reforms on procurement supervision, promoting the sound and orderly development of government procurement market.	
TRANSPARENT	YES	<input type="checkbox"/>	Following the principles of openness and transparency, Chinese government published in a timely manner procurement information on the specified media and used open tender as the main instrument of procurement.	
FAIR	YES	<input type="checkbox"/>	Chinese government does not allow any organizations or individuals to restrict suppliers from entering procurement market and treats products from foreign invested enterprises in China equally.	
RELIABLE	YES	<input type="checkbox"/>	Chinese government has made detailed stipulations on doubt and complaint about government procurement in order to protect the legitimate interests of the suppliers.	

France

245. Ways and means of improving business regulation, administrative and procurement procedures supervision are reviewed on an ongoing basis. The “*Conseil de la Simplification*” was established in January 2014 for this specific purpose.

Germany

Generally:

246. The revision of the Act against Restraints of Competition in 2013 aims at modernizing competition law, particularly in the field of merger control and supervision of abuse of dominant positions. At the same time, the legal provisions dealing with competition are being made simpler and easier to understand and to use.

247. Market transparency bodies were being set up at the Federal Network Agency (*Bundesnetzagentur*) and the Federal Cartel Office (*Bundeskartellamt*) in order to strengthen competition on the energy and gas wholesale markets as well as on the fuel markets.

248. The Federal Government aims to strengthen competition via transparent procedures in up-to-date procurement law and to ensure that the public sector purchases goods in an economical manner. For the first time, the Federal Government put a legal basis in place for more competition in the procurement of defence and security products in 2012.

249. The revision of the Telecommunications Act, which entered into force in May 2012, supplements the Federal Government’s Broadband Strategy and optimizes the framework for the expansion and construction of high-speed networks and creates incentives for investment in new networks.

Specifically on PPP:

250. Public-private partnership (PPP) in Germany is just a relevant procurement procedure that should only be used when it represents value for money - not as an alternative form of borrowing. Regarding the question of PPP instead of traditional procurement, Germany uses an iterative approach, whereby capital investment projects are subject to increasing levels of scrutiny of their overall societal cost/benefit and various financing options. Such an iterative approach is used for each individual procurement project (and is opposed to a possible strategy of an infrastructure project pipeline to promote long-term investment by institutional investors - furthermore, setting up such a project pipeline available for PPP would contradict Parliament’s right to assess the budget and its implementation).

251. Under section 7 subsection (1) of the Federal Budget Code, the principles of efficiency and profitability must be observed when preparing and executing the budget. These principles apply to procurement as well, which means that all procurement projects must strive to achieve the most favourable relation between the objective pursued and the resources utilized. Economic feasibility analysis is the main instrument for best aiming at efficiency. Appropriate economic feasibility analysis has to be conducted for all measures having a financial impact, which includes procurement procedures as well (Section 7 subsection (2) of the Federal Budget Code). An economic feasibility analysis needs to assess all relevant potential procurement formats.

252. The PPP Acceleration Act (2005) sets the general legal, financial and technical framework for PPPs in Germany. The act led to changes in a number of German laws, e.g. for procurement, tax, public road fees, budget and investment, to eliminate impediments related to PPPs.

253. German procurement law is based on European procurement directives. It is founded in the Law on Anti-Competitive Practices (*Gesetz gegen Wettbewerbsbeschränkungen*), the Public Procurement Ordinance (*Vergabeordnung*), specific regulations for construction contracts, services and supply contracts and contracts in specific sectors, such as transport, water, mining and energy (*Sektorenverordnung*). Given that there is no specific PPP law, procurement law is applicable to PPP projects. The negotiated procurement procedure is most often used for PPP.

254. To support the development of PPP in Germany, a number of guidelines have been developed by federal ministries and federal states since the 2005 PPP Acceleration Act. These guidelines cover the legal framework for public private partnerships, project assessments and contract relationship management. Some also focus on particular sectors (e.g. education).

Italy

255. On a general note, the anchor of the EU legislative framework on public procurement and on state aid enhances the reliability and fairness of administrative and procurement procedures. Relevant references in this area are Directive 2014/25/UE on public procurement, Directive 2014/25/UE on procurement by entities operating in the water, energy, transport and postal services sectors, and Directive 2014/23/UE on the award of concession contracts.

256. Italy has undertaken in recent years a vast program of reforms with the aim of improving the doing business environment and creating the conditions to promote investments and growth. During this period several legislative packages were adopted in a number of different regulatory areas. The most important areas of intervention are the following:

- administrative and procedural burdens for firms
 - significant cuts in administrative burdens for firms contained in environmental, public procurement, construction, labour regulations have been provided for
 - some procedures for starting business activities have been streamlined and unnecessary authorizations and ex-ante controls have been eliminated
 - a new form of private limited liability company with no minimum capital requirement has been established
- rule of law and judicial inefficiency
 - to improve the efficiency of the judicial system, court jurisdictions were revised to increase court size in order to exploit economies of scale and scope
 - specialized courts for firms were created that they deal with some categories of disputes (including corporate law and some of public procurement disputes)
 - new Anticorruption Law: in line with the recommendations of international organizations, the law strengthens sanctions and introduces rules to prevent corruption (including: integrity risk assessment and management measures, establishment of a National Anticorruption Authority, whistle-blowers protection)

Japan

257.

PROCEDURES	YES	NO	IF YES WHICH ONES	WITH WHAT SUCCESS?
PREDICTABLE	<input checked="" type="checkbox"/>	<input type="checkbox"/>	A clear policy vision of the Economic Strategy, a part of Abenomics	Refer to the webpage: http://japan.kantei.go.jp/ongoingtopics/abenomics.html
STABLE	<input checked="" type="checkbox"/>	<input type="checkbox"/>	-Policies of the Economic Strategy, a part of Abenomics	Refer to the webpage: http://japan.kantei.go.jp/ongoingtopics/abenomics.html
TRANSPARENT	<input checked="" type="checkbox"/>	<input type="checkbox"/>	-Establishing councils and round tables with private sectors before and after making policy. -Public disclosure by each ministry and relevant institutions.	Refer to our answer to Question Principle 7-1 and other answers below.
FAIR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	-Deregulation and new investment opportunities in the private sector	Refer to our answer to Question Principle 7-1 and other answers below.
RELIABLE	<input checked="" type="checkbox"/>	<input type="checkbox"/>	-Policies of the Economic Strategy, a part of Abenomics	Refer to the webpage: http://japan.kantei.go.jp/ongoingtopics/abenomics.html

Mexico

258. In the last 20 years Mexico has tried to consolidate as an open economy, fully integrated to the world economy in terms of trade and financial flows, and with strong macroeconomic fundamentals. In this effort, several steps are worth highlighting:

- 2014 is the 20th year of the enactment of the North American Free Trade Agreement. Today Mexico has 10 Free Trade agreements with 45 countries and the sum of exports and imports as a share of GDP was 64.3% in 2013.
- Over 20 years of an independent Central Bank, with a clear legal mandate to promote price stability.
- In the last 20 years Mexico consolidated its flexible exchange-rate regime. The liquidity and depth of this market has allowed the exchange rate to work as a key shock absorber to the economy.
- The adoption of the Federal Fiscal Responsibility Law to promote sound fiscal accounts.

- Low debt levels and a sound debt management strategy. In 2013 Mexico's broad definition of debt was 39% of GDP, while the average of Latin America was 51.4% and in the OECD of 74.2%.
- Pension system reforms that changed both the private and public sector from a pay as you go to a fully funded scheme; and,
- A strong financial sector, with adequate prudential regulation.

259. These actions were essential to attain macroeconomic stability and avert recurrent financial crisis, allowing for a strong development of the tradable sector of the economy. Even though this strategy delivered meaningful positive results, it was clear that other sectors needed to be transformed. In particular, the non-tradable sector and key inputs markets lagged adequate, openness, competition and regulation.

260. That is why President's Peña Administration and Congress worked together to achieve profound structural reforms, mainly:

- a) Labor Reform: brings more flexibility to the labor market to enhance job creation in the formal sector.
- b) Education Reform: promotes higher quality education and human capital improvement, mainly for the lowest income population.
- c) Telecom Reform: to increase competition and facilitate access to information and communication technologies at a lower cost.
- d) Anti-trust Reform: to foster competition and investment across the board, promoting more competitive prices and the adoption of new technologies.
- e) Tax Reform: to maintain the strength of public finances.
- f) Financial Reform: promote a strong and resilient financial sector (Basel III has been enacted into law), improving access and reducing the cost of credit, mainly for households and small and medium enterprises.
- g) Energy Reform: promote competition and investment in the sector to fully exploit Mexico's energy competitive advantage.

261. The recently enacted Reform Agenda will improve significantly the investment climate and intermediation process of our country, enhancing its attractiveness for investment and contributing to close the gap between long-term financing needs and capital availability. Please find below some examples of how these reforms will contribute to create predictable, stable, transparent, fair and reliable business regulation.

262.

Procedures	Yes	No	If Yes Which Ones	With what success?
Predictable	X		<p>The Federal Government has established a Tax Agreement that includes, among other issues:</p> <ul style="list-style-type: none"> - Not increase taxes or create new ones until 2018. - Combat tax evasion and foster formality. - Improve efficiency and transparency on public expenditure. 	This agreement was enacted in 2014.
Stable	X		The Financial Reform consolidates solid institutions based on the Rule of Law for the Mexican Financial System.	The secondary regulation of the Financial Reform is on progress.
Transparent	X		<p>The Financial Reform establishes that the Federal Government could set up a State-owned credit bureau, with the main objective to decrease information asymmetries.</p> <p>The Federal Government has an on-line system for procurement procedures, which fosters transparency.</p>	The secondary regulation of the Financial Reform is on progress.

Fair	X		<p>The Financial Reform foster competition in order to increase the supply of credit at better terms and conditions.</p> <p>The Telecommunications Reform promotes competition and the adoption of new technologies.</p> <p>The Economic Competition Reform strengthens the competitive environment, encourages innovation and cost reductions in key inputs.</p>	These reforms are on early stages of implementation.
Reliable	X		<p>The Financial Reform:</p> <ul style="list-style-type: none"> - Strengthens the National Commission for the Protection and Defense for the Financial Users (CONDUSEF), so its determinations will be mandatory for credit institutions. - Fosters greater specialization of federal courts for financial matters. <p>Facilitates the process of bank failures in order to protect savings.</p>	The secondary regulation of the Financial Reform is on progress.

New Zealand

263. All yes – with the FMC Act the government has set up a thorough regulatory regime for the effective operation of the financial sector in New Zealand. This includes measures which encourage a predictable, stable and transparent financial environment as a way of increasing market and investor confidence in our financial markets.

Portugal

264. By empowering the Regulators of the different areas, e.g. Bank of Portugal, ISP and CMVM and working more closely with them, as well as by enhancing the Regulators independence. A law on the regulators governance and independence is about to be published and entered into force, which sets up new and more stringent rules about regulators' governance and independence.

265. Engaging and dialoguing with all relevant stakeholders including regulators, banks, investors, companies and other market participants has also been a way to improve predictable, stable, transparent, fair and reliable business regulation and supervision.

266. Other measures undertaken by the Government with the same goal:

- Investor Forums (or creating the conditions for them to exist)
- Consulting long-term investors

- Engaging at EU level initiatives (e.g. European Long Term Investment Funds)

Russian Federation

267. No comment

South Africa

268. As below (see table). But also note the following:

The constitution defines the borrowing rights of all spheres of government. Furthermore, the Public Finance Management act regulates financial management in the national government and provincial governments as well as public entities; to ensure that all revenue, expenditure, assets and liabilities of those governments are managed efficiently and effectively; to provide for the responsibilities of persons entrusted with financial management in those governments; and to provide for matters connected therewith. Long-term borrowing is also governed by this act.

269. At municipal level, the Municipal Finance Management Act (2003) seeks to secure sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government; to establish treasury norms and standards for the local sphere of government; and to provide for matters connected therewith. Long-term borrowing is also governed by this act.

270. In 2013 the Minister of Finance established the Office of the Chief Procurement Officer to: manage and maintain the regulatory environment relevant to government procurement practices; effectively manage government transversal contracts so that cost savings and socio-economic objectives are achieved; oversee and monitor government sector procurement practices to ensure compliance with the regulatory framework; provide advisory services and to implement initiatives that will improve the capability of government procurement practitioners; research, develop and implement strategic procurement practices so that cost savings and socio-economic objectives are achieved; design and implement effective systems to improve government procurement practices. So far the office has

- developed a standard lease agreement to address defects in government property transactions;
- standardisation of infrastructure procurement processes and documentation;
- created an inspectorate to monitor procurement plans and audit tender documents;
- enhanced processing of vendors' tax clearance certificates to ensure compliance;
- centralised procurement of health equipment, drugs and medicines to effect savings, and
- analysed the business interests of government employees.

271.

Procedures	Yes	If yes, which ones and with what success
Predictable	X	<p>The Medium Term Expenditure Framework of National Treasury provides a predictable and stable allocation of resources to government institutions (for a three year period).</p> <p>The National Development Plan has been drafted and is the guiding document for policy until 2030.</p>
Stable	X	<p>Business regulation is governed by several Acts, including the Companies Act (No 71 of 2008).</p> <p>In order for new Acts to be passed it requires approval from both chambers of Parliament, as well as extensive stakeholder consultation.</p> <p>Macroeconomic stability is achieved through prudent fiscal management, inflation targeting, and a flexible exchange rate.</p>
Transparent	X	<p>South Africa's constitution sets out that all procurement (as well as many other government processes, such as hiring of staff) must be done in a manner that honours the principles of being competitive, transparent, cost effective, fair, and equitable. This in turn is the basis of the government's financing management processes and procedures.</p> <p>Various financial acts, (the Public Finance Management Act, the Municipal Finance Management Act, and the Preferential Procurement Public Finance Act) are the guiding Acts with regards to government's management of financial resources.</p> <p>Audit reports on government institutions will contain a strong focus on compliance with these acts.</p> <p>South Africa is also top-rated in terms of the transparency of its annual national budgeting process.</p>
Fair	X	<p>The Broad-Based Black Economic Empowerment Act, along with the B-BBEE Codes of good practice, the Employment Equity Act, Basic Conditions of Employment Act, and several sector charters ensure fair business practices and seeks to redress previous discrimination.</p> <p>South Africa also has a strong and independent judicial system, and contracts are upheld.</p> <p>See also the note about processes based on the 5 constitutional principles.</p>
Reliable	X	<p>See above answers. However, procurement processes are reported to be slow in areas, and decision-making at an official level and sometimes a policy level can suffer delays or uncertainty; these are areas that institutional investors have indicated require improvement in order for them to invest more.</p>

Spain

272.

PROCEDURES	YES or NO	IF YES WHICH ONES	WITH WHAT SUCCESS?
PREDICTABLE	YES	Law of market unity guarantee National Competition Authority and network industry regulators reform	Implementation ongoing
STABLE	YES	Law of market unity guarantee National Competition Authority and network industry regulators reform	Implementation ongoing
TRANSPARENT	YES	Law of market unity guarantee National Competition Authority and network industry regulators reform The Spanish authorities are currently negotiating with the World Bank the undertaking of the Doing Business Subnational report in our country. The report would identify and compare administrative procedures and burden necessary to register a new firm and to start operations.	Implementation ongoing To be started
FAIR	YES	Law of market unity guarantee National Competition Authority and network industry regulators reform	Implementation ongoing
RELIABLE	YES	Law of market unity guarantee National Competition Authority and network industry regulators reform	Implementation ongoing

Switzerland

273. The Federal Law on public procurement, along with the WTO-Agreement on Government Procurement (GPA) and other bilateral agreements create predictable, stable, transparent, fair and reliable procurement procedures. Further, the public procurements of the Federal, Cantonal and Communal governments are published online. Interested companies can view the projects and download the tender documents for the bid preparation.

274. On the international level, predictable conditions and legal certainty are also furthered by the conclusion of international law disciplines on foreign investment, particularly in the form of bilateral investment promotion and protection agreements (BITs). These agreements seek to protect Swiss foreign direct investments - as well as investments by investors of the other contracting partners - in the event that the recipient country's government acts in breach of international law.

275. In the legislation process, the relevant stakeholders are invited by the competent authority to actively participate in the regulatory project through the public consultation process. For important regulatory projects a Regulatory Impact Assessment ("*Regulierungsfolgeabschätzung*") is conducted.

Turkey

276. "Yes" applies to all the criteria for the procedures for insurance and pension system. The legislation on regulation and supervision of the insurance sector in Turkey is designed to promote an effective framework for fair competition and sound corporate governance, and clear and reliable protection of the rights and benefits of the insured as well as insolvency regimes and arbitration mechanisms.

277. Capital Markets Board (CMB) has taken certain steps to create predictable, transparent and reliable business regulation and supervision and administrative and procurement procedures. For ensuring the predictability of regulations CMB consults all stakeholders in drafting legislation and takes the needs and experience of the industry in finalizing regulations. Furthermore in some cases the CMB may also revises regulations upon the request of market participants, while considering issues such as best interest of all stakeholders, especially investors as well as the proportionality of resulting regulatory burden. Final regulations are published in the Official Gazette and made available online. This makes the regulations predictable, transparent and fair. To provide reliability, CMB supervises all institutions and actions subject to Capital Market Law such as issuers, intermediaries, exchanges, clearing houses, institutional investors etc. Finally fairness is ensured through the uniform application of rules for all market participants.

278. For Business Angel Procedures:

Procedures	Yes	No	If yes which ones	With what success
Predictable	Yes		All activities regulated in the Business Angel Scheme are defined in detail step by step with secondary regulation.	
Stable	Yes		The system is regulated by law to ensure the stability.	
Transparency	Yes		All information concerning regulation is being published on the web site of the Undersecretariat of Treasury. Also related government officials are participating in a lot of activities for the introduction of the system.	
Fair	Yes		The Undersecretariat of Treasury is giving the same priority to all stakeholders of the system.	
Reliable	Yes		All procedures and processes regarding the system are regulated by law and all rights and responsibilities of the stakeholders defined by law in detail.	

United Kingdom

279.

PROCEDURES	YES	NO	IF YES WHICH ONES	WITH WHAT SUCCESS?
PREDICTABLE	✓	<input type="checkbox"/>	Common commencement dates for domestic regulation / deregulation (6 April and 1 October) inform business and other stakeholders of forthcoming regulatory changes, helping them to plan and budget for new measures and to minimise any additional costs	So far, the Government has reduced the overall net burden of regulation on business by around £1.5m per annum.
STABLE	✓	<input type="checkbox"/>	Government publishes a Statement of New Regulation every 6 months, to provide business with certainty on regulatory or deregulatory measures that will be coming into force / commenced within that 6 month time period.	
TRANSPARENT	✓	<input type="checkbox"/>	The Statement of New Regulation also sets out the progress the Government is making towards achieving its One-In-Two-Out deregulatory target. Impact Assessments or Regulatory Triage Assessments are produced for all regulatory and/or deregulatory measures and are subject to independent scrutiny by the Regulatory Policy Committee, who will determine whether they are “fit for purpose”.	
FAIR	✓	<input type="checkbox"/>	The Government’s Principles of Regulation are used when developing policy – the general presumption is that regulation should not impose costs and obligations on business, social enterprises, individuals and community groups unless a robust and compelling case has been made.	
RELIABLE	✓	<input type="checkbox"/>		

United States

280.

PROCEDURES	YES	NO	IF YES WHICH ONES	WITH WHAT SUCCESS?
Predictable	<input checked="" type="checkbox"/>			
Stable	<input checked="" type="checkbox"/>			
Transparent	<input checked="" type="checkbox"/>			
Fair	<input checked="" type="checkbox"/>			
Reliable	<input checked="" type="checkbox"/>			

281. Regulators, federal government agencies, legislators, and other stakeholders ensure that the business regulation, supervision, administrative, and procurement procedures are predictable, stable, transparent, fair, and reliable.

EU

282. Procurement procedures: The revision of Directives 2004/17/EC (procurement in the water, energy, transport and postal services sectors) and 2004/18/EC (public works, supply and service contracts), as well as the adoption of a directive on concession contracts. The Member States have until April 2016 to transpose the new rules into their national law (except with regard to e-procurement, where the deadline is September 2018).

283. Business regulation: within the framework of the long term finance Communication (COM 2014 168), the Commission published in March 2014 a Recommendation on best practice principles to enable the early restructuring of viable enterprises and to allow bankrupt entrepreneurs to have a second chance. This recommendation will be reviewed in due time in view of possible additional measures. In the same vein, a report on the law applicable to third party aspects of the assignment of claims will be undertaken.

Do any specific government and market based instruments and initiatives exist in your jurisdiction to address the long-term financing needs of innovative new firms and small and medium-sized companies (Yes/No)? If yes, which ones? With what success?

Australia

Government programmes

284. The Australian Government has in place a number of programmes that are focused on increasing access to finance and providing expert advice for early stage businesses.

285. The Entrepreneurs' Infrastructure Programme (EIP) commenced on 1 July 2014 and offers easy access to practical support to Australian businesses in a simplified and streamlined way. Small to medium sized enterprises will receive support to improve business management; make research connections and commercialise ideas. Practical support for businesses includes advice from people with relevant private sector experience; small co-contributions for re-engineering or growth opportunities; and connection and collaboration opportunities.

286. The Venture Capital Limited Partnerships (VCLP) and Early Stage Venture Capital Limited Partnerships (ESVCLP) are venture capital funds structured as limited partnerships that make equity investments in relatively high-risk start up and expanding Australian companies. Registration as a VCLP or ESVCLP entitles a fund to flow through taxation treatment and provides a range of tax concessions to eligible investors. The aims of the VCLP and ESVCLP regimes are to increase foreign investment in the Australian venture capital sector and stimulate the early stage venture capital sector.

- As at 31 January 2014, 44 registered VCLPs reported investing a total of \$2.61 billion into 243 businesses and 15 registered ESVCLPs reported investments of \$54.5 million into 45 businesses since 2002.

287. The R&D Tax Incentive provides tax offsets to firms that conduct eligible research and development activities.

- For the financial year 2011-12, around 7,500 small and medium sized registrants conducted around \$4.9 billion of research and development that was eligible for either the R&D Tax Incentive or its predecessor programme.

Regulatory and market-based initiatives

288. There are a number of initiatives currently in place in Australia to improve the ability of new, small and medium capitalisation companies to address long-term financing needs through the raising of equity capital.

289. The Australian Government supports a competitive environment for financial markets, amending regulatory frameworks to facilitate competition. Supported by this policy, Australia has seen the entry of a number of new financial markets in recent years. A competitive environment supports the primary role that market forces play in driving lower prices, greater service quality and innovation and ensuring that markets adapt to meet the needs of different classes of capital users and providers.

290. For example, APX (Asia-Pacific Stock Exchange) commenced operation in early 2014, focusing on the needs of growth oriented companies in Australia to raise capital from a diversified range of

investors in the Asia-Pacific region. This has the potential to provide a wider pool of investors for these companies to access in addressing their funding needs.

Supporting industry led initiatives

291. Market operators play a primary role in ensuring markets meet the needs of end users. Australian regulatory arrangements support operators carrying out this role.

292. For example, in July 2012, the Australian Stock Exchange (ASX) commenced a trial initiative to fund independent research for ASX-listed companies with a market capitalisation below \$1 billion. The trial was renewed for a further 12 months in July 2013, with funding doubled to \$2 million, and with the participation of more research providers.

- The results of the trial were positive, with many small and mid-cap entities being covered by this level of research for the first time.
- The trial resulted in improved relationships between listed entities and research providers and increased analyst coverage, with close to half of the entities increasing their analyst coverage beyond the research provider allocated to them under the scheme.
- The scheme is part of broader efforts to provide investor-relations support for small and medium companies, and facilitate communication with a wider audience of investors to reduce barriers for small businesses to list, and therefore use equity as a form of finance.

293. In July 2012, ASX amended its listing rules to increase the flexibility for small and mid-cap companies to raise capital, relaxing share issuance rules to enable larger non-pro-rata share issuances without specific shareholder approvals.

- The changes aid small and mid-cap companies with capital and price formation, and promote the ASX platform as an effective market for raising capital by emerging companies.

Brazil

294. In the Pension Funds market, there is none.

Canada

Questions 2-4

295. Canada employs a number of mechanisms to support the financing of innovative new firms and SMEs.

296. Canada has a competitive tax system, with a combined federal-provincial weighted average general corporate income tax rate of 26.3%. Small businesses face lower federal and provincial corporate tax rates that provide small corporations with more retained earnings for reinvestment and growth. Since 2006, the federal small business tax rate has been reduced to 11% and the amount of income eligible to be taxed at the lower rate has been increased to \$500,000. The weighted average provincial corporate income tax rate applicable to small business income is 4.2%, providing a combined federal-provincial weighted average tax rate on small businesses that is 11.1 percentage points lower than the general corporate income tax rate.

297. The Lifetime Capital Gains Exemption (LCGE) is intended to bolster investment and risk-taking by Canadians in small business. The LCGE provides an exemption of up to \$800,000 of capital gains on qualified small business shares in 2014, and the exemption is indexed to inflation. To further improve access to capital for small businesses, individuals can defer the tax on a capital gain arising from the disposition of qualified small business shares if the proceeds are reinvested in newly issued shares of another qualified small business. As well, capital losses on small business investments can be used to offset ordinary income (while capital losses are generally deductible only against capital gains, capital losses on the disposition of shares or debt of qualified small business corporations can be deducted from other income).

298. Canada has also recently launched a new approach to support the growth of innovative firms, through the Venture Capital Action Plan (VCAP). The VCAP, announced in January 2013, is a comprehensive strategy to reinvigorate the venture capital ecosystem in order to ensure that innovative high-growth Canadian firms have access to the capital and resources they need to grow and create jobs. In particular, the VCAP is making available:

- \$350 million to establish or recapitalize up to four large scale private sector-led funds of funds in partnership with institutional and corporate strategic investors, as well as interested provinces;
- An aggregate investment of up to \$50 million in three to five existing high-performing venture capital funds in Canada; and,
- Additional resources to continue developing a robust venture capital system and a strong entrepreneurial culture in Canada.

299. A key objective of the VCAP is to attract institutional investors, such as banks, pension funds, and corporate strategics back to the venture capital asset class by demonstrating to domestic and global investors that there are significant returns from investing in innovative companies in Canada. The Plan therefore has been designed to attract close to \$1 billion in private sector investments in early-stage risk capital. Consistent with this objective, the funds of funds will be managed by experienced private sector General Partners, and investment decisions will be market-based. In addition, the Government is offering incentives to private sector investors, modelled on approaches that have been used in other jurisdictions to attract private sector resources into venture capital, while ensuring that taxpayers' interests are protected.

300. In January 2014, the Government announced the first closing of the Northleaf Venture Catalyst Fund, the first of the funds of funds to be established under the VCAP, in partnership with a large Canadian pension fund manager, the major Canadian banks, Open Text Corporation, and the Government of Ontario. The Government continues to work towards the establishment of the three additional funds of funds. In addition, in autumn 2013, the Government announced the selection of high-performing venture capital funds in Canada to receive the aggregate investment of \$50 million from the Government.

301. In addition, the Government supports financing to small businesses through the Business Development Bank of Canada (BDC), a wholly-owned commercial Crown corporation. The BDC operates as a complementary financial institution to the private sector for addressing the needs of SMEs. Its mission is to serve Canadian businesses through financing, venture capital and consulting services.

302. Separate from the BDC, the Government's Canada Small Business Financing (CSBF) program provides guarantees to loans extended by financial institutions to small businesses. The CSBF guarantees loans to small businesses with revenues of up to \$5 million per year, for the acquisition of real property and equipment and leasehold improvements.

303. The Scientific Research and Experimental Development (SR&ED) tax incentive program encourages businesses of all sizes and in all sectors to conduct research and development (R&D) in Canada that will lead to new, improved or technologically advanced products or processes. Under the SR&ED program, small and medium-sized Canadian-controlled private corporations benefit from an enhanced investment tax credit at a rate of 35% on their first \$3 million of eligible expenditures (the general investment tax credit rate is 15%). Unused credits earned in a year are also generally fully refundable for small and medium-sized CCPCs. The SR&ED tax incentive program provided businesses with more than \$3.3 billion in tax assistance in 2013 and is one of the most generous systems in the industrialized world for R&D.

China

304. Yes:

- a) The Central Bank used a set of monetary policy tools to encourage financial institutions to increase SME lending, continually improved assessment of SME credit policy, encouraged SMEs to raise funds through issuing non-financial corporate debt financing instruments, supported qualified financial institutions to issue financial bonds earmarked for SME lending, and guided financial institutions to strengthen financial support for the development of science and technology, culture, strategic emerging industries, information consuming and other innovative enterprises .
- b) Chinese government encouraged credit guarantee agencies to provide low-charge services to SMEs.
- c) Chinese government set up a special fund for the development of SMEs, mainly for supporting technological innovation, improving financing environment, enhancing services and strengthening international cooperation for SMEs.
- d) In order to broaden SMEs' financing channel, Chinese government established SME board and GEM board in capital market, advanced the pilot program of "NEEQ (National Equities Exchange and Quotations)", and carried out the pilot program of SME private placement bond.
- e) Chinese government encouraged insurance companies to support the development of innovative new firms and SMEs through equity investment funds, equity investment plans and real estate financial products.

France

305. France has taken concrete steps in order to facilitate greater private financing in favour of long-term investment. A key focus has been on easing SMEs' access to finance and fostering greater private financing for long-term investment.

306. On the debt side, several initiatives aim at:

- (i) revitalizing mid-caps access to debt markets, by providing a clear framework to Euro Private Placements, and enabling insurers to invest in funds specifically geared toward lending to (unlisted) mid-caps
- (ii) enhancing financial intermediation through SME loans securitization within a sound regulatory framework, leveraging on the Banque de France expertise and data.

307. On the equity side, initiatives aim at improving mid-caps access to equity external financing, such as providing a clear framework for crowd funding, improving the schemes supporting venture capital and private equity, or launching EnterNext.

308. When negative externalities undermining private investments are calling for a public intervention, France has set up targeted public schemes to overcome identified market failures and unlock private financing. The setting-up of the Public Investment Bank (Bpifrance) in 2012, a public-sponsored financial institution designed to provide up to €42bn in financial support for SMEs and infrastructures aimed at better coordinating the various schemes supporting corporate financing.

309. In the same time, complementary initiatives are being implemented in Europe consistently with the Compact for Growth and Jobs, launched in June 2012. France is very supportive of these initiatives, notably the one aiming at reinforcing the capacity of the EIF, the EIB Group's specialist provider of risk finance to benefit SMEs across Europe.

310. Overall, French corporates report a fairly good access to investment financing with more than 90% of credit demand being satisfied.

Germany

311. Yes. There are programs on the federal and the regional level. The following ones are most important:

- a. The ERP Programs: Innovative companies and start-ups have been the focus of the term loan programs from the ERP Special Fund. E.g. under the ERP Innovation program, *Kreditanstalt für Wiederaufbau* (KfW) extends low-interest loans with 10-year-maturity to SMEs with a minimum age of three years to facilitate market-oriented research. In 2013, a total of 975 million Euros of new loans was extended, over 70 % to industrial companies.
- b. The Federal Government is continuing the Central SME Innovation Program (ZIM). Funding is provided for example for R&D projects of individual companies or collaborative projects, and is not limited to particular technologies or branches. Since its inception in 2008, about 24.000 ambitious R&D projects have been supported under ZIM.
- c. ERP-start-up Fund: It mobilizes equity capital for young innovative technology firms. It acts as co-investment fund at same economic conditions as the lead investor (*pari passu*). It was launched in 2004 and has a volume of more than € 700 m.
- d. High-Tech *Gründerfonds* invests in technology-based start-up companies with significant growth potential which have been in operation for less than one year.

312. In addition Partnership Germany publishes groundwork reports ("*ÖPP-Schriftenreihe*"; www.partnerschaften-deutschland.de) to develop PPP in Germany whereby volume 6 deals with "*ÖPP und Mittelstand*". That report might help SMEs to successfully participate in a PPP.

Italy

313. Yes, among others, on the equity side, (i) *Fondo Italiano di Investimento* (Private Equity Fund and Fund of funds for SMEs), (ii) *Fondo Strategico Italiano* (Equity Fund for medium and large companies), while on the debt side, the SMEs Plafond, a mechanism to channel medium/long-term funding for SMEs through the banking system (since 2009, CDP has allocated € 18 bln which reached more than 80,000 companies). (see Principle 1.1, Question 2)

314. In 2013 Consob and the Italian Stock Exchange (*Borsa italiana*), in collaboration with several industry associations and other stakeholders, launched the "*PiùBorsa*" project with a view to establishing a

“guided path” to public listing for SMEs, through reducing administrative costs and informational burdens. Through a MOU the project's sponsors agreed to launch a series of joint measures to develop the national investment market. Measures include a 10% reduction of the admission fees for the companies of *MTA (Mercato Telematico Azionario - screen based stock market)* and *Aim (Italia-Mercato Alternativo del Capitale)*, a recently established market dedicated to SMEs) with a market capitalisation of less than €500 million, in case of capital increase equal or larger than 30% of the total raised funds. One of the aims of the project is to define a pathway along which businesses seeking capital will be guided, all the way through to the listing process. Scouting programmes have also been stepped up, with a view to selecting outstanding companies to be admitted to the stock market. Particular attention has been paid to the issue of transparency of listing costs, and long-term membership of the regulated market.

315. The main recent public intervention to support firms' market financing has been a change in the fiscal treatment of corporate bond issued by unlisted companies. A decree law of June 2012 introduced the so-called “minibonds”, that is, issuance by unlisted firms whose fiscal treatment is on a par with that of listed companies (no limit to interest expenses deductibility and exemption of investors from tax withholdings on interest earned). Up to now 24 companies issued mini-bonds for a total value of about 6 billion; whereas at the beginning the issuances were quite exclusively done by large firms, more recently some issuances of very limited amount (less than 2 million) signalled a growing interest by small businesses. A higher involvement of insurance companies in the growth of the mini-bond market could also derive by some important changes in the regulation recently introduced by the Italian insurance supervisory authority (IVASS) and provided for by the Law decree “*Destinazione Italia*” in December 2013¹⁰. As these measures have been just introduced their impact cannot be assessed yet.

Japan

316. Tokyo Stock Exchange (TSE) has two “markets of high-growth and emerging stocks,” called Mothers and JASDAQ, where equity fund is broadly provided to emerging firms and SMEs and investment opportunity in these firms is given to investors.

317. For individual investors, tax exemption scheme (special deduction of income from sale of stock) for investment in venture businesses (called “the Angel Tax scheme”) started in 2008.

318. Several relevant ministries and government affiliated institutions address policy-making and can give financial assistance to new and small- and medium-sized enterprises (SMEs).

Mexico

319. The Financial Reform, which amended 34 laws, will enhance credit allocation in an already stable and well capitalized financial system. Its main objective is to reduce costs and promote efficiencies

¹⁰ A new asset class has been introduced which includes bonds issued by non listed non-financial companies (minibonds): these bonds do not have to be necessarily listed on a regulated exchange and there are not requirements on balance sheet certification and bond's residual maturity. Insurance companies can invest in this asset class up to 3 per cent of their technical provisions. Another new asset class includes securitizations of minibonds without rating requirements (also in this case, the portfolio share of this asset class cannot exceed 3 per cent of the technical provisions). Finally, it has been enhanced the ability of insurance companies to invest in shares of alternative funds that are specialized in minibonds and securitizations of minibonds: for this type of funds, the maximum concentration threshold for investments in a single vehicle has been raised from 1 to 3 per cent. Project bonds have been included among the assets eligible for investment by insurers in 2012 (investment in projects bonds cannot exceed 3% of insurers' technical reserves.

in credit origination mainly for SME's, as well as to provide a new mandate for Development Banks, in order to foster financial market development and financial inclusion.

320. In this sense, the major National Development Banks recently presented their medium term plans (2014-2018), which define objectives and strategies to complement commercial banks' lending, with adequate risk sharing, that could allow to increase credit growth, in particular in areas that are not fully covered by commercial banks like SME's.

321. The main strategies include:

- Extend or induce credit up to almost 45 billion dollar in 2018.
- Foster the participation of commercial banks in infrastructure financing (mini-perm financing, mezzanine products).
- Contribute to channel institutional investors' resources for infrastructure (guarantees).
- Foster infrastructure development by local governments.
- Strengthen credit and guarantee programs for SME's, which will contribute to create a credit history record for these enterprises.

322. The full implementation of these strategies is fundamental for strengthening the role of National Development Banks for infrastructure and SME financing.

323. Development Banks play an important role in complementing efforts with commercial banks to increase the supply of credit, which could serve as a catalyst for job creation and growth. This is particular relevant given the low financial penetration of commercial banks (14.9% of GDP).

324. *Nacional Financiera* (NAFIN), the major National Development Bank for SME financing, will strengthen their current guarantee and factoring program for SME's.

325. Regarding Non-Bank SME financing, the Mexican Federal Government has the National Entrepreneur Fund, which provides grants to micro, small, and medium enterprises. These resources are allocated for training programs, consulting, certifications, design, innovation, technology transfer, and equipment, among others. The amount of the grant could be from 10% to 100% of the total cost of the project.

New Zealand

326. Yes – the FMC Act has introduced financing options aimed at innovative new firms and small and medium-sized companies through its new regulatory framework. This includes the potential for the creation of stock exchanges tailored to the needs of growing companies, as well as making available the options of crowd funding and peer-to-peer lending.

Portugal

327. Yes. Three particular initiatives deserve mentioning as regards improving SMEs' financing conditions.

- First, the legal framework of commercial paper has been simplified to facilitate SMEs issuance of such instruments;
- A specialised financial institution is being set up to better channel European funds to SMEs.
- Euronext Lisbon is sponsoring some discussion about the possibility and usefulness for the market of a new instrument – **project bonds** – which have been subject to consideration in a few countries as a new financing (or refinancing) instrument in infrastructures. Many of these project bonds are being traded in regulated markets, facilitating the access on national and international investors to the Market and hence, enhancing the sources of financing of long-term projects. With a view to provide visibility to this new financing instrument and create synergies, Euronext Lisbon aims at identifying possible opportunities of issuance of project bonds to finance Portuguese infrastructure projects

328. Following an IMF technical assistance mission further measures may be devised in the coming months, namely to ensure a sustainable deleverage.

329. These reforms aim at delivering greater stability and reduce the likelihood and negative impact of financial crisis being repeated in the future and will boost as such the long-term financing.

330. In addition, and following the adjustment programme, the Government introduced new regimes for in-court (Special Revitalization Procedure) and out-of-court (Companies' Recovery System through Extrajudicial Agreements) restructuring.

331. Limited tax measures have also been introduced to facilitate debt restructuring.

Russian Federation

332. SMEs financing is an important issue since they have difficulties with financing (only 17% of the loans to SMEs have maturity more than for 3 years). OJSC SME Bank is an agent for *Vnesheconombank* in implementing the Program of Supporting Small and Medium-Sized Enterprises. It has been working on this since 2004. Support for SMEs comes in a form of coordination financing of SMEs by the banks holders of *Vnesheconombank* resources (*Sviaz-Bank*, *Globexbank*, *NTB-bank*). In the course of this Program's implementation more than 24 thousand SMEs received funding in the amount of 179 billion rubles, with 118 billion rubles through regional banks and 61 billion rubles through regional SME support infrastructure organizations.

333. To foster investments in SME Russia established special Agency for Credit Guarantees in May 2014. A five-year business plan of this Agency with authorized capital of 50 bn. rubles (approximately 1 bn. euro) presumes the following financial and economic performance indicators:

- The aggregate amount of guarantees issued - at least 439.9 billion rubles (approx. 8 bn. euro);
- The aggregate amount of secured guarantees loans to SMEs – 824.9-879.9 billion rubles (approx. 18 bn. euro);
- The total amount of guarantees issued - 7321-7732 contracts.

334. Formation of a national system of guarantee institutions and creation of the Agency as its core will contribute significantly in improving access to credit for SMEs and will allow them to implement

investment projects in the non-trade sector, will help reduce the risks of long-term lending to medium-sized business and create a comprehensive system warranty support for SMEs.

335. Also, the government provides subsidies to SMEs according to the “Rules of allocation and provision of subsidies from the federal budget of the Russian Federation to the regional budgets for the government support to the SMEs, including farms”. The key directions of SME’s support are:

- Increase of support to the small innovation companies (innovation grants, subsidies for the operating innovation companies, support for the SMEs going public, education programs);
- Increase of support to the medium companies (subsidizing credit interest rate, refund of equipment costs);
- Promotion of equipment leasing for the small companies (equipment leasing, grants for the first payment, support for the mobile platforms);
- Grant support for the first-time entrepreneurs (priority – unemployed, transferred to the reserve, social entrepreneurship);
- Increase in capitalization of special infrastructure for the SME support: micro financing, guarantee funds, direct investment funds;
- Keeping the pace of support for the export-oriented SMEs (establishing the center for the support for the export-oriented SMEs, grants for the beginner exporters);
- Establishment of business incubators, industrial parks, science parks, entrepreneurship centers, cluster development centers, prototyping centers, design centers, public access to equipment centers.

336. According to the “Action plan for the ministry of economic development for 2013-2018” no less than 3% of SMEs should be supported by government measures annually in 2013-2018.

South Africa

337. Yes. National Treasury has introduced tax relief for small businesses through s12E. Graduated tax rates and accelerated depreciation is offered to stimulate this sector. The review of the Venture Capital Companies tax incentive (s12j) should further assist start-ups and entrepreneurs.

338. Note also that South Africa has a very efficient and liquid government bond market. The state owned enterprises are also successful borrowers in the local market through the issuance of listed, tradable bonds. The corporate bond market is also well developed although illiquid. The market has historically issued large volumes of securitisation issues and recently issued a project bond.

339. Small businesses also receive substantial support through various government avenues, these include:

- The Department of Trade and Industry (DTI) – Small Enterprise Development Agency
- The DTI – Black Business Supplier Development Programme

- The DTI – Manufacturing Competitiveness Enhancement Programme (for existing businesses only)
- Department of Economic Development (EDD)/ Industrial Development Corporation / (IDC) – Small Enterprise Funding Agency
- Presidency – National Youth Development Agency
- Department of Labour (DoL) – Productivity SA
- Department of Mineral Resources (DMR) – Small scale mining support
- Department of Science and Technology (DST) – Technology Innovation Agency

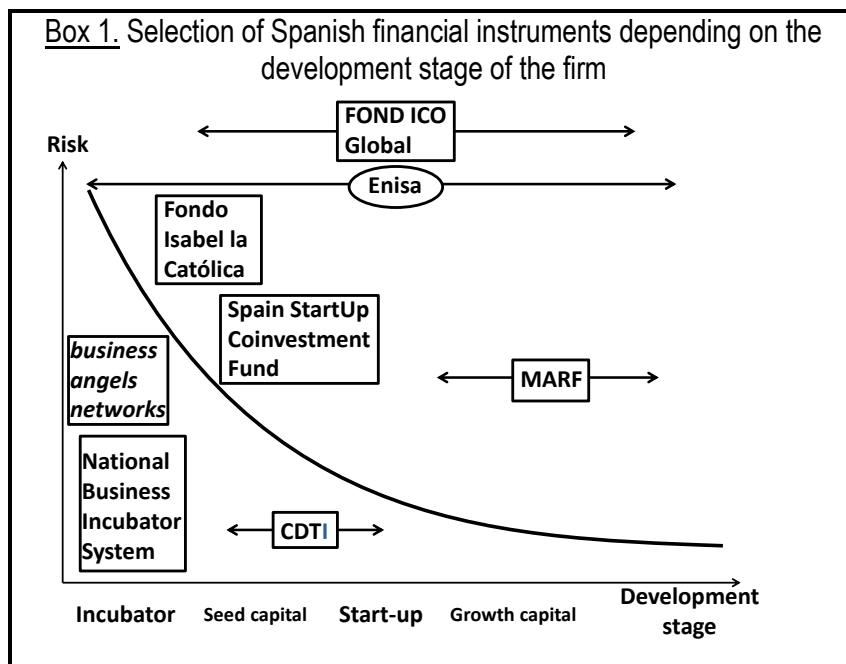
Some achievements:

340. The Small Enterprise Development Agency has a successful incubation programme that consists of 42 incubators. In 2012/13, 1 514 SMMEs were supported. The turnover threshold for small businesses was lifted to R20 million in 2013 and the Davis Tax Review committee is investigating the impact of the tax system on SMMEs. Access to finance was simplified by the creation of the Small Enterprise Finance Agency (SEFA), which approved R560 million of loans in 2012/13 and expects R815 million in 2013/14.

341. Furthermore, the sophisticated financial sector means that a lack of access to finance is not viewed as a major constraint by companies (only 1.4% of respondents in the Global Competitiveness Report survey identified lack of access to finance as a constraint). While lack of finance may be more difficult for smaller businesses, only 14% of respondents to the SBP 2013 report (all SMMEs) indicated access to finance as an issue.

Spain

342. Spain launched in 2013 a strategy aimed at fostering **non-bank financial intermediation**, comprising initiatives in two different areas: i) securities markets, and ii) venture capital. These actions seek to i) increase the variety of financial instruments available to firms, ii) guarantee that firms at every stage of the financial ladder can access to the most suitable financial instrument, iii) reduce the equity gap in early stages of business development and iv) increase competition between the banking sector and financial markets. As a result, complementary equity, debt and hybrid instruments have been developed (box 1). Furthermore, this broad set of instruments will provide SMEs with a wide range of financial products with different features aimed at adapting those instruments to long-term financing needs of firms.



343. More specifically:

- a. **Securities markets.** All the initiatives comprised in this field are carried out with the view to broadening both the investor and issuer base by means of a reduction of the administrative burden shouldered by issuers and an extension of investment limits of certain financial institutions. Among other actions, it stands out the launch of an Alternative Bond Market (MARF) aimed at providing Spanish midcaps with a market to issue bonds and short term securities. The market's infrastructure is already operating (three issuances have been made) and legal amendments have been introduced in order to facilitate access to this new market and to foster non-banking intermediation. The regulatory changes are the following: 1. The limit on the issuance of bonds for limited companies (S.A.) does not apply if bonds are targeted to professional investors with independence on whether bonds are negotiated on the regulated market, MARF or OTC. 2. Administrative burdens have been reduced for issuances in MARF. 3. Extended investment limits in MARF and MAB for insurance companies and pension funds. 4. An exemption on income tax withholding for MARF securities is already in force. 5. It levels the playing field in fiscal terms between securities listed in MARF and in regulated markets.
- b. **Venture capital.** A comprehensive reform of the legal and institutional framework of the Spanish venture capital industry is currently underway.
 - i. **The venture capital legal framework,** the current venture capital regime, that since 2005 has fuelled this sector, is being enhanced in a new draft law that will include a more favourable regime for venture capital entities that invest in SMEs.
 - ii. **A National Business Incubator System** is being designed building on the Israeli experience. Sectorial incubators run by business angels or other private investors will be partially financed (after a public tendering process) and will provide entrepreneurs with financial and technical assistance.

iii. **Two public funds** (Isabel la Católica and Spain Startup Coinvestment Fund) have been launched. Both of them co-invest along with private investors previously selected. They both target seed-capital projects and invest through equity (Fondo Isabel la Católica) or mezzanine debt (Spain Start-Up Coinvestment Fund). They have a combined investment capacity of EUR 100 million.

iv. **FOND ICO Global** is a new fund of funds launched and managed by Axis, a wholly owned subsidiary of ICO. This new EUR 1.2 bn fund is an anchor investor, investing in private funds specialized in different sectors and segments of the financial ladder and thus covering different financial needs depending on the firm's development stage. It is expected to leverage at least EUR 3bn in new investments during the next four years (1:2 minimum leverage ratio). The first tender was launched in October and closed on December, 18th. 3 venture capital and 3 growth capital managers were selected to co-invest a total amount of EUR 685m (EUR 189m public and EUR 496m private) along with FOND ICO Global. This sole tender overtakes the aggregate investment volume of the venture capital and private equity industry in Spain in 2013 (EUR 447m). The second tender was opened in February 2014 and the selected investors will be announced before end 2Q2014. Two additional tenders are scheduled before end 2014.

v. **Business angels** support has been reinforced by means of subsidies to business angels networks and fiscal incentives in the Spanish income tax have been revamped and their investments are now fiscally encouraged. Legal changes to streamline public support to new and existing business angel networks are now in force. 106 applications were submitted amounting EUR 4m. The EUR 600,000 grant programme was allocated among 23 networks, 14 of which new.

344. Additionally, a draft law to promote corporate financing is being developed, and includes actions aimed at:

i) Improving SME rights vis-à-vis credit institutions with the objective of reducing informational asymmetries when the SME seeks for other sources of funding. Credit institutions shall notify the SME three months in advance when SMEs credit line is being cancelled or significantly reduced; also, SMEs are entitled to receive the "SME- credit information".

ii) Improving the Public Guarantee System. The Spanish system is based on regional mutual guarantee funds (SGRs) supervised by the Bank of Spain. These institutions grant guarantees that are used as collateral by SMEs when applying for a bank loan. CERSA -a public counter-guarantee society- partially guarantees SGR's portfolios. In this field, CERSA's capital base was increased and its counter-guarantee agreement with regional mutual guarantee funds (SGRs) was extended in its limits and to new operations. Additionally, a new capitalization and solvency rule affecting SGR was included to encourage the restructuring of the sector with a view to encouraging bigger SGR with a wider range of operations.

iii) A specific legal regime for Establecimientos financieros de crédito (EFC) is foreseen. A legal framework is created under the supervision of Banco de España, reinforcing their role as an alternative source of funding to traditional banks, which has been significant in consumer financing at sales point.

iv) Revision of the legal framework of securitization with 3 main objectives. First, update the regime of securitizations in Spain, making it comparable to the rules applicable in other Member States. Second, enhance transparency requirements and regulate the "association of bondholders", guaranteeing the protection of the interests of the investors. Third, ensure legal certainty by clarifying the applicable rules, which are dispersed.

v) Fostering the Alternative Stock Market (Escalator Funding Law) by facilitating the transition between the Stock Exchange and the Alternative Stock Market

vi) Improvement on debt issuances. Limitations foreseen in the Company Law are eliminated in order to reduce Spanish firms' exposure to bank lending.

vii) Regulation on investment based Crowdfunding (equity crowdfunding and crowd-lending). The main aim is to avoid legal uncertainty, mainly generated by the fact that the border between this activity and some regulated activities, such as investment services or payment services is blurred.

viii) Supply Chain Finance. Legal amendments are made in order to allow suppliers, which are normally SMEs, to obtain funding by transmitting their invoices.

345. Finally, **ICO is carrying out important actions for improving access to debt financing** by Spanish SMEs, in particular through its "on-lending schemes": through which ICO's funding is channelled to corporates and SMEs with viable projects through domestic banks. Commercial banks undertake both the credit evaluation and the loan supervision. Normally, under these schemes, while ICO faces bank risk, it is the commercial banks that face corporate/SME risk.

346. On-lending by ICO fulfills two key features:

- Very high network capillarity: the fact that any domestic bank has access to ICO's on-lending schemes, it ensures ICO's funding has the potential to reach any corporate/SME the country regardless of the bank that it is regularly working with and the region or municipality where it is based.
- 'Pass-through' effect: since ICO is a non-profit-maximizing institution, these schemes help maximize the pass-through of ICOs' funding cost (which are relatively lower than banks' due to the Sovereign guarantee ICO bonds carry) to that of corporates/SMEs. ICO's on-lending scheme it works as a real time, loan by loan, refinancing facility thus ensuring direct and immediate pass through.

347. ICO's on-lending volumes are substantial: €13.9bn in 2013 after €11.5bn in 2012.

Switzerland

348. To finance long-term credits for SMEs in Switzerland, the Swiss Confederation supports a guarantee system and created a start-up platform. Through the government supported guarantee system, SMEs have an easier access to bank credits. The start-up platform CTI (Commission for Technology and Innovation) is a private-public-partnership and supports Start-ups, which are in search of capital.

349. The financing conditions of SMEs are regularly monitored. So far, there has been no indication for the necessity of additional measures.

Turkey

350. Yes. Treasury Supported Guarantee System has been introduced in 2009 with the amendment of Law and the enactment of a Decree in order to reduce the adverse effects of the global financial crisis on the local markets and to improve the functioning of the credit guarantee system. In this context, Credit Guarantee Fund was the first institution supported by the Treasury to facilitate the access of SMEs to financing opportunities.

351. This system has been working with success in terms of providing the Turkish SMEs with long-term financing. As of the end of 2013, 1,401 million TL guarantee was provided for 2,002 million TL credit amount which was used by 3,588 SMEs.

352. In order to motivate the investors for investing in small and start-up companies, funds of funds and Business Angel mechanisms are introduced. In addition to that, tax deduction mechanism was introduced in 2012 where Licensed Private Venture Investors can deduct 75% of the capital they invest in certain SMEs from their annual tax base and furthermore this deduction ratio will be applied as 100% for those Private Venture Investors investing in the SMEs whose projects are supported by Ministry of Science, Industry and Technology, The Scientific and Technological Research Council of Turkey and Small and Medium Enterprises Development Organization during the last 5 years.

United Kingdom

353. Yes. The British Business Bank (BBB) was announced in 2012 to address gaps in the supply of finance to small businesses, and is drawing together existing Government initiatives under one roof and deploying £1.25bn of capital on new schemes. Its programmes facilitated a total of £2.3bn of new lending and investment in the year to June 2014, supporting over 30,000 businesses. It aims to unlock £10billion of finance to business in the next five years. For example, the Business Finance Partnership, a BBB programme, has already generated over £2 billion of non-bank lending to business. The BBB also supported £100 million of new venture capital investment in the last financial year. Enterprise Capital Funds (ECFs) address the equity gap by using Government funding alongside private sector investment to target businesses with viable investment propositions which might otherwise be unable to attract investment from other sources. So far, nearly £550m has been committed to 16 ECFs since their launch in 2006.

United States

354. Numerous market based instruments and initiatives exist to address the long-term financing needs of innovative new firms and small and medium-sized companies. Programs include credit enhancement, loan guarantee programs, subsidized financing, federal grants, and others. Furthermore, the U.S. is home to a vibrant venture capital community that supports and invests in new firms.

EU

The 2011 SME action plan

355. (<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0870:FIN:EN:PDF>), of which the most important actions include a new framework for venture capital and social entrepreneurship funds ([Regulation \(EU\) No 345/2013](#) and [Regulation \(EU\) No 346/2013](#)), an SME growth market label proposed in EU capital markets legislation (MIFID) by creating a new, tailor-made market for SMEs, under the framework of a multilateral trading facility. The registration of these markets should raise their visibility and profile as well as lead to common pan-European regulatory standards that are tailored to take into account the needs of issuers and investors in these markets while maintaining existing high levels of investor protection. This will also provide a quality label for platforms that aim to meet SMEs' needs.

EU funds: Loans, guarantees and equity

356. On the basis of data available so far for the period 2007-2013, it is expected that the ESIF (**European Social Investment Funds**) could invest up to Euro 100 billion of EU public funds in support of enterprises for the 2014-2020 MFF of the EU. A major part of this support is expected to be channelled to SMEs, through investment subsidies for start-ups and expansion, investment in RTD, innovation and

ICT. A substantial and increased share of this support, compared to previous periods of the EU cohesion policy, is expected to be delivered through Financial Instruments offering basically loans, guarantees or equity support for SMEs.

EU financial instruments for SMEs in the current MFF (2014-2020)

357. COSME programme

- An Equity Facility for Growth (EFG) to enhance the supply of risk capital to SMEs in their growth and expansion phases. The facility is demand-driven and operates through direct investments in intermediary risk capital funds that provide equity and mezzanine finance.
- Loan guarantee: a capped guarantee, which provides counter-guarantees for guarantee schemes and a securitisation instrument, envisaged as a securitisation of SME debt finance portfolios, which will mobilise additional debt financing for SMEs under appropriate risk-sharing arrangements with the targeted institutions.

Horizon 2020 Financial instruments

358. Horizon 2020 is the EU's framework programme to support research and innovation in the years 2014-2020. A part of the Horizon 2020 budget, approx. EUR 2.8 billion, will be dedicated to financial instruments facilitating access to risk finance, implemented through the financial markets and supporting lending to and equity investments in research, development and innovation intensive corporates, entities or projects. More than one third of this budgetary allocation is envisaged for SME access to risk finance.

Other measures to improve the SME environment

359. The Commission has used its coordinating role to develop or facilitate a number of other measures to improve the business environment for SMEs:

360. In December 2012 the Commission launched a single online portal on all EU financial instruments. The EU finance portal provides easy and up-to-date information on how entrepreneurs and SMEs can access over €100 billion of EU financing from various EU programmes.

361. In May 2013 the Commission launched a targeted information campaign to promote SME listings and stimulate investors' interest in SMEs and mid-caps. To this end the Commission published a web-based information guide for SMEs on how to go public. In addition, the Commission, together with leading European stock exchanges and EuropeanIssuers, launched the "European Small and Mid-Cap Awards" in November 2013 to promote the benefits of a stock listing.

362. In October 2013 the Commission launched a series of information events in all Member States – the "EU Access to Finance Days". The events will help to explain how the new EU financial instruments will work and to encourage reputable financial market operators to become EU financial intermediaries.

363. In December 2013 the Commission finalised a study on market practices and policies on SME rating. The study provides an overview of the bank practices in rating/scoring SMEs and policies that public authorities have taken to promote the transparency of SME rating in the banking sector and the supply of such feedback to SMEs.

364. In January 2014, the Commission adopted the Risk Finance Guidelines that provide guidance to Member States on how to set up programmes that support SMEs' and midcaps' access to finance.

If not, are there plans under consideration to encourage or introduce such policies as part of longer term economic development needs (Yes/No)?

Australia

Government initiatives

365. The Australian Government is committed to exploring new and innovative ways for small and medium sized businesses to access finance. This includes ensuring regulatory settings do not unduly hinder access to financial products.

Financial System Inquiry

366. The Australian Government has established a Financial System Inquiry to review the development and functioning of Australia's financial system to ensure it is competitive, stable and capable of providing for Australia's long-term economic growth.

367. As part of its terms of reference, the Inquiry will make recommendations that will seek to promote the efficient allocation of capital and cost efficient access and services for users, ensure the system provides appropriate products and services, and foster dynamism and innovation.

368. The Inquiry is being conducted by an independent panel and is due to provide its final report to the Treasurer by November 2014.

Review of crowd sourced equity funding

369. The Corporations and Markets Advisory Committee (CAMAC) released a report in June 2014 that included a number of recommendations on the development of a framework for facilitating crowd-sourced equity funding in Australia.

- The Australian Government is considering its response to CAMAC's recommendations to ensure it strikes the right balance between supporting investment, reducing compliance costs (including for small business) and maintaining an appropriate level of investor protection.

Review of the Australian market licensing regime

370. The Department of the Treasury is currently examining the Australian market licence regime as set out under Part 7.2 of the Corporations Act 2001. This regime provides the framework for financial market licensing in Australia. The review will ensure that the regime is 'fit for purpose' and sufficiently promotes market innovation and evolution, potentially leading to greater service offerings to a wide variety of companies seeking to raise capital.

Brazil

371. No. There are no initiatives in this direction

Canada

372. Canada employs a number of mechanisms to support the financing of innovative new firms and SMEs.

373. Canada has a competitive tax system, with a combined federal-provincial weighted average general corporate income tax rate of 26.3%. Small businesses face lower federal and provincial corporate tax rates that provide small corporations with more retained earnings for reinvestment and growth. Since 2006, the federal small business tax rate has been reduced to 11% and the amount of income eligible to be taxed at the lower rate has been increased to \$500,000. The weighted average provincial corporate income tax rate applicable to small business income is 4.2%, providing a combined federal-provincial weighted average tax rate on small businesses that is 11.1 percentage points lower than the general corporate income tax rate.

374. The Lifetime Capital Gains Exemption (LCGE) is intended to bolster investment and risk-taking by Canadians in small business. The LCGE provides an exemption of up to \$800,000 of capital gains on qualified small business shares in 2014, and the exemption is indexed to inflation. To further improve access to capital for small businesses, individuals can defer the tax on a capital gain arising from the disposition of qualified small business shares if the proceeds are reinvested in newly issued shares of another qualified small business. As well, capital losses on small business investments can be used to offset ordinary income (while capital losses are generally deductible only against capital gains, capital losses on the disposition of shares or debt of qualified small business corporations can be deducted from other income).

375. Canada has also recently launched a new approach to support the growth of innovative firms, through the Venture Capital Action Plan (VCAP). The VCAP, announced in January 2013, is a comprehensive strategy to reinvigorate the venture capital ecosystem in order to ensure that innovative high-growth Canadian firms have access to the capital and resources they need to grow and create jobs. In particular, the VCAP is making available:

- \$350 million to establish or recapitalize up to four large scale private sector-led funds of funds in partnership with institutional and corporate strategic investors, as well as interested provinces;
- An aggregate investment of up to \$50 million in three to five existing high-performing venture capital funds in Canada; and,
- Additional resources to continue developing a robust venture capital system and a strong entrepreneurial culture in Canada.

376. A key objective of the VCAP is to attract institutional investors, such as banks, pension funds, and corporate strategics back to the venture capital asset class by demonstrating to domestic and global investors that there are significant returns from investing in innovative companies in Canada. The Plan therefore has been designed to attract close to \$1 billion in private sector investments in early-stage risk capital. Consistent with this objective, the funds of funds will be managed by experienced private sector General Partners, and investment decisions will be market-based. In addition, the Government is offering incentives to private sector investors, modeled on approaches that have been used in other jurisdictions to attract private sector resources into venture capital, while ensuring that taxpayers' interests are protected.

377. In January 2014, the Government announced the first closing of the Northleaf Venture Catalyst Fund, the first of the funds of funds to be established under the VCAP, in partnership with a large Canadian pension fund manager, the major Canadian banks, Open Text Corporation, and the Government of Ontario. The Government continues to work towards the establishment of the three additional funds of funds. In addition, in autumn 2013, the Government announced the selection of high-performing venture capital funds in Canada to receive the aggregate investment of \$50 million from the Government.

378. In addition, the Government supports financing to small businesses through the Business Development Bank of Canada (BDC), a wholly-owned commercial Crown corporation. The BDC operates as a complementary financial institution to the private sector for addressing the needs of SMEs. Its mission is to serve Canadian businesses through financing, venture capital and consulting services.

379. Separate from the BDC, the Government's Canada Small Business Financing (CSBF) program provides guarantees to loans extended by financial institutions to small businesses. The CSBF guarantees loans to small businesses with revenues of up to \$5 million per year, for the acquisition of real property and equipment and leasehold improvements.

380. The Scientific Research and Experimental Development (SR&ED) tax incentive program encourages businesses of all sizes and in all sectors to conduct research and development (R&D) in Canada that will lead to new, improved or technologically advanced products or processes. Under the SR&ED program, small and medium-sized Canadian-controlled private corporations benefit from an enhanced investment tax credit at a rate of 35% on their first \$3 million of eligible expenditures (the general investment tax credit rate is 15%). Unused credits earned in a year are also generally fully refundable for small and medium-sized CCPCs. The SR&ED tax incentive program provided businesses with more than \$3.3 billion in tax assistance in 2013 and is one of the most generous systems in the industrialized world for R&D.

China

381. No comment

France

382. No comment

Germany

383. No comment

Italy

384. No comment

Japan

385. N/A

Mexico

386. No comment

New Zealand

387. N/A

Portugal

388. Apart from the measures listed above, it should be noted that completing a truly effective banking union will have visible effects in improving financing conditions to SMEs. Market fragmentation is hindering SMEs growth.

389. A SME/Forum has been created with other Portuguese Entities, such as Euronext, Portuguese Banking Association, the Portuguese Issuers Association, and The Institute of Corporate Governance amongst others, to analyse and develop measures to help in this national desideratum of long-term financing

Russian Federation

390. No comment

South Africa

391. n/a. In terms of general investment, the National Development Plan (NDP) contains a clear structural reform agenda that provides a platform to address constraints to growth, create jobs and achieve a more inclusive economy. This includes a strong focus on new firms and SMMEs. Key microeconomic reforms identified by the NDP in this regard include:

- a. Reduce the costs of doing business
 - The Companies Intellectual Property Commission improved capacity and entered into a partnership with a private bank to allow for the opening of business accounts and registration of companies through an electronic platform to reduce red tape and speed up the registration process.
 - Greater competition in network industries is likely to reduce the cost of doing business. Telkom was ordered to reduce communications network prices by at least R875 million in the next 3 years. Telkom was also mandated to separate its electronic communications network and retail businesses, which is expected to encourage entry and expansion of small value added network service providers.
- b. Offer tax incentives to employers to reduce the initial cost of hiring young labour market entrants.
 - The employment tax incentive was launched in December 2013 and is expected to support around 200 000 jobs.
- c. Adopt a more open immigration approach to expand the supply of high-level skills.
 - The Department of Home Affairs is automating applications for work permits, which is expected to reduce processing times for skilled foreign nationals by April 2014.
- d. Establish a national, regional and municipal fibre-optic network to provide the backbone for broadband access
 - Recently completed 2 000km fibre-optic network connecting Johannesburg, Bloemfontein, East London and Cape Town allows broadband users in the Eastern Cape and Free State provinces with faster and more affordable connectivity to the national grid

392. With specific regard to institutional investors, the aforementioned task team is working to improve financial intermediation with respect to infrastructure project financing.

Spain

393. No comment

Switzerland

394. No comment

Turkey

395. Yes, as explained below, there are specific instruments and initiatives to address the long-term financing needs of new firms and small and medium-sized companies as well as plans for further plans to encourage such policies.

396. The Emerging Companies Market (ECM) was established as a distinct market within Borsa Istanbul to create a transparent and organized platform where securities, issued by companies with growth and development potential to raise funds from capital markets, can be traded. Securities of companies registered by the CMB that do not fulfill listing requirements of the main market can be traded on the ECM.

397. In connection to this, CMB has introduced proportional securities regulation to ease SME access to capital markets. Additionally registration and listing fees paid to the CMB and Borsa Istanbul by SME issuers has been reduced and the SME authority (KOSGEB) in Turkey is covering IPO costs of SMEs up to 100,000 TL (around 46,500 USD)

398. The first shares started to trade on this market in January 2011. As of 24.04.2014, the market capitalization of ECM shares is USD 369.7 million and shares of 22 SME issuers shares are listed.

399. Moreover there are special instruments to finance long-term financial needs of innovative new firms and small and medium sized companies such as Venture Capital Investment Companies. CMB started to introduce capital market instruments specifically to promote SME's back in 2003 with the publication of the Communiqué on Venture Capital Investment Companies. After receiving feedback from the industry and adopting capital market legal framework in line with European Union legislation, revisions have been made on this regulation and the latest version was published in 2013. Moreover to increase the number of capital market instruments promoting SMEs, a Communiqué on Venture Capital Investment Fund has been published in January 2014. With this new regulation an alternative capital market instrument was introduced targeted at investors with a risk appetite different than investing in Venture Capital Investment Companies.

400. Borsa İstanbul has recently initiated a project to create another trading platform similar to Nasdaq Private Market, Shares Post to enable SMEs to raise funds from only qualified investors and angel investors. Public offers will not be allowed on this platform therefore SMEs, not becoming a public company, will be totally exempted from the obligations in securities regulations. This platform is expected to begin operating at the end of 2014.

401. Moreover, in pursuit of establishing a policy environment to promote long-term investments, we started a regulatory framework for angel investments and other nontraditional financial instruments. The purpose of this incentive is to mitigate the market deficiencies in the provision of equity for innovative startups. The market deficiency occurs when banks are not willing to extend loans to early stage companies due to the high risk and inadequate collateral in this context, the role of business angels deserves special attention, since they play a crucial role by bridging the financing gap of entrepreneurs and by sharing their networking and experience. Also, decree of council of ministers that authorizes Turkish Treasury to

contribute to the fund of venture capital funds that directly invest in venture capital funds as well as early stage companies together with angel investors has come into force in March 2014.

United Kingdom

402. N/A

United States

403. N/A

EU

404. No comment

In particular has your country established a policy environment to promote long-term investment by institutional investors in start-up firms with a high growth potential and more generally in small and medium-sized companies (SMEs)? With what success?

Australia

405. No comment

Brazil

406. In the Pension Funds market, no.

Canada

407. Canada employs a number of mechanisms to support the financing of innovative new firms and SMEs.

408. Canada has a competitive tax system, with a combined federal-provincial weighted average general corporate income tax rate of 26.3%. Small businesses face lower federal and provincial corporate tax rates that provide small corporations with more retained earnings for reinvestment and growth. Since 2006, the federal small business tax rate has been reduced to 11% and the amount of income eligible to be taxed at the lower rate has been increased to \$500,000. The weighted average provincial corporate income tax rate applicable to small business income is 4.2%, providing a combined federal-provincial weighted average tax rate on small businesses that is 11.1 percentage points lower than the general corporate income tax rate.

409. The Lifetime Capital Gains Exemption (LCGE) is intended to bolster investment and risk-taking by Canadians in small business. The LCGE provides an exemption of up to \$800,000 of capital gains on qualified small business shares in 2014, and the exemption is indexed to inflation. To further improve access to capital for small businesses, individuals can defer the tax on a capital gain arising from the disposition of qualified small business shares if the proceeds are reinvested in newly issued shares of another qualified small business. As well, capital losses on small business investments can be used to offset ordinary income (while capital losses are generally deductible only against capital gains, capital losses on the disposition of shares or debt of qualified small business corporations can be deducted from other income).

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411. A key objective of the VCAP is to attract institutional investors, such as banks, pension funds, and corporate strategics back to the venture capital asset class by demonstrating to domestic and global investors that there are significant returns from investing in innovative companies in Canada. The Plan therefore has been designed to attract close to \$1 billion in private sector investments in early-stage risk capital. Consistent with this objective, the funds of funds will be managed by experienced private sector General Partners, and investment decisions will be market-based. In addition, the Government is offering incentives to private sector investors, modeled on approaches that have been used in other jurisdictions to attract private sector resources into venture capital, while ensuring that taxpayers' interests are protected.

412. In January 2014, the Government announced the first closing of the Northleaf Venture Catalyst Fund, the first of the funds of funds to be established under the VCAP, in partnership with a large Canadian pension fund manager, the major Canadian banks, Open Text Corporation, and the Government of Ontario. The Government continues to work towards the establishment of the three additional funds of funds. In addition, in autumn 2013, the Government announced the selection of high-performing venture capital funds in Canada to receive the aggregate investment of \$50 million from the Government.

413. In addition, the Government supports financing to small businesses through the Business Development Bank of Canada (BDC), a wholly-owned commercial Crown corporation. The BDC operates as a complementary financial institution to the private sector for addressing the needs of SMEs. Its mission is to serve Canadian businesses through financing, venture capital and consulting services.

414. Separate from the BDC, the Government's Canada Small Business Financing (CSBF) program provides guarantees to loans extended by financial institutions to small businesses. The CSBF guarantees loans to small businesses with revenues of up to \$5 million per year, for the acquisition of real property and equipment and leasehold improvements.

415. The Scientific Research and Experimental Development (SR&ED) tax incentive program encourages businesses of all sizes and in all sectors to conduct research and development (R&D) in Canada that will lead to new, improved or technologically advanced products or processes. Under the SR&ED program, small and medium-sized Canadian-controlled private corporations benefit from an enhanced investment tax credit at a rate of 35% on their first \$3 million of eligible expenditures (the general investment tax credit rate is 15%). Unused credits earned in a year are also generally fully refundable for small and medium-sized CCPCs. The SR&ED tax incentive program provided businesses with more than \$3.3 billion in tax assistance in 2013 and is one of the most generous systems in the industrialized world for R&D.

China

416. Yes:

a. Chinese government set up a special fund for the development of SMEs, instructing venture capital corporations, venture capital management corporations, and services institutions for SMEs which have investing functions to invest in start-up SMEs.

b. In 2009, Chinese government established GEM Board in capital market, mainly for start-up firms. In the recent years, GEM developed very quickly and strongly supported the development of many innovative firms. Moreover, Chinese government encouraged the development of private equity investment funds and venture capital funds in order to better support start-up firms with a high growth potential.

France

417. As mentioned within answer 2 to principle 1.1, French regulation has been amended, in conformity with Solvency I directive, to make investment rules for insurance companies more flexible in order to facilitate debt financing to SMEs (and other financing like infrastructures debts). French insurance companies have invested more than 5bn€ since the entry into force of this initiative last summer, and further extension are being considered.

418. In addition, a new fiscal measure, expected to enter into force in fall 2014, will provide an incentive for companies to invest in innovative SMEs with high-growth potential, by allowing them to amortize such investments over five years. Eligible investments can be either direct (“corporate venture capital”) or through mutual funds managed by external, independent teams, and must not exceed in total 20% of the invested firm’s equity value. Corporate investors must furthermore hold the shares for a period of at least five years to take full advantage of the fiscal incentive. While it is still too early to measure any effect, the measure is expected to bring an additional EUR 600 million a year in equity financing for startups.

Germany

419. The Federal Government supports the Fund-of-Fund concept of the European Investment Fund, and has co-invested in two joint fund-of-funds which invest in SME with growth potential.

420. The above mentioned ERP-Start-up Fund is a co-investment fund that invests alongside of private lead investors (it could be an institutional investor like a Venture Capital Fund or a non-institutional investor like a Business Angel). Since 2004 more than 1.200 contracts with some 470 technology firms have been concluded. More than € 520 m were invested.

421. In 2013, the legal framework on investment funds including taxation was modernized. Framework conditions for investment funds are now clearer and in line with European rules.

Italy

422. No comment

Japan

423. JFSA developed/has been developing policies to support start-up firms and SMEs’ finances as below:

- Establish a crowd funding framework (collecting a small amount of money from many individual investors through the Internet) to provide money for venture and growing companies
- Revise the Banking Act and the Insurance Business Act to deregulate banks and insurance companies allowing their affiliated venture capitals to invest in SMEs.

Mexico

424. The Financial Reform facilitates SME's listing in the Stock Exchange. Moreover, NAFIN, the major National Development Bank for SME financing, created the Institutional Market Program for Alternative Corporate Debt (MIDAS), which grants concessional credits to SME's; the credits shall be accompanied by a institutionalization process to support these companies to meet the standards of the Mexican Stock Exchange (BMV).

New Zealand

425. As above (question 2). Success is presently difficult to measure, as the FMC Act has only just passed into law, and regulatory changes are still being implemented.

Portugal

426. Portugal has implemented a number of measures trying to promote long-term investment by institutional investors in star-ups and SME.

- Several Ignition and support start-up programs, some with EU co-funding, namely Portugal Ventures;
- The legal framework of commercial paper has been simplified to facilitate SMEs issuance of such instruments;
- A specialised financial institution is being set up to better channel European funds to SMEs.
- The creation of a new instrument – **project bonds** – is being considered.

427. All of the above listed are on very early stages, or under regulation/set up, consequently is impossible to objectively assess the success of those measures.

Russian Federation

428. No comment

South Africa

429. The government promotes long-term investment by institutional investors through the Venture Capital Companies tax incentive (12j). This is similar to the VCT regime in the United Kingdom. Section 12J of the South African Income Tax Act (ITA) defines the requirements for entities to be classified and approved as VCC's by the revenue authority. These include limitations on certain investments and trading activities (such as property deals, lending and gambling). After receiving funds from investors, the VCC then has three years in which to invest at least 80 percent of the funds in qualifying investee companies. The investee companies must be SA resident unlisted entities, and cannot have assets in excess of R 20 million (for a regular company) or R 300 million (for a junior mining company). The VCC is also

prevented from holding more than 20 percent shares in any one qualifying company. Since its introduction in 2008, there has been limited take up of the incentive, with only 5 VCC's registered overall. Subsequent amendments were made in 2011, and during 2013 three VCC's were registered. During Budget 2014 it was announced that more amendments to the regime will be considered in order to make it more attractive. This tax incentive is currently under review to improve its functioning in assisting start-ups and entrepreneurs.

430. Regulation 28 of the Pension Funds Act also states that "prudent investing should give appropriate consideration to any factor which may materially affect the sustainable long-term performance of a fund's assets, including factors of an environmental, social and governance character. This concept applies across all assets and categories of assets and should promote the interests of a fund in a stable and transparent environment". As a result pension funds may invest 2.5% of their funds in private equity funds and 10% in unlisted equity.

431. The government continues to improve the overall investment environment through macroeconomic stability, infrastructure programmes (e.g. Strategic Infrastructure Projects), improving research and development (e.g. s11D of the tax act, R&D tax incentive and several agencies to promote innovation – CSIR, TIA, NRF), improving competition through the Competition Commission, targeted incentives (e.g. Manufacturing Competitiveness Enhancement Programme and s12i industrial incentives), and a well-regulated and strong financial system.

Spain

432. See question 2. While this set of measures has not been developed specifically for institutional investors, but they might benefit from it.

Switzerland

433. No comment

Turkey

Consolidated answer for Q2, Q3 and Q4:

434. Yes, as explained below, there are specific instruments and initiatives to address the long-term financing needs of new firms and small and medium-sized companies as well as plans for further plans to encourage such policies.

435. The Emerging Companies Market (ECM) was established as a distinct market within Borsa Istanbul to create a transparent and organized platform where securities, issued by companies with growth and development potential to raise funds from capital markets, can be traded. Securities of companies registered by the CMB that do not fulfill listing requirements of the main market can be traded on the ECM.

436. In connection to this, CMB has introduced proportional securities regulation to ease SME access to capital markets. Additionally registration and listing fees paid to the CMB and Borsa Istanbul by SME issuers has been reduced and the SME authority (KOSGEB) in Turkey is covering IPO costs of SMEs up to 100,000 TL (around 46,500 USD)

437. The first shares started to trade on this market in January 2011. As of 24.04.2014, the market capitalization of ECM shares is USD 369.7 million and shares of 22 SME issuers shares are listed.

438. Moreover there are special instruments to finance long-term financial needs of innovative new firms and small and medium sized companies such as Venture Capital Investment Companies. CMB started to introduce capital market instruments specifically to promote SME's back in 2003 with the publication of the Communiqué on Venture Capital Investment Companies. After receiving feedback from the industry and adopting capital market legal framework in line with European Union legislation, revisions have been made on this regulation and the latest version was published in 2013. Moreover to increase the number of capital market instruments promoting SMEs, a Communiqué on Venture Capital Investment Fund has been published in January 2014. With this new regulation an alternative capital market instrument was introduced targeted at investors with a risk appetite different than investing in Venture Capital Investment Companies.

439. Borsa İstanbul has recently initiated a project to create another trading platform similar to Nasdaq Private Market, Shares Post to enable SMEs to raise funds from only qualified investors and angel investors. Public offers will not be allowed on this platform therefore SMEs, not becoming a public company, will be totally exempted from the obligations in securities regulations. This platform is expected to begin operating at the end of 2014.

440. Moreover, in pursuit of establishing a policy environment to promote long-term investments, we started a regulatory framework for angel investments and other nontraditional financial instruments. The purpose of this incentive is to mitigate the market deficiencies in the provision of equity for innovative startups. The market deficiency occurs when banks are not willing to extend loans to early stage companies due to the high risk and inadequate collateral in this context, the role of business angels deserves special attention, since they play a crucial role by bridging the financing gap of entrepreneurs and by sharing their networking and experience. Also, decree of council of ministers that authorizes Turkish Treasury to contribute to the fund of venture capital funds that directly invest in venture capital funds as well as early stage companies together with angel investors has come into force in March 2014.

United Kingdom

441. Yes, the UK has an established policy environment to promote long term investment and support SMEs, and is continually working to build on this. For example, the Small Business, Enterprise and Employment Bill, introduced to Parliament in June 2014, is designed to reduce the barriers that can hamper the ability of small businesses to innovate, grow and compete. The Bill will open up new opportunities for small firms to create jobs, grow and export. It will ensure that the UK continues to be recognised globally as a trusted and fair place to do business.

442. Existing successful policies include the Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS), which along with Venture Capital Trusts (VCTs), are tax-advantaged venture capital schemes which are designed to help support small and growing higher-risk businesses. The generous tax reliefs which are offered to investors in the schemes are aimed at encouraging investment into companies which would otherwise struggle to raise capital. The Government does not seek to 'pick winners'. It provides the tax reliefs and then leaves the market to identify in which companies to invest. To date, over £16 billion of equity investment has been raised through the schemes, supporting over 20,000 companies.

443. Government is also working to increase competition in the banking sector, to improve lending through an industry-wide agreement for banks to process new claims on secured assets faster. We are consulting to better understand whether, and how, to match SMEs rejected for loans with alternative credit providers.

United States

444. Yes, the programs described in (2) promote long-term investment for these types of companies.

EU

445. See reply given in 2.

Has the government taken steps to promote an effective framework for fair competition and sound corporate governance (Yes/No)? If yes, which steps have been taken? Have they been successful?

Australia

446. The *Competition and Consumer Act 2010* (CCA) provides the legal framework for Australia's competition and consumer policy rules, which are designed to make markets work efficiently for the benefit of consumers. The CCA continues to be rigorously enforced by Australia's competition regulator, the Australian Competition and Consumer Commission (ACCC).

447. On 27 March 2014, the Australian Government announced the final terms of reference for the 'root and branch' competition review to ensure that its competition laws remain robust and effective into the future. The review is an independent process led by an expert panel. As part of its terms of reference, the review panel has been asked to look at the current competition laws but also broader competition policies across the economy. The review published an issues paper on 14 April 2014 and will publish a draft report, before providing a final report to the Government within 12 months.

448. Australia's corporate governance framework aims to facilitate effective and appropriate monitoring and control and to promote proper incentives for boards and management to act in the interests of their companies and shareholders. The framework has evolved over time. Reflecting changes in companies and market expectations, there has been a movement towards greater disclosure, increased accountability in the area of executive remuneration and greater involvement of shareholders.

449. Prescriptive regulation and 'black letter' law can introduce unnecessary regulatory complexity with a focus on 'box ticking' rather than compliance with the spirit and intent of good governance arrangements. In recognition of this, Australia's corporate governance framework comprises a mix of principles-based regulation and measures aimed at encouraging industry best practice, such that the primary legislation does not displace a strong framework of common law and equitable principles.

450. The *Corporations Act 2001* (Corporations Act) provides the legislative foundation for the legal and regulatory requirements affecting corporate governance in Australia. It contains a range of duties setting out certain minimum obligations and responsibilities directors must fulfil. These include a duty to act in the best interests of the company, to act in good faith, and to exercise their powers with due care, as well as a duty not to allow a company to continue trading once insolvent.

451. For public listed companies the ASX, the main financial market operator, promotes good corporate governance in respect of a range of market issues by enforcing the ASX Listing Rules, which deal with such matters as audit committees, continuous disclosure obligations, reporting requirements and rules affecting dealings in listing securities.

452. The ASX Corporate Governance Council's Corporate Governance Principles and Recommendations complement the statutory requirements. These provide listed companies with both a

guide on the governance standards expected of them and a tool to improve their existing practices. They are non-binding; however, if a company does not comply with them it must provide an explanation to the market of why it has not done so.

453. There are also numerous non-regulatory guidelines promulgated by industry organisations to encourage sound corporate governance practices to be followed.

454. Australia's corporate governance framework is enforced by the Australian Securities and Investments Commission (ASIC), the Australian Prudential Regulation Authority (APRA), the ASX and through the availability of privately enforceable remedies. ASIC is a public agency established by Commonwealth legislation to administer and enforce the corporations law. In parallel, APRA maintains prudential and risk management standards relating to authorised deposit-taking institutions, insurers, and some other financial service providers, while the ASX enforces compliance with its Listing Rules.

Brazil

455. Yes, there are several requirements concerning corporate governance that pension funds are obliged to comply. These requirements are aimed to ensure that all stakeholders can oversight the manager's decisions and they have been very successful doing so.

Canada

456. The *Canada Business Corporations Act* provides the legal and regulatory corporate governance framework for federally incorporated businesses. As a key marketplace framework law, the Act enhances the efficiency and competitiveness of the Canadian marketplace. The government is presently engaged in a public consultation process to strengthen Canada's corporate governance framework in order to promote policy objectives that include combating bribery and corruption, increasing diversity on corporate boards, and enhancing the ability of authorities to access information on corporate beneficial ownership.

China

457. Yes. Till now, Chinese government has set up an effective framework for corporate governance. Chinese corporate governance includes 4 levels: First, state laws (such as *The Company Law of the People's Republic of China*) ; second, administrative laws (such as *Some Opinions of the State Council on Promoting the Reform, Opening up and Steady Growth of Capital Market*) ; third, departmental rules (such as *Measures for Supervisions and Administration of Non-listed Public Companies*) ; fourth, self-regulatory rules (such as *The Shanghai Stock Exchange Trading Rules*). After years of development, Chinese corporate governance improved significantly.

France

458. Yes. In 2013 the French government announced a revision of the corporate governance code for listed companies in France (joint "AFEP MEDEF code"). Public companies in France are obliged to comply with the corporate governance provisions of general corporate law and may also follow the recommendations of a 'reference governance code', in which case they have to disclose which code they choose to follow and whether or not their governance practices follow the code. The revision associated both private stake-holders and the government: it mainly aims at strengthening the compensation practices (say-on-pay) and creating a High Committee in charge of monitoring implementation of the code in order to ascertain the actual implementation. The AFEP-MEDEF code (revised in June 2013) is now the reference governance code for large cap companies and one of the most complete codes of the developed countries. The French government also engaged in 2013 and early 2014 the transposition works for two EU regulations in the field of fair competition and corporate governance: the country-by-country reporting

(CBCR) for taxes paid by banks and the country-by-country reporting for payments to governments by the extractive industries. The French government is committed to transpose these regulations in a swift manner and the first step of the CBCR for taxes paid by banks is already in force

459. The French government has issued several laws to promote fair competition in retail and services. The “Loi à la consommation” adopted on March 2014 has instituted a class action in French law. This will deter anticompetitive behaviour of firms and thus decrease firm’s input price and enhance consumers’ purchasing power. The government has also engaged a “reformation plan” (“loi 2014-1 habilitant le Gouvernement à simplifier et sécuriser la vie des entreprises”) to reform some regulated professions, which will increase the offer of such services to consumers and firms. This plan will make it easier for non-European certified public accountant to open a practice and will also release the limit on the number of wage-earning notaries – i.e. notary that doesn’t own a practice.

Germany

460. The Act against Restraints of Competition has been revised in 2013 (see the response to question 1 on Principle 1.5). Key points of the reform are as follows:

- In the area of merger control German law is further aligned with European law. That will allow a largely uniform approach to assessing prospective mergers.
- With regard to the supervision of abuse of dominant positions Germany continues to have stricter rules than those applicable at European level. It will remain possible to protect smaller and medium-sized firms effectively from such abuse.
- In future, the Federal Cartel Office (*Bundeskartellamt*) will be able to investigate the compliance of statutory health funds with competition law (e. g. levying additional contributions from their members). The authority will also be able to scrutinize mergers of the statutory health funds.
- The procedures to impose fines under competition law are made more efficient. The right of refusal to provide information is restricted; the Federal Cartel Office should thus find it easier to obtain data, particularly about companies’ economic capacity which is of relevance for determining fines. A provision on legal succession within the provisions dealing with administrative offences will ensure that companies will not be able to evade payment of fines by restructuring themselves.
- The role of consumer associations is strengthened to support the private enforcement of anti-trust law.
- The new rules also improve the legal framework for merger control of companies in the press sector. In particular, the reform expands the scope for action by SMEs in the press sector. This also applies to the new clause on mergers to restructure and rescue newspapers and magazines.
- Certain rules on groceries and energy which expired at the end of 2012 have been extended or made permanent. These include important rules like the stricter prohibition of selling groceries below cost price, the special supervision of abuse of dominant positions in the energy sector and the ban on the price-cost gap which is important for competition on the fuel markets. This gap pertains when large oil companies offer fuel to small and medium-sized filling stations at a higher price than the one they themselves charge the final consumer.

Italy

461. In the last decade, Italy has undertaken major reforms covering all the relevant areas of corporate governance with a view to strengthen the ability of outside directors, shareholders and other stakeholders to monitor the insiders' behavior and the company's management. In 2003, the Government undertook a major reform of company law. One of the goals of such reform was granting minority shareholders more voice in governance matters, in light of the increasing ownership of share by institutional investors.

462. In particular, as a consequence of the reform:

- a) qualified shareholders, representing in case of non-listed companies at least 20% of the share capital or the lower threshold provided for in the bylaws, have been entitled to bring derivative action against the directors and the board of statutory auditors ("*collegio sindacale*") in case of breach of their fiduciary duties (duty of care, duty of loyalty). A lower threshold is fixed for listed and widely held companies, where shareholders representing 2.5% of the share capital (or the smaller threshold in the bylaws) may bring the above derivative action (Article 2393-bis of the Italian Civil Code). Such action may also be promoted by the board of statutory auditors, provided that the board's resolution is taken with the favorable vote of the two thirds of its members (Article 2393 of the Italian Civil Code);
- b) each individual shareholder may report censurable facts to the board of statutory auditors, which shall then report back to the shareholders meeting (Article 2408 Italian Civil Code). A special duty of investigation on management behavior by the board of statutory auditors applies when the complaint is reported by shareholders representing 2% of the share capital;
- c) shareholders representing 10% of the share capital (5% in listed companies) as well as the board of statutory auditors have been empowered to activate a judicial investigation of the company's management, reporting to the Court a well-founded suspicion of a serious breach of duties of the directors or statutory auditors (Article 2409 of the Italian Civil Code). It is important to note that as a consequence of these initiatives, in serious cases the Court can dismiss directors and statutory auditors and appoint a judicial manager whose powers and office are also determined by the Court. In listed companies the same judicial investigation on the board of auditors can be promoted by the Italian Securities Regulator Consob pursuant to Article 152 of the Legislative Decree No. 58/98 (Consolidated Law on Finance);
- d) qualified minority shareholders (representing 5% of the share capital) of listed and widely held companies have been entitled to convene the General Meeting (henceforth GM) (Article 2367 of the Italian Civil Code).

463. In the wake of early 2000's corporate scandals, the Government adopted a special reform for listed companies (Law No. 262/2005). In particular, special appointment rights were introduced with a view to strengthen the ability of minority shareholders to monitor insiders (executives and controlling shareholders) enabling them to appoint board members of their own choice and enhancing board independence. First, the law mandated the slate voting mechanism ("*voto di lista*") for the election of members of both the board of directors and the board of statutory auditors. Under such mechanism, directors are appointed by the GM on the basis of slates of candidates presented by shareholders owning a minimum threshold of share capital (ranging from 0.5% for blue chips to 4,5% for very small companies). At least one board seat is reserved to the candidates - the chairman in the case of the board of statutory auditors - from the minority slate that received the highest number of votes and which is not linked in any way to the shareholders who presented or voted the majority slate. Companies' bylaws may establish a higher number of board seats to be reserved to minorities. Former state-owned companies, privatized

according to the Law No. 474/1994, have longer been subject to the slate voting system; under such Law, the seats reserved to minorities account for one fifth of the board¹¹.

464. Moreover, the Law mandates the appointment of independent members within the board of directors. At least one director, or two for boards with more than seven members, is required to be independent according to general standards set by the Consolidated Law on Finance. For the sake of completeness, the Corporate Governance Code (“*Codice di Autodisciplina*”) recommends that an adequate number of directors should be independent according to its criteria, in line with those set forth by the EC Recommendation No. 162/2005. The Code was amended in 2011 specifying that at least two directors (one third of the board in large caps, i.e. companies belonging to the Italian FTSE MIB Index) should be independent. Figures on minority and independent representation in Italian corporate boards at the end of 2012 show that minority directors were appointed in 93 companies (close to 40% of the market) and their weight within the board was on average 6,6%; independent directors accounted for nearly 40% of total board seats .

465. To strength minority shareholders protection against the risk of expropriation and thus make the Italian market attractive to domestic and international investors a in 2010 Consob adopted a comprehensive regulation (RPTs Regulation No. 17221/2010) on related party transactions (RPTs). The Regulation, among other things, introduced stricter procedural and disclosure requirements for listed and widely held companies when entering into RPTs. As regards the procedural requirements, RPTs must be reviewed by independent directors in order to ensure their entire fairness. The provisions are differentiated according to the amount of transactions:

- for material RPTs, to be identified according to ad hoc regulatory thresholds, a special approval procedure requires a committee of independent directors to be involved in the negotiations, also by receiving adequate information from executives and expressing its views, and be entrusted with a veto power over material RPTs (i.e. the transaction is approved by the board of directors upon the favorable opinion of the committee of independent directors). Advice of outside experts, who are selected by independent directors, can also be sought;
- for non-material RPTs, a general procedure requires a non-binding opinion by a committee comprised by a majority of independent directors. Advice of outside experts, who are selected by independent directors, can also be sought.

466. The Regulation also provides for special decision rights for minorities. If the company’s bylaws so provide, a material RPT which has been rejected by the independent committee can be submitted to the approval of shareholders. In this case, for the GM resolution to be effective it must be approved by the majority of the minority shareholders. Internal codes and bylaws may require that a *de minimum* percentage of non-interested shareholders must be present for the whitewash to be effective (anti hold-out rule). As for the disclosure regime, ad hoc immediate disclosure applies to material RPTs: a circular describing the RPTs, its conditions and grounds and comprising the independent directors’ opinion must be issued within 7 days. In any case, non-material RPTs approved despite a negative opinion of the committee must be reported at least quarterly. Moreover, in line with the Transparency Directive provisions, the half-year and annual financial report must include analytical information of the material RPTs entered into in the reference period as well as of other transactions that materially affected company’s performance.

¹¹ See also Box 3.1. of “Corporate Governance of State-Owned Enterprises -A Survey of OECD Countries”, 2015 available at:

<http://www.oecd.org/daf/ca/corporategovernanceofstate-ownedenterprises/corporategovernanceofstate-ownedenterprisesasurveyofocdcountries.htm>

467. The new regime has led to in-depth disclosure on a considerable number of material RPTs. Nearly 80 transactions a year have been reported since 2011 by issuing an ad hoc circular. Companies that entered into such transactions are often small-sized and more frequently operate in the financial or industrial sectors (for further information see Consob, Report on Corporate Governance 2013 available at http://www.consob.it/main/consob/pubblicazioni/report/rapporto_cg/index.html).

468. A waiver from procedures and disclosure is provided for RPTs in the ordinary course of business and entered into at arm's length conditions. When material, they must be notified to Consob and synthetically described in the half year and annual financial report. With the Legislative Decree No. 27/2010, the Italian Government implemented the provisions of the Shareholders' Rights Directive (SHRD 2007/36/EC), in order to facilitate and encourage the exercise of voting rights by shareholders of listed companies with a view to foster effective control in corporate governance and to remove the former obstacles to the exercise of voting rights by non-resident shareholders.

469. Among the most important recent amendments to the Italian legislation, the so called record date mechanism was clearly established to identify the shareholders entitled to vote at the GM. Since its introduction, the participation of shareholders, in particular foreign institutional investors, almost doubled (for further information see Consob, Report on Corporate Governance 2013¹²). Moreover the legislation was amended in order to implement the requirements set forth by the SHRD with regard to GM procedure and disclosure.

470. As a result of this regulatory intervention:

- e) a new provision allowed companies to recognize a loyalty dividend ("*dividendo maggiorato*") only to minority shareholders holding continuously their shares for at least one year, with a view to promote long-term investment by small shareholders (Article 127-*quater* of the Consolidated Law on Finance) ;
- h) the proxy solicitation regime was largely simplified in order to facilitate the collection of proxies by minority shareholders and to reduce most of the related costs. As a result of the new rules, several proxy solicitations have been launched since 2011, while no solicitation was promoted under the previous regime in the period 1998-2010 (Article 136-139 of the Consolidated Law on Finance);
- i) qualified shareholders representing 2,5% of the share capital are given the right to put items on the agenda of the general meeting and to table the related draft resolutions (Article 126-bis of the Consolidated Law on Finance).

471. Finally, by implementing the EC Recommendations on executive compensation, the Italian Government amended the regulatory framework regarding remuneration disclosure by requiring listed companies to publish a Remuneration Report, describing the company's remuneration policy and the details of compensation paid in the relevant year to its directors and key executives, in line with the Scheme set forth by Consob (Article 123-*ter* of the Consolidated Law on Finance and Article 84-bis of Consob Regulation no. 11971/1999). The remuneration policy (Section I of the Remuneration Report) must be submitted to the advisory vote of the shareholders in the annual GM (say-on-pay). For listed banks and insurance, subject to specific industry regulations, shareholders' vote is binding. The say-on-pay mechanism has been effective since 2012. Data collected by Consob show that nearly 5 percent of listed companies' shareholders attending the annual GM voted against the remuneration policy; the dissent is

¹² Available at http://www.consob.it/main/consob/pubblicazioni/report/rapporto_cg/index.html

higher among institutional investors, 30% of which voted against the remuneration policy (for further information see Consob, Report on Corporate Governance 2013 available at http://www.consob.it/main/consob/pubblicazioni/report/rapporto_cg/index.html).

Japan

472. JFSA published “Japan’s Stewardship Code” on February 2014.

473. It defines principles, under the “comply or explain” approach, considered to be helpful for institutional investors who behave as responsible institutional investors in fulfilling stewardship responsibilities (the responsibilities of institutional investors to enhance the medium- to long-term investment return for their clients and beneficiaries by improving and fostering the investee companies’ corporate value and sustainable growth through constructive engagement, or purposeful dialogue) with due regard both to their clients and beneficiaries and to investee companies.

474. JFSA will publish the list of institutional investors who signed up for the Code. The initial publication of the list, which will cover institutional investors notifying JFSA of their intention to accept the Code by the end of May 2014, is scheduled early in June 2014. JFSA will update the list of institutional investors every quarter.

(Reference: <http://www.fsa.go.jp/en/refer/councils/stewardship/20140407.html>)

Mexico

475. Mexico’s Reform Agenda promotes an effective framework to foster competition in different fronts:

- The Financial Reform fosters competition in order to increase the supply of credit at better terms and conditions.
- The Federal Economic Competition Commission shall conduct an investigation into the competition conditions in the financial system. As a result of this investigation, such Commission will carry out recommendations to financial authorities in order to improve competition in the sector.
- The Energy Reform aims at increasing private investment across the whole sector, fostering competition, which will be reflected in lower prices of fuel, gas and electricity.
- With this reform the Mexican Government will be able to perform exploration and extraction activities of oil and other hydrocarbons through contracts with PEMEX and/or the private sector. The contracts include: services, profit-sharing, production-sharing, licenses or any combination of the aforementioned options. The National Hydrocarbon Commission (CNH, after its name in Spanish) will be in charge of the bidding processes and management of such contracts.
- Private investment in oil refining and processing will be allowed, as well as in oil transportation, storage and distribution, natural gas, gasoline, diesel and other oil derivatives. In addition, the private sector will be able to participate in all the petrochemical chain and to perform activities of generation and commercialization of electricity. Transmission and distribution of electricity by the private sector will be done under contracts with the Federal Electricity Commission (CFE, after its name in Spanish).

- The Telecommunications Reform promotes competition and the adoption of new technologies. The Federal Government is strengthening the Federal Economic Competition Commission, oriented to create competitive and efficient markets.
- The Economic Competition Reform strengthens the competitive environment, encourages innovation and cost reductions in key inputs.

New Zealand

476. The requirements for how legal entities must be formed and how they are to function is set out in various entity-specific legislation based on the organisational structures historically expected, that are used within New Zealand, for example:

Companies Act 1993
 Partnership Act 1908
 Building Societies Act 1965
 Friendly Societies and Credit Unions Act 1982
 Incorporated Societies Act 1908
 Charitable Trusts Act 1957
 Industrial and Provident Societies Act 1908

477. The most recent reform was the enactment of rules for limited partnerships in the Limited Partnerships Act 2008 after a need for this new vehicle was identified.

478. All legislation is monitored on an ongoing basis by the responsible agency for opportunities to make improvements. This may be from information from the market or internally driven. For example, major Companies Law reform was finalised with the 1993 Act replacing the 1955 Act and the Incorporated Societies Act has been recently reviewed and a new Act recommended. More often, the legislation is viewed as fundamentally sound and only incremental improvements are made as issues and opportunities arise.

479. There are offences for failing to meet requirements and duties.

480. New Zealand has a strong competition framework in the Commerce Act 1986 and related legislation (as canvassed above). The framework appears successful in that major issues are seldom identified.

Portugal

481. Yes. As a State Member, Portugal is represented in the European fora that define the framework for fair competition and corporate governance.

482. The OECD Principles of Corporate Governance have been implemented in the Portuguese regulatory and supervisory framework since 1999, and its effective implementation has been subject to a permanent and thorough monitoring process conducted by the securities regulator. The Portuguese Corporate Governance framework and practices was subject to an OECD peer review conducted in 2010 by the OECD Corporate Governance Committee with very positive results and conclusions.

Russian Federation

483. Russia is implementing measures to improve competition environment and, where necessary, to foster competition by improving antimonopoly legislation and expanding on “best practice” procedures.

For this purpose the special Action plan (roadmap) “Development of competition environment and improvement of antimonopoly policy” was approved by the Government in December 2012. These actions will be complemented by government support of SMEs within another federal program. The program envisages granting subsidies for SMEs and measures for developing infrastructure to support entrepreneurship activity in all regions of Russia. In 2013 that program implementation was financed in amount 19,8 bn. rubles (equivalent of 406 mil. euro).

484. Additional measures are being taken to modernize taxation procedures through a newly adopted (February, 2014) Action plan “Modernizing tax administration”. The target goal of the plan is to reduce average time costs of paying taxes as a step in boosting competition, while Doing Business sub-rankings can be used directly to track progress. Actions in this area also include alleviation of the process of firms registration, reduction of the time required from 30 to 5 days (2015) and ultimately to 3 days (2018), reduction of the cost from 6,1 to 3 thousands rubles by 2015), easing the process of obtaining construction permits, reduction of the time required from 423 days to 130 (2015) and to 56 (2018), expenses from 184% of GDP per capita¹³ in 2012 (equivalent of USD 26 thousand) to 104% in 2015 (equivalent of USD 17 thousand) and to 101% in 2018), simplification of licensing procedures (expanding the list of business activities that do not require obtaining permission from 36 to 50 by 2018).

South Africa

485. Yes. Competition policy and competition authorities have made significant progress in addressing market concentrations. This is reflected in the 2013/14 Global Competitiveness Report by the World Economic Forum, which ranks South Africa 8th (out of 148). Competition regulation is governed by the Competitions Act (1998), and a Competition Commission and Tribunal (which has legal powers) review specific cases.

486. There is also a strong existing framework for auditing and reporting requirements. South Africa is ranked 1st by the 2013/14 Global Competitiveness Index in terms of “strength of auditing and reporting standards”. Corporate governance has been strengthened by the introduction of the Companies Act (No. 71 of 2008), effective May 2011. Corporate governance: South African companies are expected to adhere to the King (III) Code of Conduct. It is a widely accepted code across the country and was formerly adopted by the Johannesburg Stock Exchange as a set of principles listed companies are expected to adopt. There is no government involvement in the code. Auditing is governed by the Auditing Professions Act (2005). The Act requires stricter accountability and transparency, and sets minimum accounting standards for annual reports.

Spain

487. Yes. On May 10 2013, an Expert Committee on matters of corporate governance was created and on October 18, the Council of Ministers analyzed the proposals for regulatory amendments submitted by the Committee. The proposals made by the experts include strengthening the role of the General Shareholders' Meeting and increasing control regarding the actions of the various Board Members, including the rules on remuneration, and they will be mandatory as they will hold the status of an Act of Parliament. At the same time, the Commission of Experts is currently reviewing the recommendations of the Unified Good Governance Code.

¹³Estimated in accordance with World Bank’s methodology.

Switzerland

488. Switzerland has an effective competition law in force, which is enforced by the Swiss competition authority (*Wettbewerbskommission*, Competition Commission). Currently the competition law is being revised.

489. In order to guarantee sound corporate governance, the Federal Council developed common principles to handle the functions which the Federal Administration sourced out to legally independent companies and institutes of the Federal Administration. These common principles regulate the control of these organizations and establish uniform criteria for assessing the outsourcing. The principles were published in 2006 in the “Corporate-Governance-Report” and the Federal Council has since constantly worked on improving the corporate governance of the Federal Administration.

490. With regard to the public and private companies, the Swiss Code of Obligations and the financial market regulation (e.g. Swiss Banking Act) contain legally binding provisions on corporate governance. Currently, the Federal Council is preparing a revision of the Code of Obligations which primarily proposes to strengthen the rights of shareholders and to facilitate the electronic execution of the shareholders’ meeting. It will also incorporate the initiative on excessive salaries, adopted by the Swiss population in March 2013, into law (e.g. legally binding vote on the compensation of the board of directors and the management, transparency requirements). According to this initiative, pension funds shall cast their votes at the general meeting on certain items (e.g. election of the board of directors, compensation of the management) and vote in alignment with the interest of their insured. Furthermore, they shall report on their discharge of those obligations (see Art. 22 and 23 VegüV¹⁴, SR 221.331).

491. The private SIX Swiss Exchange issued, required by law but based on the principle of self-regulation, various rules on corporate governance in different instruments, i.e. the Listing Rules, the Directive on Information relating to Corporate Governance (DCG), the Directive on *Ad hoc* Publicity, and the Directive on Disclosure of Management Transactions. The DCG (2002, currently under revision) obligates issuers to publish important aspects of their company’s top level of management (or to provide substantiated justification why this information is not published = “comply or explain” principle).

492. Further, *economiesuisse*, which is the leading association of Swiss companies, published the Swiss Code of Best Practice for Corporate Governance (SCBP) in 2002 (updated in 2007; currently under revision). This Code sets voluntary guidelines for public limited companies with listed shares or bonds. SCBP recommendations cover, for example, the definition of CG, general shareholders’ meetings, shareholders’ rights to information and inspection, composition of the board of directors and board committees, and auditors.

493. Requirements for insurance companies related to corporate governance, risk management, internal audit and the actuarial function are given in the Insurance Supervision Law and more specific in the Insurance Supervision Ordinance. These requirements are in line with international standards such as the insurance core principles of the International Association of Insurance Supervisors (IAIS).

494. In addition to the SCBP, a group of institutional investors, proxy advisors and business representatives have published in January 2013 the voluntary “Guidelines for institutional investors governing the exercise of shareholder rights in Swiss listed companies” based on the “comply or explain” principle.

¹⁴ VegüV = *Verordnung gegen übermässige Vergütungen bei börsenkotierten Aktiengesellschaften* = Regulation against excessive remuneration for listed joint-stock companies

495. In parallel, the government of Switzerland is supporting the implementation of the OECD Principles on Corporate Governance in partner countries of its Economic Cooperation and Development program.

Turkey

496. Yes, the CMB has revised its corporate governance rules in order to strengthen governance practices of BIST listed companies by taking into account recent developments in local and international markets. As a result of this revision, CMB left the “comply or explain” approach to a limited extent and required systemically important companies, to comply with certain corporate governance principles. Furthermore, the new compulsory independent director mechanism is a very positive step and may serve as a balancing power in the management of those companies that are dominated by controlling shareholders.

497. The Regulation on Internal Systems of Insurance, Reinsurance and Pension Companies regulate the principles and procedures relating to the internal control, internal audit and risk management systems to be established by insurance, reinsurance and pension companies, and the operation of such systems. Also the Insurance Law No. 5684 authorizes the Insurance Association of Turkey with the mandate to take all the necessary precautions to prevent unfair competition among the stakeholders.

United Kingdom

498. Yes. In April 2014, the UK launched a new competition landscape. The new landscape focused mostly on the creation of a new, independent, competition authority, the Competition and Markets Authority (CMA), designed to tackle competition issues free from political interference. It also included measures to make it easier to prosecute operators of cartels. The CMA will build on the successes of the Office of Fair Trading and the Competition Commission to deliver robust, predictable decisions to a shorter timescale than the previous regime. It is better-resourced than its predecessors and will work to more challenging targets for consumer benefit, showing the UK Government’s commitment to promoting effective competition.

499. The UK Government has undertaken a variety of work to ensure that the UK continues to set high standards of corporate governance as part of a wider public policy response to the financial crisis. One particular focus has been on the role that institutional investors and other shareholders play in creating the environment for companies to deliver sustainable growth.

500. As noted above, a number of specific corporate governance policy measures have been introduced following the Kay Report in 2012, including:

- reforms to the governance of company directors’ remuneration, from October 2013, which strengthen accountability to shareholders through a binding vote and boost transparency of pay reporting.
- reforms to corporate narrative reporting framework from October 2013 to make annual reports less burdensome, more relevant, and more focused on long-term company strategy; and
- changes to UK legislation to enable implementation of the recent amendment to the EU Transparency Directive to remove the requirement for mandatory quarterly reporting, which has been widely shown to contribute to an excessively short-term focus in public equity markets. The UK Financial Conduct Authority recently consulted on the necessary changes to their Disclosure and Transparency Rules with a view to implementing this change in the UK in November 2014.

501. More widely the UK continues to focus on ensuring that the UK has a world leading corporate governance framework to support investment in UK public companies. In particular the UK Corporate Governance Code promote dialogue and engagement between boards and shareholders, by setting standards of good practice for companies on issues such as board composition and effectiveness, the role of board committees, risk management, remuneration and (of particular note to this inquiry) relations with shareholders.

502. UK listed companies are required under the Listing Rules either to comply with the provisions of the Code or explain to investors in their next annual report why they have not done so. This 'comply or explain' approach allows companies the flexibility to adopt and adapt their approaches to governance to fit their culture, organisation and specific circumstances. This means governance supports rather than constrains the development of effective corporate strategy, and helps to ensure that boards see governance as a means to improve their performance rather than as a compliance exercise.

503. The Code is regularly reviewed. The Financial Reporting Council (FRC) recently consulted on a revised edition of the Code which will be introduced from October 2014. Among other changes, the revised Code will place greater emphasis on companies ensuring that remuneration policies are designed with the long-term success of the company in mind.

United States

504. Yes. Government agencies and regulatory entities have authorities that ensure fair competition and sound corporate governance.

EU

505. Yes, see the revision of the Shareholder Rights Directive as mentioned above. In the EU the existing framework already provides a certain framework that can contribute to sound corporate governance. The existing Shareholder Rights Directive ensures that shareholders can exercise their rights, while the Accounting Directive stimulates transparency on corporate governance practice and give an incentive to Member States and organisations of listed companies to come up with national corporate governance codes that should be applied on a comply or explain basis.

What measures, if any, have been adopted to promote an effective framework for clear and reliable creditor rights and insolvency regimes? Have they been successful?

Australia

506. The Australian corporate insolvency framework aims to balance the interests of relevant stakeholders (creditors, employees, taxation authorities, shareholders and customers) and is set in the provisions of the *Corporations Act 2001* ("the Act") and the common law. The framework focuses on establishing efficient procedures for the winding up of companies, the orderly realisation of the available assets of those companies and the equitable distribution of the proceeds to creditors and shareholders. This is achieved through a clearly stipulated ranking of priorities which sets out the order in which creditors are to be paid from the realised asset of the company.

507. The framework also includes procedures governing corporate rescue/reorganisation and the appointment of persons who are entitled to assume control over particular assets of the company (voluntary

administration), the reconstruction of companies, arrangements and compromises with creditors (schemes of arrangement) and the winding up of solvent companies.

508. Persons appointed to administer an insolvency, receivership or administration under the Act must be registered by the corporate regulator (Australian Securities and Investments Commission), must meet minimum standards of experience and education, and at all times remain a fit and proper person to remain registered as a liquidator. The vast majority of registered liquidators are members of professional associations, and therefore are also subject to a well-regarded Code of Professional Practice.

509. The Australian insolvency system provides creditors with a range of opportunities to receive information and monitor an insolvency administration in which they have an interest, this includes through the provision of reports by liquidators to creditors, creditor meetings, and the ability for creditors to inspect the liquidator's books. In the case of court-ordered liquidations, creditors may pass a resolution requiring future creditors' meetings to be held or require the convening of a meeting at the request of creditors representing at least one-tenth in value of all the creditors.

Brazil

510. Concerning creditor rights, the pension funds markets are not subject to specific regulation. Moreover, there are a specific insolvency policy to ensure that any pension fund that is passing through financial stress are subject to an intervention regime until it reacquire sound financial health. Although the intervention processes, generally, take a very long time, they are successful in the preservation of public interests.

Canada

511. Canada has a well-developed framework to provide clear and reliance creditor rights.

512. The Bankruptcy and Insolvency Act ("BIA") is the statute that regulates the law on bankruptcy and insolvency in Canada. It governs bankruptcies, consumer and commercial proposals, and receiverships in Canada. It also governs the Office of the Superintendent of Bankruptcy, a federal agency responsible for ensuring that bankruptcies are administered in a fair and orderly manner. The BIA contains mechanisms for debtors to make proposals to their creditors for the adjustment of debts. If a proposal fails, the BIA contains a bridge to bankruptcy whereby the debtor's assets are liquidated and the proceeds paid to creditors in accordance with the statutory scheme of distribution

513. The Companies' Creditors Arrangement Act (CCAA) is a federal law that applies to insolvent corporations that owe in excess of \$5 million. The law gives these companies short-term protection from their creditors so they can restructure their businesses and financial affairs. The main purpose of the CCAA is to enable financially distressed companies to avoid bankruptcy, foreclosure or the seizure of assets while maximizing returns for their creditors and preserving both jobs and the company's value as a functioning business. CCAA proceedings are carried out under court supervision.

China

514. Till now, Chinese government has set up an effective framework for clear and reliable creditor rights and insolvency regime, including *Company Law of the People's Republic of China*, *Law of the People's Republic of China on Enterprise Bankruptcy*, *Securities Investment Fund Law of the People's Republic of China*, *Insurance Law of the People's Republic of China*, *Law of the People's Republic of China on Securities Investment Fund*, *Trial Measures for Administration of Enterprise Annuity Funds*, *Measures for Administration of Material Asset Reorganization of Listed Companies*, *Measures for Administration of Mergers and Acquisitions of Insurance Companies*, etc.

France

515. After a period of consultation with market participants, the Government took measures in early 2014 to improve the legislative rules applicable to firms facing difficulties. The objective of the Government is threefold: i) enhance the attractiveness of mutual agreement procedures, which are most effective for the restructuring of firms in difficulty, ii) better balance insolvency procedures for the benefit of creditors and iii) simplify and accelerate insolvency procedures, particularly for small businesses. An ongoing objective of this reform is to secure the legal framework for investors.

Germany

516. Germany has a (general) insolvency law and a special regime for the recovery and resolution of credit institutions; both contain provisions on the rights of creditors. As far as the creditors are private, they are protected by a deposit guarantee scheme.

517. In Germany the Insolvency Statute provides a clear and effective framework for insolvency proceedings. Pursuant to section 1 of that Statute, insolvency proceedings shall serve the purpose of collective satisfaction of a debtor's creditors by liquidation of the debtor's assets and by distribution of the proceeds, or by reaching an arrangement in an insolvency plan, particularly in order to maintain the enterprise.

518. In recent years the German Insolvency Statute has undergone some considerable improvements. On 1 March 2012 the Act for the Further Facilitating the Restructuring of Companies (*Gesetz zur weiteren Erleichterung der Sanierung von Unternehmen* - ESUG) went into effect. It was designed to improve the framework for turning around companies in distress. The main changes of the ESUG to the German insolvency law include the increased influence of the creditors in insolvency proceedings, in particular on the appointment of the insolvency administrator, enabling debt-equity swaps as part of an insolvency plan and improving both self-administration proceedings and insolvency plan proceedings.

519. According to the World Bank Doing Business Survey 2013 Germany has solid regulations and procedures in dealing with bankruptcies in the German insolvency law and at the same time very low non-performing loans ratios.

Italy

520. In the course of the last 10 years Italy has enacted a number of significant reforms that have substantially improved the insolvency and the debt collection legal regimes, in particular by accelerating the judicial process for foreclosing and debt restructuring, by promoting the rescue of still viable businesses and by favouring market-based solutions for the realization of assets.

521. In the 2005-2007 period, the Italian Government undertook a comprehensive reform of bankruptcy law, mainly realized by the issue of the Legislative Decree No. 5/2006 and the Legislative Decree No. 169/2007 which substantially reformed the Royal Decree No. 267 of 16 March 1942 (the "Italian Bankruptcy Law").

522. In light of the globalization process and other major changes occurred in business firms' organization, the reform aimed to overcome the traditional idea, inspiring the previous regime, that bankruptcy law needs only to play the role of liquidating failed firms, since creditors interests are no more well aligned and the dispersion of creditors increases along with the size of the firm. Consequently, the new regime has enhanced the reorganization or "rescue" procedures, as an alternative to liquidation procedures, of distressed companies with a view to preserving the value of the business and allowing it to make a fresh new start.

523. In particular, the above – mentioned Legislative Decrees introduced a more efficient regulation of pre-bankruptcy schemes of arrangements and pre-bankruptcy procedures such as:

a) the pre-bankruptcy agreement called “*concordato preventivo*” (composition with creditors): under the “*concordato preventivo*” procedure, the debtor may propose to its creditors a recovery plan that can provide for, among other things, the restructuring of the indebtedness and the payment of claims in any form including the assignment to the creditors of shares, securities or other financial instruments. In order to enter such procedure, the debtor has to be in “financial distress”, a status that is not a proper insolvency. The newly designed “*concordato preventivo con riserva*” (conditional composition with creditors) has been created in order to promote an early crisis management. Such a procedure allows the debtor to file a request for “*concordato*” benefiting from a moratorium, without the need to provide the proposal for a plan at the time of filing. In order to prevent abuses, a 2013 amendment requires the debtor to enclose a list of all creditors and to periodically report to the court the firm’s financial situation. An early appointment of a judicial administrator is also possible;

b) the debt restructuring agreement (Article 182-bis of the Italian Bankruptcy Law): under such pre-bankruptcy arrangement a debtor in a financial distress can enter into a recovery agreement with a number of its creditors representing at least 60% of all claims without the involvement of a court. Unlike the pre-bankruptcy agreement, the debt restructuring agreement is only effective between the participating parties and all transactions, payments and security interests carried out or granted pursuant to a judicially approved debt restructuring agreement are not subject to bankruptcy claw-back actions ;

c) the out-of-court debt restructuring plan (“*piano attestato di risanamento*”, pursuant to Article 67, par. 3, d), of the Italian Bankruptcy Law, namely the “certified rescue plans”): under such procedure, agreements reached between the debtor and any of its creditors are protected from claw-back actions where such agreements provide for new finance and the granting of security in light of such new finance or the rescheduling of the indebtedness. The debtor has to prepare a restructuring plan ensuring the recovery of the debt exposure and the financial re-balancing of the debtor, taking into consideration and illustrating all of its elements (industrial and financial plan, moratorium, debt refinancing or rescheduling aspect, etc.). Before entering the Plan, the creditors require that the Plan be reviewed by an expert accountant who shall issue an opinion that evidences the reasonableness of such Plan in terms of the ability of the debtor to fulfil its payment obligations and reasonable assumptions.

524. In an effort to boost economic growth, with the Law Decree No. 69/2013 (so called “*Decreto del Fare*”, converted into Legislative Act No. 98/2013) the Italian government implemented several significant changes to Italian judicial procedures, on the idea that effective and immediate debt collection procedures represent a key factor to make Italian markets attractive for national and foreign investors.

525. The main changes concern:

a) Alternative dispute resolution procedures: since the excessive delays in court proceedings, the Decree above referred introduced the duty to file a mediation procedure (out-of-court settlement) in civil and commercial disputes as a prerequisite for the admissibility of a possible later petition before the court (in case of mediation failure). The mandatory mediation applies to a several number of dispute objects. The single mediation will last for no more than three months and, if an agreement is reached, the mediator drafts the text of the agreement which, properly undersigned by all parties, consists of an enforceable title; if such agreement has not been reached, the mediator may make its proposal for conciliation;

b) in order to reduce the time needed to obtain a payment injunction by the court, the Decree has quickened the timing of commercial disputes for debt collection filed by creditors (first hearing has to be mandatorily scheduled within 30 days), also empowering the judge to settle the litigations even at the first

hearing under certain circumstances. Moreover, the judge can issue a temporary executive injunction at the first hearing in court;

c) in order to reduce the number of pending cases, the Decree has adopted an additional extraordinary measure, providing for the appointment by the Justice Minister of a task force of 400 magistrates to clear the backlog in the courts of appeal. The new magistrates could be selected among retired judges, lawyer, professors or researcher in law and will support current magistrates in the courts of appeal;

d) as a special measure directly aimed to facilitate the access to courts by foreign investors, the Decree provided that all commercial disputes involving a foreign enterprise have to be filed and discussed only before the main district courts of Italy (Roma, Milano, Napoli).

526. Finally, the Law Decree No. 69/2013 has also introduced some provisions aimed to improve and correct pre-bankruptcy agreement procedures above referred. In particular, it modified the requirements provided for the application of a pre-bankruptcy agreement without filing at the same time the restructuring plan (so called “*concordato in bianco*”). In the wake of several abuses by debtors experienced during the first application of the Law to the detriment of creditors’ protection, the Decree No. 69/2013 imposed the filing of set of information along with the application of the pre-bankruptcy agreement. Moreover, the court can appoint a judicial administrator in charge of controlling the debtor’s activity and entitled to assure the filing of the proposal of agreement to submit to his creditors.

527. The Law Decree No. 69/2013 will extend the recourse to electronic means for the fulfilment of most requirements (including payments; submission of bids, adjudication); it will ease investigations by courts for the search of assets subject to foreclosure (by establishing an on-line national dataset that tracks all movable collaterals).

Japan

528. Yes. JFSA established a framework for an orderly resolution regime of financial institutions, including banks and insurers, in order to address risks that may spread across financial markets.

Mexico

529. The Financial Reform enhances credit allocation in an already stable and well capitalized financial system; in fact, this reform upgrades to law status Basel III principles. Likewise, the reform seeks for a healthy development of the financial system that allows for an increase in coverage for a greater number of people and businesses, taking into account clear and reliable creditor rights and insolvency regimes.

530. In order to reduce risk associated with investments, the Financial Reform:

- Simplifies the regime to provide and execute guarantees.
- Improves the Bankruptcy Law, facilitating bankruptcy processes in order to create a clear procedure reducing costs and protecting creditor rights.
- Fosters the creation of a universal credit bureau.
- Strengthens coordination between financial authorities, upgrading to law status the

- Council of Financial System Stability.
- Incorporates the figure of subordinated creditors with restricted rights in order to guarantee the protection of other creditors. The subordinated creditors are those ones that are controlled or influenced by the holding entity.

New Zealand

531. The insolvency regime in New Zealand is set out in the following way:

- The principal legislation is the Companies Act 1993.
- This sets out in detail the processes for the administration and liquidation of companies including creditor rights. Several other legislative instruments govern particular situations but all refer to some extent to the processes in the Companies Act and apply them appropriately.
 - Individuals – Insolvency Act 2006
 - Associations – Judicature Act 1908
 - Others – Corporations (Investigations and Management) Act 1989
 - Receiverships are governed by the Receiverships Act 1993.
 - Creditors are also able to secure rights via the Personal Property Securities Act 1999 that reformed and consolidated several statutes relating to security interests.

532. The insolvency regime underwent a substantial reform process between 1998 and 2006, resulting in a new Insolvency Act and substantive amendments to the Companies Act regime including the creation of an administration regime.

533. All legislation is monitored on an ongoing basis by the responsible agency for opportunities to make improvements. This may be from information from the market or internally driven. For example, it is intended that the liquidation of associations is being moved from a revised Judicature Act to the Companies Act. More often, the legislation is viewed as fundamentally sound and only incremental improvements are made as issues and opportunities arise.

534. The framework appears successful in that major issues are seldom identified.

Portugal

535. The national insolvency law has also been simplified and procedures have been shortened to facilitate insolvency.

536. Limited tax measures have also been introduced to facilitate debt restructuring. Financial support is being provided under the “*Revitalizar*” programme.

537. This government-led initiative aims at providing still viable but distressed companies conditions to be recovered. The programme includes (a) a mechanism of debt restructuring; (b) improved communication channels between the companies and the government authorities (in particular, tax and social security authorities); (c) fostering alternative funding sources and (d) promoting companies’

transactions, namely mergers and acquisitions. Funds are provided in the form of risk capital and private equity, partly sourced from national banks and partly steaming from EU funds.

Russian Federation

538. Among the Bank of Russia financial market regulation and development priorities are consolidated oversight and passing a universal bankruptcy law. As for consolidated oversight, the synergy is already in place. For instance, when bank licenses were revoked in 2H 2013, the Central Bank analyzed the implications for companies linked with the banks. When a centralized database is in place, this task will be performed automatically.

539. At present, the ground rules are laid by the Insolvency Act that covers bankruptcy procedures for all companies, while there is also a separate Bank Insolvency Act. There will be specified bailout and bankruptcy mechanisms for the objects of financial infrastructure (such as an exchange); norms for other market participants will also be reviewed, e.g. appointment of temporary administration is planned for earlier stages of financial instability.

South Africa

540. The Companies Act (2008) covers this adequately. Furthermore, South Africa has a clear system of property rights – including intellectual property rights, which is enforced by an independent judiciary. South Africa is ranked highly by the Global Competitiveness Index in terms of its property rights (20th), intellectual property protection (18th), and independent judiciary (22nd). The Promotion and Protection Bill was published for public comment in November 2013. This Bill seeks to replace some existing treaties to create a level playing field for all investors, local and foreign. It will provide clear and reliable creditor rights.

541. Insolvency in South Africa is primarily governed by the Insolvency Act 24 of 1936 (the Insolvency Act), which governs the sequestrations of the estates of individuals, trusts and partnerships that are insolvent.

Spain

542. A Royal Decree-Law on urgent measures on refinancing and restructuring of corporate debt has been passed. It includes a reform aimed at the identification and the preservation of the value of those corporations that are truly viable but at the same time over-indebted. This will help to advance on the deleveraging process required because of the high level of debt of Spanish non-financial corporations.

543. Spanish bankruptcy proceedings conclude in the vast majority of cases with the liquidation of the company. A comprehensive and effective financial and operational restructuring is only feasible before the bankruptcy proceeding starts, through schemes of arrangement between the debtor and a majority of creditors aimed at maximizing the company's assets value. The reforms included in this Royal Decree-Law are aimed at dealing with the current limitations on schemes of arrangement. The final objective of the reform is to promote these agreements as an instrument to facilitate the use of postponements, debt releases and debt for equity swaps without resorting to bankruptcy proceedings.

Switzerland

544. The Federal Act on Debt Enforcement and Bankruptcy creates a strong framework for clear and reliable creditor rights and insolvency regimes in general.

545. The Deposit Protection of Banks and Securities Dealers, which was created by Federal Law but is privately managed, guarantees the savings of bank clients up to a certain ceiling.

Turkey

546. Capital Markets Board (CMB) has a special regulation on the capital adequacy requirements for intermediaries which makes those institutions more reliable. Additionally The Investor Compensation Centre has been in effect since 2001 (former name was Investors Protection Fund) and a predetermined amount of receivables on securities and cash related to those security transactions was guaranteed. One should note that this system is very effective and much successful since it was adopted.

547. The rights and benefits of the policy holder are protected by a detailed set of legislation which includes:

- a) Insurance Law No. 5684
 - Article 10 on winding up, merger, acquisition, portfolio transfer and bankruptcy
 - Article 14 on Assurance Account (i.e. insurance guarantee fund)
 - Articles 16, 17, 18, 19, 20 on technical reserves, guarantees and provisions associated with strengthening financial structure
 - Article 28 and 29 on effective supervision and furnishing information
 - Article 30 on Insurance Arbitration Commission for dispute settlement.
- b) Regulation On Detection, Notification And Recording Of Wrongful Insurance Practices (i.e. insurance fraud) And Principles And Procedures For Fighting Against These Practices
- c) Regulation On Furnishing Information In Insurance Contracts
- d) Regulation On Insurance Arbitration
- e) Regulation On Measurement And Assessment Of Capital Requirements Of Insurance And Reinsurance Companies And Pension Companies
- f) Regulation On Financial Structures Of Insurance, Reinsurance And Pension Companies

United Kingdom

548. The UK's insolvency regime is one of the best in the world, currently ranked 7th by the World Bank and consistently ranked in the Top 10 in terms of speed and returns to creditors in insolvency. The regime supports creditor, investor and business confidence when taking commercial risks in the market place. The Government is currently working on measures (some of which are before Parliament now) that have been suggested by creditor and other stakeholder groups, which will improve the efficiency and reduce the cost of insolvency proceedings under the "Red Tape Challenge". These are estimated to save around £30m every year for creditors.

United States

549. The federal bankruptcy code and the federal court system provide an effective framework and venue for clear and reliable creditor rights and insolvency regimes.

EU

550. For banks, a proposal for a Directive establishing a framework for the recovery and resolution of credit institutions and investment firms exists (COM 2012 280).

551. As regards insolvency regimes, the Commission issued a Recommendation in March 2014 on best practice principles to enable the early restructuring of viable enterprises and to allow bankrupt entrepreneurs to have a second chance (C 2014 1500). Also, there is a proposal for an update of the rules regarding cross-border insolvency proceedings (COM 2012 744)

PRINCIPLE 2

Development of institutional investors and long-term savings

2.2 Governments should promote the development of long-term savings through savings mobilisation policies. Such policies may consider the use of default mechanisms such as automatic enrolment as well as, where appropriate, mandatory arrangements. When relevant and subject to the macroeconomic situation, appropriate financial incentives to long-term saving should be provided and tax impediments removed. Governments should also promote the development of long-term savings through pooled investment vehicles and collectively organised long-term savings and retirement plans, increased awareness amongst the population, financial inclusion policies, and the promotion of financial literacy.

*Please answer the following questions*¹⁵

Has the government adopted measures to encourage individuals to save for the long term (Yes/No)?

If yes, please identify which types of measures have been adopted, and with what success? For example:

- *Savings mobilisation policies: please provide details*
- *Financial incentives: please provide details*
- *Tax incentives: please provide details*

Please note that information related to measures on mandatory and default mechanisms will be collected through other sources and provided to the Task Force later on.

Australia

552. Yes. The Australian superannuation system is essentially a collection of mostly privately managed defined contribution trust funds established to allow Australians save for their retirement. In order to build their retirement savings, employers are required to make contributions on behalf of their employees, the 'Superannuation Guarantee' (SG). Higher 'salary sacrifice' contributions can be made if employer and employee agree. In most cases, the employee can choose which fund will receive the contributions made on their behalf. Self-employed people can also make contributions on their own behalf. Public sector employees are covered by a range of superannuation schemes, some funded and some unfunded. A few defined benefits schemes survive in both private and public sectors, but almost all are closed to new members.

553. As superannuation is intended to be a source of retirement income, individuals cannot draw on their contributions (or any associated earnings) until they have reached their 'preservation age' (currently 55 and scheduled to increase on a phased basis to 60 by 2025) or have met special conditions of release.

¹⁵ As required, Members may also wish to consult with relevant sectoral and/or sub-national agencies.

554. Saving for retirement through Australia's superannuation system has been compulsory since the introduction of the SG in 1992, with the SG set at 3 per cent but rising over time. In 2013-14, the minimum level of SG payable by an employer is 9.25 per cent of an employee's ordinary time earnings. The superannuation guarantee rate will increase from 9.25 per cent to 9.5 per cent from 1 July 2014, as currently legislated. In the 2014-15 Budget, the Government announced that the rate will remain at 9.5 per cent until 30 June 2018 and then increase by 0.5 percentage points each year until it reaches 12 per cent. Almost all employees aged 18 years and above and earning \$450 a month or more are entitled to receive the SG.

555. The Government encourages further voluntary retirement saving through a range of incentives, such as the concessional tax treatment of superannuation. In Australia, most contributions and fund earnings are counted as income of the superannuation fund and taxed, generally at a concessional rate of 15 per cent. Superannuation benefits taxed in the fund are tax-exempt when paid after the age of 60. The previous Government introduced the 'low income superannuation contribution' (LISC) which effectively returns some of the tax on contributions made on behalf of low income earners. The current Government has announced its intention to remove the LISC.

556. In addition, individuals who make personal (after-tax) superannuation contributions may be eligible for a government co contribution of up to \$500. The amount of co-contribution depends on the individual's income and how much they have contributed.

557. The Government encourages the self-employed to save for their retirement by allowing them to claim a full deduction for their superannuation contributions up to age 75. Generally, to be entitled to claim a deduction, less than 10 per cent of an individual's assessable income and reportable fringe benefits must be attributable to employment as an employee. The self-employed are also able to take advantage of the co-contribution scheme, if they satisfy the normal eligibility criteria.

558. Despite superannuation having a substantial pool of assets, exceeding Australia's GDP, most retiring Australians do not have enough superannuation to meet standard adequacy benchmarks. This is partly explained by the fact that the compulsory system was only established since 1992. Many Australians now approaching retirement have only received superannuation for part of their working lives. Currently 2.4 million Australians — 68.4 per cent of Australians of pension age — rely on the government aged pension for some or all of their income. Some 59.1 per cent of age pensioners receive the maximum rate of pension.

559. Superannuation contributions in the year to June 2013 totalled \$115.3 billion. Employers contributed \$77.5 billion, which includes SG amounts, salary sacrifice contributions and voluntary employer contributions. Members contributed \$36.5 billion, reflecting the generous tax incentives provided for superannuation. Other contributions, which include spouse contributions and government co-contributions, totalled \$1.3 billion.

Brazil

Yes. Savings mobilisation policies: please provide details

560. The Brazil has given special attention to development financial education. The National Education Strategy Financial (ENEF), public policy launched by the Decree No. 7,397, of December 22, 2010, and aims to promote financial education and pension, changing citizen behavior, and contribute to the strengthening of citizenship, efficiency and soundness of the financial system and decision of conscious decisions by consumers.

Tax incentives: please provide details

561. The Brazilian law allows the deduction of expenses of the calculation basis of income for amounts invested by the public in some form of pension fund tax.

Canada

562. Canada has in place measures that encourage individuals to save, including for the long term. Notably, Canada has a strong three-pillar retirement income system based on a balanced mix of public-private responsibility and voluntary-compulsory programs. The first pillar programs are funded out of government revenues, but the second and third pillar arrangements involve long-term savings and investment.

563. The second pillar Canada Pension Plan (CPP) and its equivalent in the province of Quebec, the Quebec Pension Plan are mandatory, publicly-administered, defined benefit pension plans that provide a basic level of earnings replacement for all Canadian workers, funded by employer and employee contributions. Immediate CPP pension benefits are paid out of contributions made in respect of current employees, with the difference between the amounts received and paid out as benefits being transferred to the CPP Investment Board to be invested for future benefit payments. Starting in 2023 a small portion of the CPP fund's investment income will be needed to help pay pensions. Accordingly, the CPPIB has a long-term investment strategy.

564. The third pillar comprises voluntary, tax-assisted savings opportunities to help Canadians accumulate additional savings for retirement:

- Registered Pension Plans (RPPs) are generally sponsored by an employer for employees and are subject to federal or provincial pension standards regulations;
- Registered Retirement Savings Plans (RRSPs) are individual savings plans (a group RRSP may also be offered by an employer to its employees), generally not subject to pension standard regulation;
- Pooled Registered Pension Plans (PRPPs) have recently been introduced to further strengthen the third pillar. PRPPs will provide a low-cost and large-scale retirement savings option for Canadians who do not have access to a workplace pension plan.

565. RPP/RRSP/PRPP contributions are deductible, investment income is not taxed as it is earned in the plan, and payments/withdrawals are included in income and taxed at regular rates. Contributions to RRSPs and defined contribution RPPs are limited to 18 per cent of earnings, up to a specified dollar amount (\$24,270 and \$24,930 respectively for 2014), with corresponding benefit limits for defined benefit RPPs (the RPP/RRSP dollar limits are indexed to average wage growth). The RPP/RRSP limits are integrated and unused RRSP room is carried forward to future years. PRPP contributions must be made within an individual's available RRSP limit.

566. About 6 million Canadians contribute annually to an RRSP, compared to about the same number of Canadians who participate in an RPP (there were 6.1 million RPP members in 2011). In total, there are about 9 million Canadians who participate in an RPP and/or contribute to an RRSP (since many Canadians who participate in an RPP also contribute to an RRSP), representing about 50 per cent of all those with earnings. RPP/RRSP participation rises to about 80 to 90 per cent of earners among middle and higher-income Canadians (i.e., those who need to save significantly to supplement public pensions in retirement).

567. The most recent Statistics Canada information on RPP/RRSP participation and assets is provided in the links below.

<http://www.statcan.gc.ca/daily-quotidien/131219/dq131219c-eng.htm>

<http://www.statcan.gc.ca/daily-quotidien/131209/dq131209a-eng.htm>

<http://www.statcan.gc.ca/daily-quotidien/140325/dq140325b-eng.htm>

China

568. Yes. Savings mobilisation policies: Chinese government mobilizes savings mainly by issuing policies and guidelines to stimulate the development of long-term saving insurance products. For example, in 2009, Chinese government published *Guidance on Advancing Business Structural Adjustment and Promoting the Protection Function of Insurance*, which clearly indicated the enhancement of development of risk-prevention and long-term saving products. The *Guidance* also required that the term of endowment insurance products should be no shorter than five years, as well as universal and unit-linked products could offer continuous bonus, which enhanced the long-term saving function of life insurance products. According to the pricing reform of life insurance policy launched in August 2013, for regular endowment annuity and other regular annuity with term longer than 10 years, insurers could use a higher discount rate in technical provisions evaluation.

569. Tax incentives: Since October 9th 2008, Chinese government has suspended imposing tax on interest income of personal savings.

France

570. Yes. France works on mobilizing long-term savings with a view to encourage long-term individual saving and enhance the adequacy of savings instruments to the financing needs of the economy, with a particular focus on corporates (especially SMEs and ETIs or mid-cap firms). A key focus has been on financial and tax incentives:

- The recent life-insurance reform has established two new life insurance products, specifically designed to meet the financing needs of the economy, by creating risk-taking incentives for households that are able to manage this additional risk : (i) the "Euro growth" product, a "multi-support" contract (combining traditional savings and unit-linked components), guarantees capital invested for a period of at least eight years. For individuals opting to move to the new product, the existing rate of taxation applicable to their previous life insurance contract will be maintained ; (ii) by way of a risk-taking incentive, taxpayers opting for the new contract "*vie-génération*" will benefit from a 20 percent reduction in the taxable base upon inheritance. Because they are based respectively on an 8 year period and an inheritance-based benefit, both these contracts should encourage individuals to save for the long term; however, this reform is too recent to be fully assessed for the time being.

571. The stock savings plan (PEA) reform includes two aspects. First, is the increase in the upper limit of the traditional PEA from the current 132 000 € to 150 000 €. Second, is the establishment of SMEs and middle-scale enterprises (ETI) stock savings plan (PEA-PME), with a ceiling up to 75 000 €. This should contribute to the mobilization of households' savings towards the financing of corporate equity.

Germany

572. Yes. There are several measures to encourage long-term saving, especially for average and lower-income earners and families, such as a tax allowance on savings ("*Sparerfreibetrag*"), an employees' savings bonus ("*Arbeitnehmersparzulage*") and an allowance for housing construction ("*Wohnungsbauprämie*").

Italy

Incentives on retirement saving: tax benefits, automatic enrolment, default mechanisms, transparency.

573. The current legislation on supplementary retirement provision (Legislative Decree 252/2005), entered into force in 2007, aims at encouraging workers to save for the long term by contributing to funded retirement schemes adding up to public pensions and including both pension funds and individual retirement insurance policies.

- The law provided for automatic enrolment. The flows of accruing severance pay (TFR) are assigned to supplementary retirement schemes in the absence of a choice to the contrary by the worker. In addition, significant tax benefits were introduced and the regulatory framework was strengthened¹⁶.
- The law also strengthened tax incentives to retirement savings. There are three kinds of tax advantages for retirement schemes: 1) the deduction of contributions from personal income, 2) a lower tax rate on investment income, and 3) a very favourable tax treatment of benefits. Simulations show that the benefits for pension scheme members stemming from the favourable tax treatment are sizable.^{17 18}

574. On the supply side, it is important to facilitate the containment of operating expenses imposed on subscribers, by encouraging competition between different forms of supplementary pension schemes. To this end, the regulatory authority has fostered cost and yield transparency by the industry by asking for pension funds to calculate a synthetic cost indicator¹⁹ (SCI). This indicator allows to easily display all costs paid by a member (in the accumulation phase) as a percentage of the assets of his/her individual account. The SCI, which covers pension funds, open pension funds and individual pension plans (PIP), has to be computed according to a methodology defined by COVIP, common for all different kinds of pension funds and the calculation has to be done for all different schemes/investment options offered by a pension fund and for 4 different time horizons (2, 5, 10 and 35 years). In addition, Covip contributes directly to transparency by publishing on its web site the SCI and yields of each fund.

575. The low rate of enrolment to supplementary pension funds is partly linked to the lack of knowledge of the rules that govern the pension system. Greater and timelier information on retirement

¹⁶ Private-sector payroll workers have six months from the date of hiring to decide whether to keep their accruing severance pay with their employer or have it paid into a supplementary retirement scheme (occupational pension fund, open pension fund or individual retirement insurance policy). If workers opt to keep their accruing severance pay with the employer, the company can continue to set it aside if it has fewer than 50 employees; otherwise, it must pay it into a special fund set up at INPS (*Fondo della Tesoreria*). Where workers do not make an explicit choice, accruing severance pay is to be paid into the guaranteed subfund of the supplementary retirement scheme for their industry or, if one is lacking, into a new pension fund set up at INPS (*FondInps*), whose objective is to achieve returns at least equal to those that companies' severance pay provisions would have obtained.

¹⁷ See also Supplementary pension schemes in Italy: features, development and opportunities for workers, Cesari, Grande and Panetta (2007), available at : http://www.bancaditalia.it/pubblicazioni/econo/quest_ecofin_2/prev_compl;internal&action=_setlanguage.action?LANGUAGE=en

¹⁸ Effective from July 2014, the tax rate applicable to financial investment income (dividends, interests and capital gain) is increased from 20% to 26%. Such increase will not apply to supplementary pension funds. As a consequence, the preferential tax treatment of supplementary pension funds results in being even more favourable in comparison with other financial investments.

¹⁹ For more information see also IOPS Working Papers on Effective Pension Supervision No. 15, 2011, available at: <http://www.oecd.org/site/iops/principlesandguidelines/49354396.pdf>

saving issues - regarding the evolution of individual rights in the public system and the benefits is currently provided to those who adhere to the supplementary pension.

Tax benefits on investment in innovative start-ups and venture capital.

576. In 2011, a specific tax incentive was introduced to investments carried out through venture capital funds (VCF). It consists in a capital gains exemption. For tax purposes, “venture capital funds” are defined as funds investing at least 75% of their capital in unlisted companies, acting in the areas of seed, start-up, early-stage and expansion financing. Incentives are granted only if (a) the investment is lower than 2.5 mil. and (b) the target company meets a number of requirements, among which: (1) is not listed; (2) is a small enterprise (with turnover of no more than €50 million before the VCF investment). The tax incentives have only recently gone into effect. A preliminary analysis suggests that the tax incentives reduce investors’ effective tax burden considerably.

577. In October 2012 a new set of tax incentives has been introduced, addressed to support “innovative start-ups”, i.e. seed and early stage financing of start-ups active in the field of technological innovation. Contrary to the other type of incentives, these new tax incentives take the form of tax credits or deductions for shareholders investing in the *newco* (either directly or indirectly through a vehicle). The benefit is limited to four years (2013-2016) and can be applied only if the shares of the *newco* are held for a minimum period of two years.

Japan

Yes. Policies: national salvation savings campaign

578. Since 1950’s, the government and Japanese bank had made promotion and education for household saving, which led to continuous high saving rate in Japan afterward. For the recent approach, see the answer below.

Tax incentives: NISA (Japan’s Individual Savings Account (ISA))

579. In January 2014, NISA (Japan’s Individual Savings Account (ISA)) was introduced in order to support asset formation for households to give people an incentive to build their assets for the future, as well as to supply risk money for economic growth utilizing household assets for investment. NISA gives individual investors a tax exemption on dividends and capital gains derived from listed shares and publicly-offered stock investment funds in NISA account investment trusts up to 1 million yen annually. The annual investment limit is JPY 1 million. Though the tax exemption term is five years, an investor can continue to take tax exemption through newly available investment limits (“roll-over”). Residents in Japan can receive a tax exemption for their investment.

Mexico

580. Yes. Mexico approved in the late 1990’s pension system reforms that changed both the private and public sector from a pay as you go to a fully funded scheme; since then AFORES are the Pension Funds managers. The regulation and supervision of the Pension System is on charge of the CONSAR.

581. On the other hand, the Federal Government has expanded direct access of individuals to primary issuance of government securities. These actions will diversify the Federal Government’s local currency investor pool while further fostering education over debt markets and saving. In particular, the Federal Government launched the program *Cetesdirecto*. One of its main objectives is to provide to a broader segment of the population the opportunity to save and increase their wealth by investing in government securities in a simple, safe and affordable way. *Cetesdirecto* is also a tool for financial inclusion and education for segments of the population that were not adequately covered.

New Zealand

582. Yes. The government has implemented the KiwiSaver scheme which adopts measures to encourage individuals to save for the long term. The KiwiSaver scheme is a voluntary, work-based savings initiative that helps people to save for retirement through regular contributions from their pay.

- a) KiwiSaver automatically enrolls new employees in one of the default scheme providers, unless they are already in a KiwiSaver scheme. Employees then have a period of time in which they are able to opt out of KiwiSaver. The provision of default schemes is intended to provide a conservative holding fund, allowing employee's time to consider what the best fund for them is. As a requirement of their appointment, the KiwiSaver default providers will also offer investor education to encourage people to make this active choice.
- b) The government also provides new members with a kick-start incentive of \$1,000.
- c) Regular compulsory contributions are made to employees' KiwiSaver accounts by their employers (currently at a rate of 3% of employees' pay).
- d) KiwiSaver also offers an annual member tax credit paid by the government.

583. KiwiSaver has been successful in encouraging individuals to save for the long term – the latest annual report (2012-2013 year) showed continuous steady growth for the retirement scheme. By June 2013, the number of people enrolled in KiwiSaver had reached 2.15 million, in a country of 4.4 million people. Over half of the eligible population are now members, including 72% of 18 to 25 years olds.

Portugal

584. Yes. Tax incentives related to private pension schemes / products (both occupational and personal retirement saving arrangements) have been playing an important role in encouraging individuals to save for the long term (for example, 20% of individual contributions to these schemes / products are tax-deductible, subject to certain limits).

585. It is however worth noting that some of these incentives have been reduced in recent years due to the Portuguese financial situation and the on-going Economic Adjustment Programme.

Russian Federation

586. Yes. *Savings mobilization policies:* In 2005 Russia introduced the deposit insurance scheme for the savings promotion. According with the Federal law «On the Insurance of Household Deposits in Banks of the Russian Federation» the depositors shall get a 100% reimbursement of their aggregate deposits in a bank in which the insured occurred but not more than 700,000 rubles.

587. If a depositor has several deposits in one bank with aggregate liabilities thereof in excess of 700,000 rubles the deposit insurance reimbursement shall be effected with regard to each deposit on a pro rata basis.

588. If a deposit is denominated in foreign currency, the amount of deposit insurance shall be calculated in the Russian Federation currency at the exchange rate set by the Bank of Russia as at the date of insured event. The reimbursement shall be made in rubles.

589. In case an individual depositor has several deposits in different banks where the banking license was withdrawn, the compensation will be paid for each bank up to 700,000 RUR.

590. Any depositor who receives compensation from the Deposit Insurance Agency retains the right to demand that the bank pay back the remaining part of the deposit according to the legislation currently in force.

591. According to the surveys, 7% of respondents opened an account or increased its volume after the introduction of the deposit insurance scheme, and 6% opened an account or increased its volume after the raise of the minimum insured value in 2006.

South Africa

592. Yes. *Savings mobilisation policies: please provide details:* South Africa has a very well developed pension and life assurance industry.

593. Interest income for taxpayers below 65 is tax exempt up to R23 800 and R34 500 for individuals aged 65 and above. It is currently proposed that a new tax incentive scheme be introduced in 2015 whereby an individual may invest up to R30 000 annually (with a lifetime limit of R500 000) in interest bearing and equity assets. There will be no capital gains or income tax on the accounts.

Spain

594. Not in recent times. However, the Spanish fiscal system promotes certain long-term savings by individuals.

- Tax incentives: please provide details. There are products such as Pension Plans, Investment Funds and Public Debt that receive a special treatment from the fiscal point of view. For instance, there is a tax allowance for contributions to pension plans or social insurances which is regulated by Law 35/2006 article 51. Specifically, there is a tax deduction for payments into the pension scheme, which is intended to promote private saving for retirement; however, there is also a taxation of payments in withdrawals of the scheme. There are some quantitative limits on payments that can benefit from the deduction (article 52). Additionally, Third Additional Provision of Law 25/2006 regulates Systematic individual savings plans. These are individual life insurances that enable the beneficiary to receive a life annuity to supplement the retirement pension. If, when the beneficiary receives the payment, over 10 years have passed since the first contribution to the plan, all interest accruing through savings up to that time is tax-free if the interest is taken in the form of life annuity. There are some quantitative limits on payments to the insurance. In the case of Investment Funds, it is possible to make transfers of participations between investment funds without any taxation as long as the individual has the participation for a minimum period of one year. Finally, the yields from public debt are not subject to withholding tax, whereas income from other saving products such as deposits are subject to withholding tax.

595. There are some other measures that also promote long-term investment.

R&D deductions

596. R&D deductions are regulated by article 35 of CIT Law (Royal Legislative Decree 4/2004).

Law 14/2013 Entrepreneurship

597. Incentives to profits' reinvestment: deduction of up to 10% of the Corporate Tax for any profits that are reinvested in productive capital for companies with a turnover of less than €10 million.

598. Incentives for business innovation: possibility of recovering deductions for R&D that could not be applied within a year, 3 years after they have been generated.

SOCIMIS (REIT's Real State Investment Trusts)

Law 11/2009:

599. Spain launched a very particular type of REIT in 2009, the SOCIMI (“*Sociedades Cotizadas de Inversión en el Mercado Inmobiliario*”). Three years later, the SOCIMI regime was revised in order to adapt it to the REIT regimes of neighbouring countries. The SOCIMI is taxed at a corporate income tax rate of 0%, provided that the shareholders owning at least 5% of the SOCIMI are taxed on the dividends received at a minimum rate of 10%. Where investors in the SOCIMI do not meet the above requirement, the SOCIMI will be taxed at 19% on the portion of the distributed profits corresponding to those investors. This 19% is a special corporate tax, not a withholding tax on the dividends distributed.

600. The SOCIMI must distribute at least 80% of its profits annually, as well as 50% of the capital gains, provided that the remaining 50% is reinvested within a three-year period.

601. As for the tax treatment of the investors, it will depend on the nature and tax residence of the investor.

Switzerland

602. Switzerland has a three pillar pension scheme that has two components that can be relevant in this context. The basic old-age insurance component is operated as a pay-as-you-go system (“old-age insurance”). But the funded occupational benefit plan (2nd pillar), compulsory for employed persons, constitutes a form of forced savings that permits employed persons (and self-employed as optional insurance) to accumulate an asset. And also the linked individual provident measures known as 3rd pillar, which provides the opportunity to pay an annual amount to a blocked bank account or to a blocked insurance policy, that can be deducted from taxable income up to certain limits. This kind of optional savings fall within the definition of “encouragement for individuals to save for the long-term”.

Turkey

603. Yes. CMB has taken actions on diversifying capital market instruments and attractiveness of collective investment schemes, leading to increased long-term savings. One of the most important example is pension fund system which is mentioned in Principle 1 Q1-Q2. Regulations on Islamic capital instruments also aim to attract investors having different investment preferences to long-term investments.

604. The Undersecretariat of Treasury licenses business angels, who are asking for tax and other incentives for their investments. The law defines business angels as Private Venture Investors. According to the law, private venture investors can either be experienced investors or high net worth individuals in order to be licensed. Licensed Private Venture Investors can deduct 75% of the capital they invest in certain SMEs from their annual tax base. This deduction ratio will be applied as 100% for those Private Venture Investors investing in the SMEs whose projects are supported by Ministry of Science, Industry and Technology, The Scientific and Technological Research Council of Turkey and Small and Medium Enterprises Development Organization in the last 5 years.

605. Decree of Council of Ministers that authorizes the Undersecretariat of Treasury to contribute to the funds of venture capital funds that directly invest in venture capital funds as well as early stage companies together with angel investors has come into force in March 2014. In this context, the Additional Article 1 of the Law on Regulating Public Finance and Debt Management (Law no. 4749 issued on March 28, 2002) is amended by the Law No. 6456 issued on April 3, 2013, which authorizes the Council of Ministers to regulate resource transfers to the fund of funds. Within the scope of the Additional Article 1, The Decree determining the general principles and procedures of the resource transfers to the fund of funds

is published on the official gazette numbered 28941 and dated March 14, 2014. This regulation has not been executed yet. Studies on further regulations are being processed.

606. A set measures are being discussed and being organized under "Primary Transformation Programs" of the 10th Development Plan which includes measures towards financial inclusion and increasing the savings in the economy. While financial incentives are created toward commercial loans, these are yet to be specific for LTs.

United Kingdom

607. Yes. The Government incentivises saving through the tax system, as well as through standalone policies such as Automatic Enrolment.

- Retirement saving is incentivised via tax relief on pensions contributions.
- The Government provides c. £50bn of tax relief a year on pensions contributions. This comprises £15bn of National Insurance Contribution exemptions, and £35bn of tax relief (Net £23bn when the tax on pensions in payment is factored in).
- For individuals tax relief involves being able to make contributions out of untaxed income, which equates to the Government providing tax relief at the individuals marginal rate of tax.
- Employers are encouraged to contribute to their employees' pensions by allowing companies to class pensions contributions as expenses for the purposes of corporation tax.
- The Government has acted to arrest the decade long decline in the level of private pension savings by introducing a policy of the Auto-Enrolment of workers into occupational pension schemes.
- From October 2012 all workers have begun to be auto-enrolled into a workplace pension. By 2018 all eligible workers will have been automatically enrolled.
- Minimum contributions build to 8 per cent of earnings by October 2018. The employer must contribute at least 3 per cent of this with the minimum worker contribution (including tax relief) making up the difference.
- Workers may opt out if they wish, but opt out rates are currently lower than expected at 10%.
- The National Employment Savings Trust (NEST) has been introduced to support automatic enrolment and will offer low cost pension provision to individuals on low to moderate earnings and their employers.
- The Government expects 8 to 9 million people to be newly saving or to save more, generating £11 billion a year more in pension saving by 2020.
- Employers will contribute an additional £4bn per year to workplace pensions. Tax payers will contribute £1.5bn through tax relief.

608. The Government has also adopted a number of measures to encourage individuals to save for the long-term outside of the pension's sphere. The focus here is on Individual Saving Accounts (ISAs) and the reduction in the starting rate for savings tax; both of which represent a tax incentive to impact individual behaviour.

ISAs

609. ISAs are savings accounts in which the dividends, gains and interest arising are tax-free. There are two types of ISA: a cash ISA and a stocks and shares ISA. Budget 2014 announced a radical reform of the ISA system, including:

- Reforming them into a simpler product with an equal limit for cash and stocks and shares.
- Giving savers complete flexibility over how they choose to save and invest, including by allowing them to transfer savings previously held in a stocks and shares ISA to a cash ISA without losing the tax-advantaged wrapper.
- The overall ISA limit has been increased from £11,520 to £15,000 as of 1 July 2014– the biggest increase ever – and this full amount will be permitted to be held in either a cash ISA, a stocks and shares ISA, or any combination of the two.
- At the same time, the annual subscription limits for Child Trust Funds (CTFs) and Junior ISAs will be increased to £4,000 to enable families to save more for their children in a tax-advantaged way.
- In July 2013, SME equity shares were admitted to trading on a recognised stock exchange in order to encourage investment in growing businesses.

610. The tax relief on ISAs was worth around £1.9 billion in 2012-13 due to high levels of take up:

- Half of the UK adult population owning an ISA. In 2018-19, 6.4 million people stand to gain from the increase in ISA limits to £15,000, 72 per cent (or 4.6 million) of whom are expected to gain by more than £50. The (mean) average gain is £89.
- 24.4 million adults have an ISA. Over 7 million have a stocks and shares ISA.
- 13.5 million adult ISA accounts were subscribed to in 2013-14. Around £57 billion was subscribed. Around 70 per cent of the subscriptions made were to cash ISAs.
- At the end of 2013-14 the market value of adult ISA holdings stood at £470 billion. These holdings are split almost equally between cash ISAs and stocks and shares ISAs with slightly more held in stocks and shares ISAs (£241bn to £229bn).

611. The starting rate for savings income tax

- From April 2015, the starting rate of savings income tax will be lowered from 10 per cent to zero, and the band to which it applies will be extended to £5,000 from £2,880 (in 2014) above the personal allowance.
- Low interest rates have benefitted everyone, including savers, by securing a more stable economy, but they have resulted in lower returns on savings.
- This will boost support to those on low incomes by reducing the tax they pay on their savings income (interest). Around 1.5 million people are expected to gain, and over 1 million of these, with total incomes of less than £15,500, will no longer pay any tax on their savings income.

612. NS&I pensioner bonds

- At Budget 2014, the Chancellor has announced that NS&I will launch in January 2015 a new special issue of fixed-rate savings bonds for people aged 65 or over.
- These will pay a market leading rate designed to help support those who rely on their savings income in retirement. They will be taxed in line with other savings income
- The Government also announced that, from June 2014, NS&I will increase the maximum Premium Bond investment limit to £40,000. In August 2014 the number of £1m prizes will be increased from one to two a month. From 2015/16 the limit will rise again to £50,000. This will give people who want to invest more of their savings in Premium Bonds the flexibility to do so, and increase the chance of winning the top prize.

United States

613. Yes. Alongside mandating participation in the Social Security system, the U.S. government encourages long-term savings through the tax code.

- The largest income-maintenance program in the U.S., with an estimated 210 million workers eligible for benefits as of 2013, Social Security provides a monthly benefit to replace, in part, income loss due to retirement. The program is funded by a tax levied on nearly every job in the U.S. and paid by both employers and employees. Program details can be found here:

<http://www.ssa.gov/policy/docs/progdesc/ssptw/2012-2013/americas/united-states.pdf>

- Under employer-sponsored savings vehicles known as 401(k) or 403(b) plans, elective salary deferrals are excluded from an employee's income subject to federal taxes, as are mandatory contributions via salary reduction made to defined-contribution pension plans. During retirement, withdrawals made from 401(k) and 403(b) accounts and benefits received from pension plans are taxed.
- Types of retirement plans known as Individual Retirement Accounts (IRAs) have tax-preferred status. For "traditional" IRAs, contributions are not subject to federal income taxes while withdrawals at retirement are taxed; for "Roth" IRAs, contributions are taxed but withdrawals at retirement, including both the original contribution and any capital gains, are not taxed.
- The Saver's Credit lowers federal tax liability for individuals who make contributions to 401(k) plans, 403(b) plans, or IRAs. Limited to low-income and moderate-income taxpayers, this credit is enjoyed in addition to the tax deductibility of retirement contributions discussed above.
- Investment vehicles called 529 plans are designed to help families pay for future expenses associated with qualified post-secondary education. While contributions to 529 plans are not tax-deductible, distributions from the 529 plan to pay approved educational expenses are not subject to federal income tax.
- The myRA program makes a portable, low-risk Roth IRA available to nearly all individuals who do not have access to a retirement savings plan through their employer. The required initial contribution and subsequent minimum per-paycheck deductions are very low and no fees are charged for the account.

EU

614. Potentially: savings mobilisation policies: in the framework of the Communication on long-term finance, one of the actions provides for a report which would include an overview of national savings account models and an assessment of the opportunity of introducing an EU savings account.

What official or otherwise commonly accepted definition for long-term investment is used in your jurisdiction for these purposes?

Australia

615. No comment

Brazil

616. No comment

Canada

617. In general, a long-term investment is one that is purchased with the intent of being held for an extended period of time. It can include bonds of a longer tenor (e.g. 10 years or more), equities, real estate and infrastructure investments.

618. Canada's retirement income system is focused on supporting the retirement income of individuals, which while conducive to long-term investment, does not generally have it as an explicit goal. As such, there is strictly speaking no specific definition of long-term investment. Nevertheless, the definitions used by the CPPIB are instructive. The CPPIB states that it focuses on 10-year returns, as they "align with their approach" to manage CPP funds for "decades and generations".

China

619. Long-term investment refers to investment which could result in the expansion of future productivity. In measurement, it includes residential real estate investment, commercial real estate investment, equipment and software investment, infrastructure investment, education investment and R&D investment.

France

620. There is no unique definition for long-term investment. For example, when there is a need for specification, the definition relies on the investment's characteristics and the financial instrument involved.

Germany

621. While there is no official definition, we tend to view the OECD definition, which characterises long-term investment as patient, productive and engaged, as appropriate.

622. We think that the definition of long-term investment should be flexible and based on the purpose of investment rather than on its duration alone.

Italy

623. There is no common definition for long-term investments in the Italian jurisdiction. Long-term investments are defined on a case by case basis by each legislative measures. For example, legislation on supplementary pension schemes defines retirement saving instruments eligible for tax incentives; the law on bonds issued by unlisted firms sets the requirements for minibonds; the law granting tax advantages for investments in innovative start-ups set the requirements to access this type of incentives.

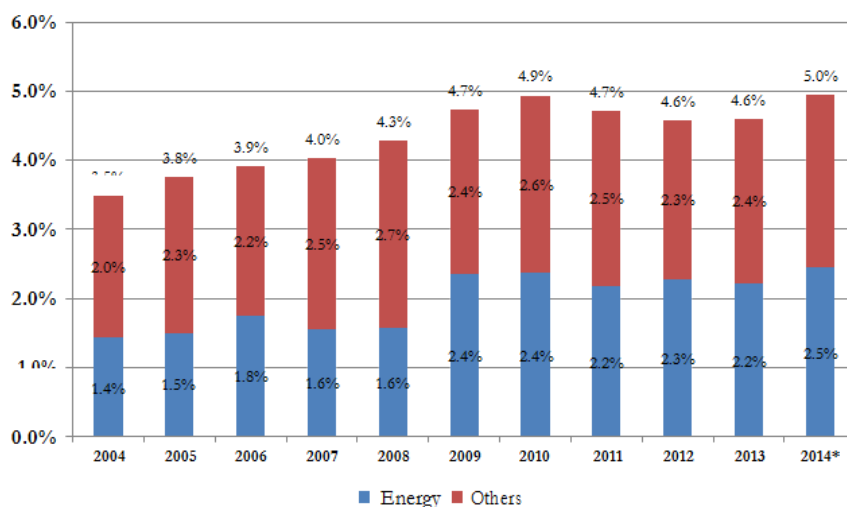
Japan

624. There is no specific definition publically or commonly shared.

Mexico

625. For this purpose, the indicator used by the Federal Government is the Investment Fostered by Public Sector, which includes budgetary investment in different infrastructure sectors; the investment carried out by state-owned enterprises, primarily oil and energy projects executed by PEMEX and the Federal Electricity Commission (CFE); and, the private sector investment through Public and Private Partnerships (PPP's). In 2014 the Federal Government will invest more than 65 billion dollars in infrastructure that represents 5% of the GDP; which is expected to reach 6.9 percent of GDP in 2019.

Investment Fostered by Public Sector
(% of the GDP)



*Approved for 2014.

New Zealand

626. Although the term “long-term investment” is not officially defined in New Zealand, it is a term that is commonly used. Another term that is commonly used in regards to the investor is “long-term savings”.

Portugal

627. The tax incentives referred to in the previous question are linked to schemes / products that have retirement as their primary objective. Therefore, no definition for long-term investment is required in this respect.

628. In the securities market context, the commonly accepted definition for long-term investment is any instrument with a maturity equal to or greater than 5 (five) years.

Russian Federation

629. There is no common definition for long-term investments in the Russian jurisdiction. Long-term investments are defined on a case by case basis by each law. For example, the federal law "On assets investments to fund the accumulation portion of labour pension in the Russian Federation" there is a detailed description of the classes of assets available for investment, but the term "long-term investment" is not used. One definition is stated in "Regulations for long-term investment accounting" (1993, N 160). For the purposes of this document, the term "long-term investment" is understood as expenditures on creation, increase in volume or acquisition of capital assets of long-term use (more than 1 year), not intended for sale, excluding long-term financial investment in government securities, securities and equity capital of other enterprises.

South Africa

630. There is no formal definition of long-term investment. It is however understood to mean an investment whose capital will not be required for a few years, typically more than 5 years or more.

Spain

631. No comment

Switzerland

632. There is no official definition for "long-term investment" in Switzerland. However, the term "gross fixed capital formation" (Bruttoanlageinvestitionen) in the Swiss National Accounts which includes investment in capital goods and equipment as well as construction investment fits the concept of "long-term investment" quite well.

Turkey

633. There is not an official definition for the long-term investment. However, maturities more than one year are deemed as long term, in practice, in Turkey.

United Kingdom

634. No comment.

United States

635. No comment

EU

636. There is no common definition of what constitutes long-term at the EU level. This is deliberate, since we do not want to unnecessarily create rigidities in our regulation. For example, a share can be a long-term investment or not depending on the holder.

What steps has the government taken to promote increased awareness amongst the population regarding the need to save for the long term? Have they been successful?

Australia

637. In 2013, the Australian Government conducted a paid advertising campaign, focusing on recent changes to superannuation for individuals. The main changes promoted via television, online, radio and print advertising, were the increase in the compulsory SG rate from 9 to 9.25 per cent and the introduction of the LISC. Other communication activities promoted the Australian Tax Office's (ATO) online superannuation services and the removal of the upper age limit for compulsory superannuation.

638. The ATO provides a 5-step superannuation publication on its website which aims to help people manage their superannuation and maximise their retirement incomes. While all of the five steps aim to enhance people's retirement savings, Step 5 'Put extra money into your super', in particular focuses on actively saving for the future with strategies such as pre and post-tax superannuation contributions, and planning for work breaks. These tips were promoted to Australian women via a paid online advertising in March 2014, and continue to be promoted to a general audience of around 12 million.

639. In 2011 the Australian Securities and Investments Commission (ASIC) launched a new personal finance website called MoneySmart. The website was part of the Government's reform agenda to improve the financial services sector and financial wellbeing of all Australians. It contains information to help consumers understand their superannuation and the need to save for the long term. Some 400,000 people visit MoneySmart each month. ASIC's brand tracking surveys reveal that 88 per cent of users take action on their finances after visiting MoneySmart, including by increasing the amount they aim to save.

Brazil

640. The National Strategy for Financial Education-ENEF developed a guideline for Financial Education in Schools, in order to drive the inclusion of the subject in public and private schools, especially for Financial Education in Schools program, sponsored by ENEF and coordinated by the Association of Financial Education Brazil. The purpose of this material is to pedagogically guide the construction of educational activities aimed at promoting financial education in public and private schools.

Canada

Questions 3-6

641. In Canada, the Financial Consumer Agency of Canada (FCAC) has a broad mandate to serve the interests of consumers. The FCAC was created in 2001 to protect and educate consumers of financial services. Along with its regulatory oversight of financial institutions, FCAC was tasked with improving Canadians' understanding of the financial sector, its products and services.

642. In its first few years of operation, FCAC concentrated on improving the availability, accessibility and clarity of financial information for consumers. The Agency established a consumer contact centre; developed a comprehensive website, complete with useful interactive tools; and published a variety of

plain-language brochures and tip sheets on banking services, credit cards, mortgages and consumer rights. The FCAC website also provides information, tools and other resources respecting retirement planning.

643. Recognizing the need to improve the financial knowledge and decision-making of consumers, the Government of Canada expanded FCAC's mandate in 2007 to officially include financial literacy and provided new funds to the Agency to develop a financial literacy program for youth. Then, in its 2008 budget, the government provided ongoing funding to FCAC to support efforts to improve financial literacy in Canada, not only among youth but other audiences as well.

644. The Financial Literacy Leader Act, enacted in March 2013, provides for the appointment of a Financial Literacy Leader within the Financial Consumer Agency of Canada. The Financial Literacy Leader's mandate will be to collaborate and coordinate activities with stakeholders to contribute to and support initiatives that strengthen the financial literacy of Canadians.

China

645. Affected by factors such as national tradition, culture, family structure, demographic structure and stage of economic growth, awareness amongst Chinese population regarding the need to long-term savings has remained at a high level.

France

646. See answer to question 1

Germany

647. See response to question 1 above.

Italy

648. A limit to the development of supplementary pension funds is linked to the lack of knowledge of the rules that govern the pension system and to the lack of financial literacy by individuals. To this regard, Decree Law 201/2011 (the "Save Italy" Decree) directs the Ministry of Labour and Social Policies, the social security institutions and the sectoral authorities to prepare an annual programme of information initiatives on pension issues. It also directs the social security institutions to give workers information on their pension position. These measures can help familiarize workers with the rules and increase the propensity to engage in supplementary retirement saving.

Japan

649. Based on our national strategy for financial education, the government and relevant organizations have been promoting on achieving a minimum level of financial literacy including understanding the effectiveness of long-term investments in building wealth (BOJ回答).

Mexico

650. The Mexican government created the Committee on Financial Education and the National Council on Financial Inclusion in 2011. The Financial Reform upgraded these bodies to law status. The Committee, will prepare and implement the National Strategy on Financial Education and coordinates the financial education programs of its members, including that of CONSAR.

651. CONSAR annually carries out awareness mass media programs, courses and exhibitions on the need, and benefits, of retirement savings. Also the webpages of the Ministry of Finance and Public Credit

has a microsite on financial education that includes material from CONSAR and the National Commission for the Defense and Protection of the Financial Consumer (CONDUSEF) provides information on savings for retirement and annually holds the National Week on Financial Education, in which CONSAR plays an important role, as well as the association of administrators of retirement funds.

652. On its part, the Council will develop and coordinate the implementation of the National Financial Inclusion Policy. The Ministry of Finance and Public Credit chairs the Council and CONSAR and CONDUSEF are members.

653. The Committee on Financial Education and the National Council on Financial Inclusion must coordinate their action on financial education. In this manner coordination is assured between financial education and financial inclusion actions, initiatives and programs.

654. The National Plan for Financing of Development 2013-2018 (PRONAFIDE) has as one of its objectives the fostering of financial inclusion and education, as well as competition and transparency in the financial, insurance and pension systems, in order to increase its coverage and penetration, while maintain stability and soundness.

655. The first national survey of financial inclusion (National Survey for Financial Inclusion), which includes questions on retirement saving, was conducted in 2012. The next survey is tentatively scheduled for 2015 by comparing the results of the survey it might be possible to see whether the population is more aware and knowledgeable of savings for retirement issues.

656. However, a survey conducted by CONSAR in 2013 shows that the number of interviewees that answered they save in the AFORES increased from 0.0% in 2006 to 3.4% in 2013; 69.6 % of the population that took part in the survey said that they knew how much they had saved in their individual account of saving for retirement, against 44.3 % in 2006; and in 2013, 86% of interviews answered that they consider the information in their account statement to be complete, in comparison to 82% in 2006.

New Zealand

657. The government uses platforms such as KiwiSaver, and the Commission for Financial Literacy and Retirement Income to increase awareness amongst the population regarding the need to save for the long term. Both of these organisations have informative websites, and run campaigns in order to connect with the public. As stated above (question 1) KiwiSaver requires default scheme providers to provide investor education in regards to which KiwiSaver fund to choose. The Commission for Financial Literacy and Retirement Income works towards the specific goal of increasing New Zealanders' lifelong financial literacy and their financial preparedness for retirement.

Portugal

658. The National Council of Financial Supervisors, which includes representatives of the three financial regulators – the Central Bank of Portugal, the Portuguese Securities Market Commission and the Portuguese Insurance and Pension Funds Supervisory Authority – has launched an initiative, known as the National Plan for Financial Education (PNFF).

659. The PNFF has a time horizon of five years (covering period from 2011 to 2015) and is an instrument aimed at establishing a framework for the stimulation and dissemination of financial education projects.

660. As it intends to increase the level of financial knowledge of the population and to promote the adoption of appropriate financial behaviour, the general objectives of the PNFF are broader than the aim of

promoting increased awareness amongst the population regarding the need to save for the long term, but still contribute to it.

661. Given its time frame, the plan is still ongoing and aims to stimulate and disseminate financial education projects.

662. The website of the programme available in Portuguese, under the following link:

<http://www.todoscontam.pt/pt-PT/PNFF/PNFF/MIssao/Paginas/MissaoObjetivos.aspx>

Russian Federation

663. No comment

South Africa

664. For individuals long-term savings are encouraged via employer provided retirement funds. Not all employers, however, offer retirement options. Private companies do offer retirement products which they market and distribute. Any individual taxpayer who contributes to a retirement fund may deduct the contributions from taxable income. Various retirement reforms are under way to strengthen long-term savings and prevent any leakages in the system. These include pre-retirement preservation, auto-enrolment, tax harmonisation of deductions for different retirement products.

665. The reforms are meant to address areas that have not been successful. For example very little preservation takes place resulting in poor income in retirement. Provident funds pay out lump sums on retirement with no requirement to purchase an annuity, also resulting in the poor retirement outcomes in some cases.

Spain

666. A fact that has been shown by several studies and surveys is the lack of awareness among the population about the importance of saving for retirement. In a general way, people do not save, and who saves does not do so in a sufficient amount.

667. The reforms being carried out in Spain in order to ensure sustainability of the Public Pension System mean the transfer of more responsibility to the citizens in terms of long-term savings and pensions. The low birth rate and increasing life expectancy, coupled with the recent economic crisis, lead to the need of supplementing the State pension that citizens will receive upon retirement.

668. The Spanish Strategy for Financial Education, implemented through the Financial Education Plan (*Plan de Educación Financiera*), sets some guidelines for the period 2013-2017, being one of them the financial education for retirement. It considers that a certain level of financial literacy is a prerequisite for the promotion of a culture of saving for retirement. Specific actions, such as workshops, conferences and printed materials, aimed at fostering savings for retirement and pension plans, are included in the new phase of the Plan.

Switzerland

669. The government increased the awareness amongst the population through its pension system (see answer to question 1 on principle 2).

Turkey

670. In October 2010, the CMB launched the “Financial Literacy Project” in order to help citizens improve their understanding of capital market related financial products and concepts and household cash flow management; to provide information and tools to help citizens to make informed decisions about their finances and; to improve investment culture of general public.

671. The Financial Literacy Project comprises several activities which are to be carried out under different projects to help citizens to make informed decisions. Some of the activities identified in the action plan are as follows: training of teachers, integrating financial literacy topics into school curricula, conducting data analysis and survey, generation of a website dedicated to capital market-related issues, delivering lectures on capital markets at the universities, social media, development of training materials, organizing raising awareness through seminars, conferences, lectures, financial literacy essay contests as well as the social media. Within this framework, the CMB works in close collaboration with Borsa İstanbul, Association of Turkish Capital Markets, Istanbul Settlement and Custody Bank (Takasbank), Central Registration Agency and other relevant institutions of Turkish capital markets.

672. Furthermore, in June 2014, Turkey launched a comprehensive strategy, namely Financial Inclusion Strategy (Financial Access, Financial Education and Financial Consumer Protection Strategy) and Action Plans. The strategy is prepared by Financial Stability Committee members. Financial Stability Committee is chaired by Deputy Prime Minister in charge of Economic and Financial Affairs and is composed of The heads of Turkish Treasury, Central Bank of the Republic of Turkey, Banking Regulation and Supervision Agency, Capital Markets Board, and Savings Deposit Insurance Fund

673. In the context of strategy, assessment of the Financial Education Action Plan will be conducted through surveys and other relevant tools. CMB is responsible for coordinating and monitoring the implementation of the Financial Education Action Plan. Although the target audience of the Financial Education Action Plan is the general public, the emphasis will be put on school-aged children, women, university students, public and private employees, retired people, and potential investors. There are 36 actions in The Financial Education Action Plan regarding to those specific target groups and will be implemented through 2014-2017. Since some actions of the project has started recently, the success or the, outcomes of the project has not been measured yet

United Kingdom

674. The Government is keen to promote saving through increased financial capability. The Money Advice Service (MAS) was set up by Government to enhance:

675. The Government is keen to promote saving through increased financial capability. The Money Advice Service (MAS) was set up by Government to enhance:

1. The understanding and knowledge of members of the public of financial matters (including the UK financial system); and
2. The ability of members of the public to manage their own financial affairs
3. To improve the quality, consistency, and availability of debt advice

676. Through research, its website, and various online tools, MAS encourages people to set savings goals, shop around for appropriate savings products, and estimate what they need to save for retirement. MAS runs a financial capability tracker to monitor shifts in people’s money habits.

677. In addition to this, the Government committed to ensure that individuals retiring with defined contribution savings are able to access free and impartial guidance at the point of retirement which will help improve people's understanding of the retirement income market and empower them to make informed choices. To improve the quality, consistency, and availability of debt advice

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679. In addition to this, the Government committed to ensure that individuals retiring with defined contribution savings are able to access free and impartial guidance at the point of retirement which will help improve people's understanding of the retirement income market and empower them to make informed choices.

United States

680. The U.S. government has established a website, www.mymoney.gov (see answer to question 5 below for more information), that emphasizes the importance of saving for the long term to U.S. citizens. Specifically, see this webpage:

<http://www.mymoney.gov/save-invest/Pages/saveandinvest.aspx>

EU

681. No comment

What forms of financial inclusion policies have been adopted? Have they been successful?

Australia

682. There are a number of programs in Australia that aim to assist disadvantaged and/or vulnerable Australians overcome financial exclusion and build savings and assets, as well as develop financial literacy.

683. These programs are delivered principally through community/non-government organisations, with funding by the private sector and/or government through the Families and Communities Programme administered by the Australian Government Department of Social Services. Three long-standing programs are:

1. The SaverPlus program
2. The No Interest Loans Scheme (NILS)
3. The StepUp program (low interest loans)

a) The Saver Plus program

The Saver Plus program is Australia's first and largest matched savings and financial education program designed to assist lower income Australians. The program is currently offered by a range of community agencies in almost 60 communities across all states and territories in Australia.

Saver Plus is an initiative of the Brotherhood of St Laurence and ANZ Bank, delivered in partnership with local community agencies. The program is funded by the ANZ Bank and the Australian Government, with ANZ providing matched savings for participants.

A 2012 evaluation conducted by RMIT University found that the Saver Plus program succeeded in assisting low-income individuals develop a savings habit, and in increasing levels of financial literacy.

b) The No Interest Loans Scheme (NILS)

NILS is a national community based program that enables people living on low incomes to access fair and safe credit (up to \$1,200) to buy essential goods and services. NILS is delivered by Good Shepherd Microfinance in partnership with the National Australia Bank (NAB) and the Australian Government.

An independent evaluation of the NILS program was conducted by the Centre for Social Impact (CSI) at the University of New South Wales. The report found that NILS impacted positively on clients' financial capabilities, and generated positive economic and social outcomes (such as diverting clients from predatory lenders).

c) StepUP

StepUP provides low interest loans of up to \$3000 to people on low incomes through community providers across many parts of Australia. StepUP acts as a stepping stone to help people on low incomes transition into mainstream credit products.

StepUP is delivered by Good Shepherd Microfinance in partnership with NAB and community partners. The program provides loans of between \$800 and \$3,000 for personal household purposes to individuals or families on a benefit. Interest is charged at a fixed rate of 5.99% and loans can be repaid over three years.

An independent evaluation by CSI found that StepUP was effective in reaching financially excluded individuals, generated positive social outcomes, and reduced reliance on fringe lenders.

Programs targeting Indigenous Australians:

684. In addition to the programs mentioned above, a number of not-for-profit organisations and financial institutions have teamed up to deliver a range of programs to assist Indigenous Australians. These include:

- My Moola – a partnership between the First Nations Foundation and the Financial Services Council;
- Many Rivers Microfinance – supported by the Westpac Bank; and
- the Indigenous Consumer Assistance Network, supported by the Commonwealth Bank of Australia (CBA).

Brazil

685. The Central Bank of Brazil (BCB) has been working to expand and improve the population's access to financial services since 1990, through three main fronts: (i) expansion and strengthening of access to financial services channels, (ii) development of tools for better matching of services to lower income segments, (iii) quality assurance in the provision of financial services.

686. The combined efforts resulted in significant progress in financial inclusion of the population. Today, all 5,565 Brazilian municipalities have at least one point of access to financial services and, in general, the financial system is physically closest to the citizen. In 2000, only 18% of the municipalities had more than 5 points of access for each group of 10,000 adults. In 2010, the number of municipalities with this level of care already represented 94% of the total. Over the past five years, the number of individuals with active relationship with a financial institution increased 31%, reaching 121 million people, representing 84% of the adult Brazilian population.

Canada

687. In Canada, the Financial Consumer Agency of Canada (FCAC) has a broad mandate to serve the interests of consumers. The FCAC was created in 2001 to protect and educate consumers of financial services. Along with its regulatory oversight of financial institutions, FCAC was tasked with improving Canadians' understanding of the financial sector, its products and services.

688. In its first few years of operation, FCAC concentrated on improving the availability, accessibility and clarity of financial information for consumers. The Agency established a consumer contact centre; developed a comprehensive website, complete with useful interactive tools; and published a variety of plain-language brochures and tip sheets on banking services, credit cards, mortgages and consumer rights. The FCAC website also provides information, tools and other resources respecting retirement planning.

689. Recognizing the need to improve the financial knowledge and decision-making of consumers, the Government of Canada expanded FCAC's mandate in 2007 to officially include financial literacy and provided new funds to the Agency to develop a financial literacy program for youth. Then, in its 2008 budget, the government provided ongoing funding to FCAC to support efforts to improve financial literacy in Canada, not only among youth but other audiences as well.

690. The Financial Literacy Leader Act, enacted in March 2013, provides for the appointment of a Financial Literacy Leader within the Financial Consumer Agency of Canada. The Financial Literacy Leader's mandate will be to collaborate and coordinate activities with stakeholders to contribute to and support initiatives that strengthen the financial literacy of Canadians.

China

691. a. Rural financial institutions have been subject to reserve requirement ratios lower than that applicable to other financial institutions.

b. The central bank has actively used the policy tool of central bank lending to encourage financial institutions to increase the agro-linked credit supply.

c. The use of bankcards has been expanded to address rural households' basic needs for financial services.

d. Efforts have been made to promote the building of credit system for SMEs and rural sectors, as well as encourage financial institutions to provide credit facility to rural households and SMEs.

e. Financial consumer protection has been strengthened. Financial Consumer Protection Bureau was established under the central bank and gained fruitful results in rules designing, framework establishing, exploring protection modes and constructing a complaints handling mechanism.

France

692. Financial inclusion policies mainly focus on ensuring access to basic banking services, especially banking accounts and simple saving accounts (*Livret A*). French law sets a right to a banking account. People who have been denied access to an account on the basis of the banks' commercial practises can ask the Banque de France to designate a bank that will be obliged to open an account associated with free basic banking services (that however do not include saving services that could be added but at a normal cost). In addition to that, according to French law, La Banque Postale cannot refuse to open a *Livret A* to people who ask for it.

Germany

693. In general, savings promotion is a socio-political objective. The inequality in income / wealth distribution is supposed to be reduced by increased savings of citizens with an income below average. Therefore, measures of savings promotion are generally tied to certain income limits.

694. The government tries to affect the citizens' choice by supporting certain kinds of investment, like investing in productive or residential property, by the measures mentioned in question 1.

Italy

Bank accounts

695. In line with a recent EU Recommendation, the Italian Government has introduced rules requiring all banks to supply a basic bank account, with a number of basic services (including a debit card) and a transparent cost structure. The account is offered at zero fees to low income consumers with basic financial needs.

Financial education

696. The Bank of Italy supports financial inclusion by promoting financial education. In particular, financial education contributes to the financial inclusion of the most disadvantaged social groups, such as the unemployed, low-income families, immigrants.

697. Furthermore, the Bank of Italy uses the full potential of its website financial education section to reach new target groups of the population, especially the most disadvantaged ones: for the hearing impaired people we published video educational material with subtitles and sign language translation also on money and saving and for the visually impaired we prepared an audio book on the same subject.

Mutual guarantee schemes

698. Italian mutual guarantee schemes (*Confidi*), among the most important schemes in Europe, are a tool to promote financial inclusion of SMEs in credit markets. Credit guarantee mechanisms (CGS) are intended to address market failure. The scheme can improve the relationship between borrowers and lenders, to the extent that it represents an ex ante positive signal to the bank on the creditworthiness of the firm. This can favour the development of a longer-term trust-based relationship, in which the incidence of information asymmetries is reduced. CGSs can also provide a way to spread risk, if the scheme supports firms from several regions or different sectors. The Italian system is characterised by a great variety of mutual schemes, which differ with regard to the territorial coverage and industry affiliation of their member firms. More than 200 institutions exist which are grouped into 7 aggregated national Italian Federations, according to their sector of operation. The system works a two layer system. The first level is the local one, where credit risk assessment is performed benefiting from the specific knowledge of local members. The second, higher level generally operates with a regional scope and provides counter-

guarantees to the local level. However, banks can by-pass this second level and apply for direct guarantee from a state supported guaranteed fund, such as the Central Guarantee Fund. This latter provides direct guarantees to banks and acts as a guarantor of last resort for the MGSs, to the benefit of SMEs with less than 250 employees.

Japan

699. We do not face the serious financial inclusion problems on saving and investment because sufficient financial infrastructure (e.g. the number of bank branches and low cost fees for opening bank account) is already developed.

Mexico

700. As stated above, the Mexican government created the Committee on Financial Education and the National Council on Financial Inclusion in 2011. The financial reform enacted on January 9th of 2014 established both bodies in law. The Council was created in order to coordinate the federal institutions in the design and implementation of a National Policy of Financial Inclusion which is now being designed.

701. Mexico has been an example in matters of financial inclusion measurement due to the design and implementation of the first National Survey for Financial Inclusion in 2012, the second volume is expected in 2015. This survey measures how the population uses financial services because our definition of financial inclusion is “The access and use of financial services under an appropriate regulation that guarantees the financial consumer protection and promotes financial education within the population”.

702. Fostering credit and creating better market conditions is one of the main goals of the National Development Plan 2013-2018 (PND), hence, the Mexican financial legal framework was reformed this year in order to achieve that goal. Financial inclusion of SME’s is as well one of the priorities of the aforementioned reform.

New Zealand

703. The Commission for Financial Literacy and Retirement Income coordinates the National Strategy for Financial Literacy which sets the direction for improving financial literacy in New Zealand. This involves both a Maori and a Pacific framework, for improving the financial literacy of both Maori and Pacific people in New Zealand. The Commission for Financial Literacy and Retirement Income also organises an annual Money Week, involving a week-long series of financial education events and activities. They also organise Sorted, providing free independent financial information and resources, including an internationally recognised website featuring free, independent and impartial information and calculators for the public to use. In combination with the Ministry of Education and Sorted, the Commission has also worked to develop educative initiatives available to schools.

Portugal

704. One of the objectives of the PNFF referred to in the previous question is to support financial inclusion by disseminating the access to minimum banking services amongst the population, which include a demand deposit account and essential payment services.

705. Please check the programmes organised in the scope of the PNFF:

<http://www.todoscontam.pt/pt-PT/PNFF/PNFF/Eventos/Paginas/Eventos.aspx>

Russian Federation

706. No comment

South Africa

707. A number of different financial inclusion policies have been adopted since 2004. The most important are:

- A ***national agreement*** on the approach to financial inclusion between service providers, government, organized labour and civil society. This approach led to the Financial Sector Charter of 2004 and the Financial Sector Code of 2012, both containing detailed targets on a range of financial inclusion access, products and product usage and financial literacy. Financial reach through points of representation increased significantly during this period, whilst overall financial inclusion (defined as the percentage of adult South Africans using at least one product or service from a regulated financial service provider) increased from about 50% to close on 80% in 2013. This increase has been consistent over the period, but individual product usage, particularly of some insurance products, is not increasing at the same level as basic savings/transactional accounts and access to credit.
- ***Formalising and codifying access to credit***, resulting in the National Credit Act of 2007. This resulted in a better regulated credit provision industry, greater control over reckless lending and better information on the exposure of individuals and the lending trends of credit service providers. However, it has also resulted in a greater emphasis on unsecured lending and a relative reduction in mortgage lending, with undesirable social consequences.
- ***The promotion of smaller financial service providers***, particularly cooperative financial institutions (CFI). The cooperative Banks Act of 2007 aimed to provide a proportionate regulatory environment for CFIs, coupled with developmental support. This initiative has not yet resulted in the extension of the member base of CFIs, which remain small compared to the major financial service providers.
- In a related development the direct access to the national payment system has been promoted, particularly for smaller payment service providers. This has resulted in a more inclusive regulatory approach and more participants, with some increased competition evident. However, the expectation is that the level of competition and the downward pressure on cost-to-user can still increase substantially.
- ***Active co-ordination*** between government departments to ***optimize the effect of greater access to financial services for small enterprises***. This is an ongoing intervention and has resulted in some joint initiatives, for example improving information and efficiency in the provision of credit to small enterprises.
- An ongoing focus on the ***gathering and quality improvement of data and indicators for the measurement and monitoring of financial inclusion***. This manifests itself in active support for selected national surveys and the integration of various indicators to form a coherent picture of financial inclusion. This remains a key focus and informs policy makers and service providers of areas of concern and both market opportunities and failures.
- A focus on ***improving financial literacy***, particularly among vulnerable groups. This has resulted in a broad-based national strategy for financial literacy, as well as being an embedded objective in the Financial Sector Code. The results of these efforts are beginning to be seen, with increased

usage of financial services by the financially included (people sing more services rather than more people using services) and the increased productive use of bank accounts, but there is still a long way to go.

Spain

708. No comment

Switzerland

709. No comment

Turkey

710. Turkey launched its national Financial Inclusion Strategy (Financial Access, Financial Education and Financial Consumer Protection Strategy) and Action Plans on June 5, 2014 - prepared by Financial Stability Committee members. This strategy, that will be implemented through 2014-2017, focuses on three main pillars:

- a) access to and usage of financial products and services,
- b) financial education,
- c) financial consumer protection.

711. Turkey keeps on improving the supply side of the financial inclusion. Although there is no major challenge on this side, ongoing action plans and policies strengthen the supply side. The national strategy is focused on strengthening the demand side through well designed financial consumer protection and education strategies. This will enable the society to be more aware about the financial products and services and to make wise financial decisions.

712. There are some other policy measures in Turkey as follows:

- (Private Sector Involvement) We established a subcommittee under YOIKK (The Coordination Council for the Improvement of Investment Environment - a platform for public and private sector dialogue), to focus on improving institutional capacity of financial sector regarding access to finance.
- (Business Angels) In 2012, we put in force the law on promotion of business angel investments to ease access to finance for entrepreneurs, increase professionalism and improve business culture and ethics in the market.
- (Venture Capital) We are also supporting technology and innovation based SMEs' access to finance through tax exemptions and capital contributions by relevant public institutions.
- (Credit Guarantee Fund) We established Credit Guarantee Fund as an intermediary organization to make it possible for the SMEs with the inadequate collaterals to apply for bank credits. The Fund mechanism will increase the number of customers for the banks and mitigate their risks. Also, the Undersecretariat of Treasury committed one billion Turkish Liras to support the fund.

- (Microfinance) We are working on drafting a legal framework for microfinance practices within the scope of international practices so as to contribute to decreasing poverty and enhancing micro-enterprises' access to finance.
- (IPOs) We are organizing initial public offering campaigns, a series of seminars and workshops to attract more individual and institutional investors so as to deepen the capital market.

713. Moreover, in 2013 the individual pension system has been modified with an innovative public policy, namely "government contribution". In ten years before the mentioned policy, the number of the participants in the system was 3 million. It reached to 4.5 million in 1.5 years after the policy being implemented.

714. Lastly, BRSA has started two projects covering Islamic banking and gold banking to mobilise savings towards financial system, and help developing long-term financial products stemming from Islamic finance.

United Kingdom

715. No comment.

United States

716. The Federal Reserve Board oversees a variety of regulations concerning access and informed use of financial systems.

717. Furthermore, the Consumer Financial Protection Bureau was formed in 2011. Its mission is to make markets for consumer financial products work for citizens and its work covers topics such as financial inclusion and encourages consumer understanding of financial topics.

<http://www.consumerfinance.gov/>

EU

718. The proposal for a Directive on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (COM 2013 266)

What measures have been introduced to promote financial literacy? Have they been successful?

Australia

719. In Australia, the responsibility for developing and delivering financial literacy programs is shared between stakeholders. The business, community, government and education sectors all have an interest in developing, implementing, or supporting financial literacy initiatives.

720. Since 2008, the Australian Securities and Investments Commission (ASIC) has played a leadership role in coordinating financial literacy work in Australia, consistent with its statutory objective to promote the confident and informed participation of consumers and investors in financial services and markets. ASIC's financial literacy work is promoted and supported by the Australian Government Financial Literacy Board, a non-statutory body that provides strategic advice to government and ASIC on financial literacy issues.

National Financial Literacy Strategy

721. In 2011, ASIC published Australia's first National Financial Literacy Strategy (2011 Strategy) to promote a collaborative approach to improving the financial wellbeing of Australians by advancing their financial literacy.

The Strategy articulated four key focus areas:

- Using educational pathways to build financial literacy for all Australians, starting at school;
- Providing Australians with trusted and independent information, tools and ongoing support;
- Developing additional innovative solutions to drive behavioural change; and
- Working in partnerships and promoting good practice.

722. The MoneySmart website and MoneySmart Teaching program are two central initiatives of the 2011 Strategy. Further information on these initiatives, and other achievements of the 2011 Strategy, are covered in a report on ASIC's 2012-13 financial literacy program. This report is publicly available at www.financialliteracy.gov.au.

723. During 2013 ASIC undertook a comprehensive review and consultation exercise to take stock of progress on the 2011 Strategy and develop a new Strategy for 2014-17 (2014-17 Strategy).

This process included a:

- National Financial Literacy Forum held on 30 April 2013;
- call for submissions via a public consultation exercise;
- background report (Review of the 2011 National Financial Literacy Strategy);
- summary of the feedback gathered through the consultation exercise; and
- national stocktake survey of financial literacy initiatives in Australia.

724. Drawing from this consultation process, and building on the key elements of the 2011 Strategy, the 2014-17 Strategy has been developed around the following strategic priorities:

- Educate the next generation, particularly through the formal education system;
- Increase the use of free, impartial information, tools and resources;
- Provide quality targeted guidance and support;
- Strengthen co-ordination and effective partnerships; and
- Improve research, measurement and evaluation.

725. ASIC anticipates that the 2014-17 Strategy will be launched in the coming months.

Measuring success of financial literacy initiatives

726. Financial literacy itself is difficult to measure, and robust test instruments are still being developed internationally. The *ANZ Survey of Adult Financial Literacy in Australia* has been conducted at regular intervals since 2003 and provides a key reference point for observing changes in Australians' financial literacy at a national level. Australia is also participating in the financial literacy assessment of 15 year olds, conducted through the OECD's Programme for International Student Assessment.

727. In addition, the evaluation of a financial literacy program's success is inherently difficult for a number of reasons, including:

- the external environment (affected, for example, by market events) is constantly changing, so a financial literacy program is not the only factor influencing behavioural change;
- few programs have the resources to do 'before and after testing', and compare with a control group of non-participants; and
- real impact depends on what people actually do, not what they know or what they say they do.

728. With these measurement difficulties in mind, Government and private sector providers of financial literacy programs use qualitative and quantitative data to monitor and assess the success of these programs.

729. ASIC's MoneySmart website is also an effective and popular resource for Australian consumers (as identified in Question 3).

730. Tools and calculators developed by ASIC have also been popular with consumers. For example, ASIC's TrackMySpend app (designed to track expenses and alert consumers to their spending patterns) has received more than 200,000 downloads as of January 2013.

731. Financial literacy programs delivered by the private sector have also been evaluated using a combination of quantitative and qualitative methods. Examples that are publicly available include:

- ANZ's MoneyMinded program; and
- The Commonwealth Bank Foundation's StartSmart program (a financial literacy program for primary and secondary school students).

732. The Commonwealth Bank Foundation recently released an impact report on the StartSmart program, jointly produced with the Australian Council for Education Research (ACER). The report found that the program had a positive impact on students':

- attitudes towards financial concepts;
- level of financial knowledge;
- behavioural intentions; and
- confidence in managing their own finances.

733. Recognising the challenges of measurement and the multiple factors that influence financial behaviour, the 2014-17 Strategy will have an increased focus on evaluation, with an emphasis on building capacity and encouraging good practice.

Brazil

734. No. There are no initiatives in this direction.

Canada

735. In Canada, the Financial Consumer Agency of Canada (FCAC) has a broad mandate to serve the interests of consumers. The FCAC was created in 2001 to protect and educate consumers of financial

services. Along with its regulatory oversight of financial institutions, FCAC was tasked with improving Canadians' understanding of the financial sector, its products and services.

736. In its first few years of operation, FCAC concentrated on improving the availability, accessibility and clarity of financial information for consumers. The Agency established a consumer contact centre; developed a comprehensive website, complete with useful interactive tools; and published a variety of plain-language brochures and tip sheets on banking services, credit cards, mortgages and consumer rights. The FCAC website also provides information, tools and other resources respecting retirement planning.

737. Recognizing the need to improve the financial knowledge and decision-making of consumers, the Government of Canada expanded FCAC's mandate in 2007 to officially include financial literacy and provided new funds to the Agency to develop a financial literacy program for youth. Then, in its 2008 budget, the government provided ongoing funding to FCAC to support efforts to improve financial literacy in Canada, not only among youth but other audiences as well.

738. The Financial Literacy Leader Act, enacted in March 2013, provides for the appointment of a Financial Literacy Leader within the Financial Consumer Agency of Canada. The Financial Literacy Leader's mandate will be to collaborate and coordinate activities with stakeholders to contribute to and support initiatives that strengthen the financial literacy of Canadians.

China

739. a. Since 2013, Chinese government has held campaigns of Financial Literacy Publicity Month every September in order to improve citizens' understanding and access to financial knowledge.

b. From July to August 2013, Chinese government had conducted a national survey on financial literacy of consumers. The results of the survey showed that financial education to underdeveloped rural areas and vulnerable groups should be highlighted.

c. During the annual World Consumer Rights Day, Chinese government has organized publicity campaigns to enhance citizens' awareness of financial consumption protection and provide them with proper ways to protect their legal rights, including rights of security, knowing, choice, fair deal, claim and education.

France

740. The AMF ("*Autorité des Marchés Financiers*"), the BDF ("*Banque de France*") along with several financial actors' associations, work on continuously improving knowledge about personal finances among French savers.

741. In addition, a working group is currently working at the definition of a French national strategy for financial education in accordance with the OECD/G20 principles. The working group will give its final report to the Government during the summer.

Germany

742. Financial literacy is promoted in schools in various forms: It can be either part of one school subject (such as economics or social studies) or it can be taught in a cross-disciplinary way. The German system of education is not organized centrally but lies in the responsibility of each individual federal state which explains the above-mentioned various ways of teaching. Any studies on the success of such teaching are not known to the German Federal Ministry of Finance.

743. Besides, several federal ministries are publishing informative literature and handouts on their websites on a regular basis as regards financial relations within the economy, taxes, financial regulation etc.

Italy

744. For the general public, the Bank of Italy's website features a financial education section aimed at persons interested in developing their economic and financial knowledge and at those who, as savers and users of banking services, wish to enhance their financial culture. The section provides information on the main banking issues and discusses banking, economic and financial matters in simple language.

745. In addition to this, the Bank of Italy publishes Practical Guides on current accounts, mortgage lending and consumer credit, also available on the website. The guides describe, with a clear and simple language, the main features of these popular banking products. As they have a practical approach, they respond to both transparency and financial education purposes.

746. Young people, students in particular, are a priority target of the Bank of Italy's financial education programmes. In regards to that, the bank of Italy carries out a financial education program in schools. The project, which involves all schools nationwide, is inspired by OECD recommendations. The participation is voluntary. Teachers received training from central bank officials that they then passed along in the classroom. The program's main topic is "money and transactions"; as an aid for teachers and students, we produced a collection of educational booklets on "Money and all the other payment methods" for the three different school levels (all available on the web site). A plus of the program had been, for the first four years, the evaluation design.

747. In order to address financial literacy gaps and informational constraints to the development of supplementary pension funds Decree Law 201/2011 (the "Save Italy" Decree) directs the Ministry of Labour and Social Policies, the social security institutions and the sectoral authorities to prepare an annual programme of information initiatives on pension issues. It also directs the social security institutions to give workers information on their pension position. These measures can help familiarize workers with the rules and increase the propensity to engage in supplementary retirement saving.

748. For more information on financial education in Italy see Chapter 10 - Italy: Financial Education Initiatives to Support Financial Stability and Consumer Protection- of the OECD Publication "*Advancing National Strategies for Financial Education*", 2012²⁰.

Japan

749. See answer 3.

Mexico

750. Further to the answer to question 3 of this section, the Committee on Financial Education is chaired by the Ministry of Finance and Public Credit, and the other members are the Bank of Mexico, the regulatory and supervision entities and State development banks, among other entities. Members of the Committee have implemented financial education initiatives, programs, workshops, calculators and comparison tools in their websites. The subject matters are savings, saving for retirement, credit, insurance and remittances.

²⁰ Available at: http://www.oecd.org/finance/financial-education/G20_OECD_NSFinancialEducation.pdf

751. The Ministry of Public Education also has a Program on Economic and Financial Educations.

752. As stated above, the first national survey of financial inclusion, which includes questions on financial education, was conducted in 2012. The next survey is tentatively scheduled for 2015 by comparing the results of the survey it might be possible to see whether the populations is more aware and knowledgeable of savings for retirement issues.

New Zealand

753. See above (question 4)

Portugal

754. Amongst other initiatives, and within the scope of the PNFF referred to in the previous questions, a financial literacy portal was created. This portal addresses the basic concepts associated to the most frequent financial decisions of the consumers and serves as a platform for the support and dissemination of the initiatives under the PNFF. Furthermore, financial education is being implemented as part of school curricula.

755. CMVM as the securities Regulator and Supervisor, and having investor protection as one of its main objectives, published several brochures and supporting materials aimed at the retail investors (“Investor’s Guide”, “Frequently Asked Questions”, “Series of 10 Brochures”).

756. These materials are available in Portuguese, on CMVM website, under the following links:

Investors’ Guide: http://www.cmvm.pt/CMVM/Publicacoes/Guia/Pages/indice_guia.aspx

Q&A: <http://www.cmvm.pt/CMVM/Apoio%20ao%20Investidor/Faq/Pages/default.aspx>

Brochures: <http://www.cmvm.pt/cmvm/publicacoes/brochuras/Pages/Brochuras.aspx>

Russian Federation

757. Russian Federation currently carries out jointly with the World Bank a project with a total amount of 113 mil. USD. The objectives of the Financial Education and Financial Literacy Project are to:

- ✓ improve the financial literacy of Russian citizens (especially, among the school-age and college students, and active and potential low and middle income users of financial services) and
- ✓ strengthen the foundations for improving consumer protection in financial services.

This project has five components:

- i) Component one comprises of developing a financial literacy strategy and consumer protection monitoring and evaluation. This includes strengthening the institutional and legal framework for the implementation of financial literacy and consumer protection policies, and development of the Project monitoring and evaluation framework.
- ii) Component two consists of financial literacy capacity building. This involves building institutional and human capacity for raising financial literacy in Russia at both federal and regional levels, and in the public and private sectors.
- iii) Component three comprises of development and implementation of education programs and information campaigns for improving financial literacy. This includes development and

implementation of educational programs, information campaigns, and the scaling up of existing financial literacy improvement initiatives.

- iv) Component four consists of the strengthening of consumer protection in financial services by strengthening capacity for financial consumer protection in the Consumer Protection Service, industry professional associations, and civil society.
- v) Component five is project management which includes implementation, monitoring, and evaluation as set forth by the rules and procedures of the IBRD and Russian laws and regulations.

758. Russian Ministry of Finance and Expert Group on financial literacy at Federal Financial Market Service annually organize “Day of financial literacy in educational institutions”. Also in 2006 “national agency for financial studies” was established in Russia, and starting from 2008 it annually publishes results of surveys on financial literacy levels.

South Africa

759. South Africa believes consumer financial education is one of the components of a comprehensive solution for protecting consumers of financial services. To implement the consumer financial education policy objectives namely to (i) provide a framework for collaboration and co-ordination of financial sector stakeholders in consumer financial education; (ii) provide data and measurement of financial education programmes and determine whether policy, strategy and programme objectives are being achieved; and (iii) in this way improve consumers’ financial well-being by improving their financial literacy in the dimensions of financial control, financial planning, product choice and financial knowledge and helping them to (i) understand financial management and thus take good decisions that are tailored to their personal circumstances (ii) monitor the market conduct of financial institutions through their decisions and use of recourse facilities (iii) face their ever-increasing responsibilities as a result of the growing complexity of financial products and the transfer of financial risk to consumers (iv) know where to look for important information, objective advice or access to recourse facilities, the National Treasury set up the National Consumer Financial Education Committee early 2012.

760. Members of the committee include representatives of labour; civil society; financial industry associations; the ombudsman schemes; financial self-regulatory organisations; government departments, provincial treasuries and NGOs. The Committees’ mandate includes (i) developing the national consumer financial education strategy (ii) overseeing the implementation of the strategy by monitoring performance; and (iii) reviewing the national consumer financial education strategy on an annual basis to ensure its relevance.

761. The committee approved the strategy in July 2013. The strategy sets out what should be done at a national level and includes working with the Department of Basic Education to embed financial literacy in the school curriculum; updating the central database of initiatives; proposing regulation where necessary as well as encouraging patronage.

762. At an institutional level, the stakeholders plan, fund, implement, monitor and evaluate consumer financial education programmes and initiatives. One such initiative is the My Money, My Life, an interactive consumer education website developed by the FSB. The website provides tools, guidelines and other information for consumers dealing with financial matters as well as information for providers of financial products in the form of a database of existing initiatives in the industry.

763. Funding for consumer financial education initiatives comes from various sources, including as an outcome of the Financial Sector Code. The Financial Sector Code was gazetted as a sector code in terms of the Broad-Based Black Economic Empowerment Act, of 2003 on 26 November 2012. The Financial

Sector Code provides for all financial services firms to apply 0.40% in 2014 of their net profit after tax from retail business to consumer financial education.

764. Key to the development of strategy and monitoring its implementation are financial literacy baseline studies that provide guidance on priorities and targets and enable the assessment over time whether consumer financial education objectives are being achieved. There have been two full baseline studies in June 2011 and June 2012 and a smaller checkpoint study in 2013. There was relatively little change in overall financial literacy over this short period. The next study will be in 2016. This study should indicate if implementation of strategy has achieved the desired result.

Spain

765. The National Strategy for Financial Education is set in the Financial Education Plan. This Plan had an initial phase (2008-2012) that mainly consisted in the launching and dissemination of the cornerstones of the strategy:

- The creation of a website (www.finanzasparatodos.es) with the aim of becoming a reference for Financial Education in Spain.
- The distribution of numerous materials.
- Conducting a pilot program of Financial Education in schools.

766. In 2013, an extension of the Plan for a further 5 year period was agreed (2013-2017). In this new phase the priority activities are:

- On the one hand, the extension of the program of Financial Education in schools and the introduction of financial education into school curricula (in fact, an Education Law recently passed introduces financial education contents in the curricula of Primary school and, as an optional subject, in the Secondary education).
- On the other hand, this new phase of the Plan puts a greater emphasis on Financial Education aimed at savings and long-term investment.
- In the frame of an increasing collaboration with other public and private institutions, the role of the authorities will be to coordinate efforts in order to increase awareness on financial issues.

767. For those who participate in the Pensions Funds sector, Spanish authorities are working on a new regulation (KID Information-Key Information Document), whose main purpose is to increase the knowledge of investors about the products being hired. Future members of a Pension Plan will receive, previously to join the plan, information (in paper/durable medium) about: definition (in detail) of the product, the level of risk of the pension scheme, historical yield, fees and charges, investment policy, information about payout phase, fiscal treatment, mobilization of the vested rights among different products, contribution limits, valuation, etc. This document is to be clear, accuracy, comprehensible and not misleading. Furthermore, the pension product offered has to be suitable to the future members' needs.

Switzerland

768. Although there is no school subject of "financial literacy" in Switzerland, some individual curricula intend to provide some financial knowledge at upper secondary schools including vocational schools, but let the teachers much leeway. In addition, the new curriculum for elementary schools plans

that economic education receives more attention through the new subject “Economics, work, household”. Each canton is supposed to decide on its introduction at the end of 2014.

769. In addition, there are a variety of projects and learning media to promote financial education by different actors, such as foundations, associations and companies. For example, the Swiss National Bank developed “*iconomix*”, a web-based tool used in the teaching of economics. *Iconomix* offers a range of teaching units; it is primarily intended for use by teachers of economics and humanities at upper secondary schools. Furthermore, since May 2013 the State Secretariat for Education, Research and Innovation (SERI) financially supports with a term of two years a project called “fit for finance” which is launched by several educational organizations and institutions. The objective is the development of a didactic concept for promoting financial education, which is adjusted to the needs of students at vocational schools.

770. Complementary, various debt advice services exist on the Cantonal or Communal level to assist private individuals with debt problems.

Turkey

Consolidated answer for Q3, Q4 and Q5

771. In October 2010, the CMB launched the “Financial Literacy Project” in order to help citizens improve their understanding of capital market related financial products and concepts and household cash flow management; to provide information and tools to help citizens to make informed decisions about their finances and; to improve investment culture of general public.

772. The Financial Literacy Project comprises several activities which are to be carried out under different projects to help citizens to make informed decisions. Some of the activities identified in the action plan are as follows: training of teachers, integrating financial literacy topics into school curricula, conducting data analysis and survey, generation of a website dedicated to capital market-related issues, delivering lectures on capital markets at the universities, social media, development of training materials, organizing raising awareness through seminars, conferences, lectures, financial literacy essay contests as well as the social media. Within this framework, the CMB works in close collaboration with Borsa İstanbul, Association of Turkish Capital Markets, Istanbul Settlement and Custody Bank (Takasbank), Central Registration Agency and other relevant institutions of Turkish capital markets.

773. Furthermore, in June 2014, Turkey launched a comprehensive strategy, namely the Financial Inclusion Strategy (Financial Access, Financial Education and Financial Consumer Protection Strategy) and Action Plans. The strategy is prepared by Financial Stability Committee members. Financial Stability Committee is chaired by Deputy Prime Minister in charge of Economic and Financial Affairs and is composed of the heads of Turkish Treasury, Central Bank of the Republic of Turkey, Banking Regulation and Supervision Agency, Capital Markets Board, and Savings Deposit Insurance Fund."

774. In the context of strategy, assessment of the Financial Education Action Plan will be conducted through surveys and other relevant tools. CMB is responsible for coordinating and monitoring the implementation of the Financial Education Action Plan. Although the target audience of the Financial Education Action Plan is the general public, the emphasis will be put on school-aged children, women, university students, public and private employees, retired people, and potential investors. There are 36 actions in The Financial Education Action Plan regarding to those specific target groups and will be implemented through 2014-2017. Since some actions of the project have started recently, the success or the outcomes of the project has not been measured yet.

United Kingdom

775. The Government has decided to include financial education in the statutory curriculum as of September 2014. As part of this, the mathematics curriculum will be strengthened to give pupils the necessary skills to make sound financial decisions on mortgages, loan repayments, etc. Financial Literacy will also be taught as a part of Citizenship to ensure pupils receive a broader financial education.

United States

776. The Congressionally chartered Federal Financial Literacy and Education Commission is comprised of more than 20 federal entities that are coordinating and collaborating to strengthen financial capability and increase access to financial services for all U.S. citizens. More information about the Commission can be found here:

<http://www.treasury.gov/resource-center/financial-education/Pages/commission-index.aspx>

777. The Commission's main vehicle for promoting financial literacy is the website www.mymoney.gov, which provides information and suggestions regarding personal financial management. In addition, in concert with borrowers, lenders, and other stakeholders, the Consumer Financial Protection Bureau has launched initiatives to make consumer financial forms and agreements more transparent. Their efforts relating to home mortgages, credit cards, and student loans, respectively, are described at the following websites:

<http://www.consumerfinance.gov/knowbeforeyouowe/>

<http://www.consumerfinance.gov/credit-cards/knowbeforeyouowe/>

<http://www.consumerfinance.gov/students/knowbeforeyouowe/>

EU

778. Due to the fact that education is the competence of Member States, the European Commission mainly focuses on coordination and support of national strategies and projects in the area of financial education.

779. EU policy was first set in the Communication Financial Education adopted in December 2007. This communication listed eight high-level principles aiming to ensure successful provision of financial education programmes and a few more specific actions to be carried out in that area (setting out of an expert group, sponsorship to financial education events in Member States, development of a new *Dolceta* section, a specific on-line tool for consumer information and education, as regards financial services).

780. Since then, the European Commission mainly supported national strategies and events on financial education (e.g. by means of patronage) carried out at national level and following the high-principles principles mentioned above.

781. Also, as a follow-up to *Dolceta*, the European Commission set up in 2013 a community educational material website called "Consumer Classroom" targeted teachers of 12-18 years –old, which provides free access to educational material including on financial services.

782. Other targeted actions have been launched at EU level such as a pilot-project aiming at providing training courses to non-profit entities which give financial advice to consumers in order to build their capacity in the financial services area.

What role do institutional investors play in promoting long-term savings? Is it successful?

Australia

783. The structure of the superannuation sector, where privately managed funds compete for members, ensures a measure of visibility. Funds and advisers actively advertise their services and awareness of superannuation is high. But awareness does not necessarily translate into widespread engagement. In 2010, a Roy Morgan Research report, based on over 50,000 interviews, indicated that roughly 80 per cent of members who are members of a superannuation fund chosen by their employer or award stay in the default investment option. Of that 80 per cent, anecdotal evidence suggested that only around 20 per cent actively choose to be in the default investment option.

784. The Australian superannuation system currently holds around \$1.9 trillion of assets (at the end of the June 2014 quarter) and is forecast to grow strongly. There are a number of key players within this system charged with the responsibility of promoting members long-term savings including retail and industry superannuation funds, who have around 26 per cent and 20 per cent market share of the superannuation sector respectively (as at 30 June 2013).

Brazil

785. No comment.

Canada

786. In Canada, the Financial Consumer Agency of Canada (FCAC) has a broad mandate to serve the interests of consumers. The FCAC was created in 2001 to protect and educate consumers of financial services. Along with its regulatory oversight of financial institutions, FCAC was tasked with improving Canadians' understanding of the financial sector, its products and services.

787. In its first few years of operation, FCAC concentrated on improving the availability, accessibility and clarity of financial information for consumers. The Agency established a consumer contact centre; developed a comprehensive website, complete with useful interactive tools; and published a variety of plain-language brochures and tip sheets on banking services, credit cards, mortgages and consumer rights. The FCAC website also provides information, tools and other resources respecting retirement planning.

788. Recognizing the need to improve the financial knowledge and decision-making of consumers, the Government of Canada expanded FCAC's mandate in 2007 to officially include financial literacy and provided new funds to the Agency to develop a financial literacy program for youth. Then, in its 2008 budget, the government provided ongoing funding to FCAC to support efforts to improve financial literacy in Canada, not only among youth but other audiences as well.

789. The Financial Literacy Leader Act, enacted in March 2013, provides for the appointment of a Financial Literacy Leader within the Financial Consumer Agency of Canada. The Financial Literacy Leader's mandate will be to collaborate and coordinate activities with stakeholders to contribute to and support initiatives that strengthen the financial literacy of Canadians.

China

790. Take insurers for instance. They play as both service provider of long-term savings and as a substitute for long-term savings.

France

791. Regular surveys conducted by AMF and ACPR (“*Autorité de Contrôle Prudentiel et de Résolution*”) show that business practices among institutional investors favor safe and long-term products.

Germany

792. Financial institutes such as banks and insurance companies offer different long-term savings products which can also include government-funded components (e.g. *Riester-Rente* contracts, building savings, contracts on employees' savings bonuses).

793. In particular, insurers have the role of promoting long-term savings for the purpose of investing. The in advance collected insurance premiums are adequately invested to meet the contractually agreed benefits at certain dates in the future. Therefore the investment activities of insurers are necessarily the result of premium deposits with different maturities (= upstream) and payments to be made to the policyholders in accordance with their contracts (= downstream).

Italy

794. Too general and not country-specific.

Japan

795. Financial institutions (banks, insurers, securities etc..) provide long-term financial products for the ageing society.

Mexico

796. No comment

New Zealand

797. Institutional investors play an integral role in promoting long-term savings as they run a number of KiwiSaver schemes and other pension schemes in New Zealand. There are also a number of institutional investors who are approved as default KiwiSaver schemes. As indicated above, KiwiSaver has been a successful scheme in New Zealand.

Portugal

798. As it is well known, institutional investors such as insurance undertakings, investment funds and pension funds play an important role in promoting long-term savings, usually link to retirement purposes.

799. In Portugal, occupational and personal pension markets are still relatively small, mostly as a result of the generous public pension system. However, recent reforms to the public pension system, together with an increased awareness of the importance of saving for retirement, will potentially contribute to the growth of the private pension sector.

800. Portuguese investment funds, however, do play an important role in the promotion of long-term investment.

Russian Federation

801. No comment

South Africa

802. Institutional investors do their own marketing of products and emphasising the need to save for the future. A very wide range of products have been developed by the institutional investors that have resulted in a very well developed savings industry in South Africa. In the years since 2007 there has been a decline in the cash-inflows of retirement institutions. Total inflows declined from R64.3 billion in 2007 to R46.3 billion in 2012 (South African Reserve Bank Quarterly Bulletin June 2013). This can largely be attributed to the economic slowdown post the 2007/8 crisis. Success or otherwise of promotion is hard to determine without seeing the actual numbers of long-term savers.

Spain

803. No comment

Switzerland

804. The pension fund system promotes long-term savings, leads to large funds under management and can thus be considered as successful.

805. Further, pension funds and private insurers are large investors in real estate.

Turkey

806. The main role of institutional investors in promoting long-term savings is to provide new investment tools which are related to long-term investments and to increase the awareness about these tools. Although the amount of long-term savings in Turkey is not yet at desired level, the contribution of institutional investors to overall savings in Turkey cannot be ignored. Some of the key statistics about institutional investors are provided below:

807. Investment companies: There are 30 real estate investment companies operating in Turkey, with a total market capitalization of TL 21.5 billion as of April, 2014. There are 12 venture capital investment companies operating in Turkey as of April 2014.

808. Pension funds: In order to boost the amount of savings in Turkey, new pension system has been introduced in 2013. This new legislation has paved the way for rapid growth in amount of asset under management as well as number of participant in pension funds. Since introduction of new pension regulations, asset under management in pension funds has surged by approximately 15%.

809. CMB also introduced new tools such as real estate and venture capital investment funds to promote long-term investments and diversify investment types that will come into force second half of 2014.

810. Istanbul Venture Capital Investment (IVCI) was founded in 2007. It is Turkey's first ever dedicated fund of venture capital funds. Its commitment for the first sub fund amounts to EUR 155 million. The investors of IVCI are Turkish public institutions, private and public banks and the European Investment Fund. It is a good example of a public private partnership model to boost the venture capital sector. Currently IVCI is in the fundraising process for the succession fund which is called Turkish Growth and Innovation Fund (TGIF) with a first closing target amount of EUR 180 million.

United Kingdom

811. No comment.

United States

812. Many large depository institutions also offer investment products managed by large institutional investors. These firms offer various products to the retail investors that promote long-term savings, including target-retirement mutual funds and index funds. These firms also typically manage 401-k and Individual Retirement Account plans. Insurance companies offer various products that promote long-term planning, including annuities.

EU

813. No comment

<p>institutional investor or other responsible party periodically reviews the effectiveness of the investment policy and determines whether there is a need to modify or change the policy, the implementation procedures, or the decision-making structure, including the responsibilities linked to the design of the strategy or its implementation.</p>	<p>IWG</p>	<p>GAAP 24</p>
<p>3.2 Governing body: Suitability requirements: <i>The governing body of an institutional investor should collectively have adequate skills to design, assess, monitor, and review its investment strategy, including the allocation to long-term assets. Where necessary, it should seek appropriate independent advice and training.</i></p>		
<p>Effective Approaches</p>	<p>Source of information</p>	<p>Criteria for Implementation</p>
<p>820. Members of the governing body of institutional investors and staff engaged in financial and risk control are required to be of sound character and good repute and have the necessary judgment, appropriate authority, leadership, independence and prudence to provide sound, strategic direction to the institution and perform effective oversight.</p>	<p>OECD IWG</p>	<p>Guidelines on Insurer Governance (Principle I.A.3.a) Principles of Occupational Pension Regulation (6.4) GAAP 6</p>
<p>821. Members of the governing body collectively have the requisite financial, accounting, actuarial, management and leadership expertise, and skills to provide direction for and oversee the institutional investor.</p>	<p>OECD</p>	<p>Guidelines on Insurer Governance (Principle I.A.3.a) Principles of Occupational Pension Regulation (6.4)</p>
<p>822. The governing body of the institutional investor is required to have the necessary skills to design, assess, monitor, and review its investment strategy to ensure consistency with the institution’s stated objectives.</p>	<p>OECD</p>	<p>Principles of Occupational Pension Regulation (6.2)</p>
<p>823. Members of the governing body are subject to minimum suitability standards, such as “fit and proper” criteria, or non-suitability standards, such as fraud or criminal convictions, in order to ensure a high level of integrity, competence, experience and professionalism in the governance of the institutional investor.</p>	<p>OECD</p>	<p>Guidelines on Insurer Governance (Principle I.A.3.a) Principles of Occupational Pension Regulation (6.4)</p>
<p>824. Where relevant, the governing body is required to seek to enhance its knowledge, including via appropriate training.</p>	<p>OECD</p>	<p>Guidelines on Insurer Governance (Principle I.A.3.c) Principles of Occupational Pension Regulation (6.5)</p>

3.3. Governing body: delegation and expert advice: *The governing body of an institutional investor should ensure that the investment management personnel and any external asset managers have the necessary capability to implement the investment strategy and manage those investments in line with the institution’s objectives. If outsourcing to external asset managers, the governing body has the duty to ensure that the investment decisions are in line with its objectives.*

Effective Approaches	Source of information	Criteria for Implementation
825. The governing body of an institutional investor is required to establish a rigorous policy by which investment activities are conducted.	OECD	Principles of Occupational Pension Regulation (4.4)
826. The institutional framework for institutional investors embodies external providers of particular services necessary for proper management of risks.	OECD	Guidelines on Insurer Governance (Principle I.C.6) Principles of Occupational Pension Regulation (6.6, 6.7 & 6.8)
827. To ensure independence external providers are chosen following procedures which ensure the selection of independent and skilled persons, taking into account experience, knowledge and qualifications, but respecting the applicable “fit and proper” criteria.	OECD IOSCO	Guidelines on Insurer Governance (Principle I.D.4) Principles of Occupational Pension Regulation (6.5) Objectives and Principles of Securities Regulation (Principle 26)
828. When outsourcing investment mandates to external service providers, the governing body of an institutional investor retains responsibility for monitoring and oversight of such providers.	OECD	Principles of Occupational Pension Regulation (4.10, 6.2)

3.4 Risk-based internal controls : *The governing body of an institutional investor should ensure that the institution can properly identify, measure, monitor, and manage the risks associated with long-term assets as well as any long-term risks – including environmental, social and governance risks - that may affect their portfolios.*

Effective Approaches	Source of information	Criteria for Implementation
829. Institutional investors are required to have adequate internal controls in place to ensure that all persons and entities with operational and oversight responsibilities act in accordance with the objectives set out in the institution's by-laws, statutes, contract, or trust instrument, or in documents associated with any of these, and that they comply with the law.	OECD	Guidelines on Insurer Governance (Principle I.A.2.e) Principles of Occupational Pension Regulation (6.9)
830. The internal controls of an institutional investor cover all basic organisational and administrative procedures, depending upon the	OECD	Principles of Occupational Pension Regulation (6.9)

scale and complexity of the investment portfolio, and include performance assessment, compensation mechanisms, information systems and processes, risk management procedures and compliance.		
831. Depending upon the scale and complexity of the investment portfolio, staff engaged in financial and risk control are independent, have appropriate authority, and their compensation is determined in a manner that is independent of the business areas they oversee.	OECD	Principles of Occupational Pension Regulation (6.9)
832. The governing body of an institutional investor ensures that a sound risk-management process is established that measures and seeks to appropriately control portfolio risks and to manage the assets and liabilities in a coherent and integrated manner consistent with its stated objectives, including effective internal audits and regular assessment of regulatory compliance systems, where relevant.	OECD IWG	Guidelines on Insurer Governance (Principle II.A) Principles of Occupational Pension Regulation (4.8) GAAP 22
833. Market intermediaries are required to establish an internal function that delivers compliance with standards for internal organization and operational conduct, with the aim of protecting the interests of clients and their assets and ensuring proper management of risk, through which management of the intermediary accepts primary responsibility for these matters.	IOSCO	IOSCO Principle 31
834. While both long-term risks and short-term risks are important, the institutional investor incentivises its internal and external managers to put appropriate weight on long-term risk factors in order to manage risks which are relevant to the institutional investor's long-term investment horizon and its fiduciary duties, including systemic risk.	ICGN	ICGN model mandate between institutional investors and asset managers
835. The institutional investor monitors the turnover of its portfolio by the external asset manager and controls excessive turnover.	ICGN	ICGN model mandate between institutional investors and asset managers
836. Institutional investors effectively integrate environmental, social and governance factors into investment decision making and ongoing management	ICGN	ICGN Global governance principles

<p>3.5 Infrastructure for minimising conflicts of interest: <i>The governing body of an institutional investor should ensure that conflicts of interest that may affect their decisions and those of the persons or entities involved in the management of investments, including any long-term assets, are identified and adequately addressed.</i></p>		
Effective Approaches	Source of information	Criteria for Implementation
837. Institutional investors are required to keep a functional separation between those staff responsible for investments and those responsible for settlement and bookkeeping.	OECD IWG	Guidelines on Insurer Governance (Principle I.A.2.b) Principles of Occupational Pension Regulation (6.1) GAAP 9
838. Conflicts of interest regulations prohibit governing body members from engaging in self-dealing and require them also to address potential conflicts of interest among their internal staff.	OECD IWG	Guidelines on Insurer Governance (Principle I.A.2.b) Principles of Occupational Pension Regulation (6.1) GAAP 14
839. Conflicts of interest rules may also be included in a code of conduct by which all governing body members and operational staff must abide.	OECD	Guidelines on Insurer Governance (Principle I.A.2.e) Principles of Occupational Pension Regulation (6.9)
840. The governing body of an institutional investor ensures that policies and procedures are in place to identify, monitor and resolve actual or potential conflicts of interest facing members of the governing body, management, and other stakeholders.	OECD IWG	Guidelines on Insurer Governance (Principle I.A.2.b; I.C.3) Principles of Occupational Pension Regulation (6.9) GAAP 13
841. Mechanisms to sanction the improper use of privileged information are implemented as part of an overall policy on managing conflicts of interest.	OECD IWG	Guidelines on Insurer Governance (Principle I.A.2.b) Principles of Occupational Pension Regulation (6.9) GAAP 20
<p>3.6 Governing body: Fiduciary responsibilities: <i>The governing body of an institutional investor should observe its fiduciary duties towards the ultimate owners or beneficiaries of the assets they oversee. Such duties, when applicable, should include the prudent and efficient management of any long-term assets and the informed and effective use of their investor rights, including shareholder and creditor rights. Those persons and entities involved in the management of the assets of institutional investors should act in consistency with those fiduciary duties or their associated contractual obligations.</i></p>		

Effective Approaches	Source of information	Criteria for Implementation
842. Where applicable, rules and procedures are in place to ensure that any vested benefits and rights of members, beneficiaries, or investors of an institutional investor are protected from the creditors and service providers of its sponsor at a minimum by the legal separation of the assets.	OECD	Principles of Occupational Pension Regulation (5.9)
843. Where necessary to fulfil contractual obligations or to ensure adequate protection of members, beneficiaries, or investors, the governing body of an institutional investor is subject to a fiduciary duty to these parties which requires the governing body and other appropriate parties to act in the best interests of the members, beneficiaries or investors as regards the investment and management of assets, which includes the management of any investor rights pertaining thereto, and to exercise due diligence in the investment process.	OECD IWG	Principles of Occupational Pension Regulation (4.3) GAAP 18 GAAP 21
844. Laws and regulations specify that the assets can be used only for the purposes outlined in the institutional savings product. Laws and regulations governing institutional investors generally require that relevant assets are invested in the interests of the final beneficiaries (<i>i.e.</i> insurance policy holders, pension plan beneficiaries and investors in CIS).	IOPS IAIS IWG	Principles of Private Pension Supervision (Principle 5) Insurance Core Principles, Standards, Guidance and Assessment Methodology (ICP 1.3) GAAP 10
845. The governing body regularly assesses the financial condition, risk profile and, where appropriate, solvency position of the institution, including capital, borrowing and liquidity needs.	OECD IWG	Guidelines on Insurer Governance (Principle I.A.2.f) GAAP 22
846. Relevant information about the institutional investor is properly disclosed to its members, beneficiaries, investors and other stakeholders as needed for them to have an informed and timely view of their holdings, positions, or investments. Such information may include assets and performance, rights of access, investment policy and other elements.	OECD IOSCO IWG	Principles of Occupational Pension Regulation (5.16, 5.25) Objectives and Principles of Securities Regulation (Principle 26) GAAP 5, GAAP 23
847. Due consideration is given to adequate forms of delivery of disclosure materials.	OECD	Principles of Occupational Pension Regulation (5.22)

3.7 Performance management: *The governing body of an institutional investor should regularly monitor the performance of both external and internal fund managers. Performance should be evaluated over a period of years, taking into account the institution's investment horizon, its asset-liability management objectives and the level of risk implied. Performance-based elements and contract clauses of fund managers' and senior executives' remuneration should be based on long-term, risk-return criteria.*

Effective Approaches	Source of information	Criteria for Implementation
848. Regular assessment is made of the performance of the persons and entities involved in the operation and oversight of the institutional investor, particularly where the governing body is also a commercial institution.	OECD	Guidelines on Insurer Governance (Principle I.A.2.g) Principles of Occupational Pension Regulation (6.2)
849. The governing body of an institutional investor oversees, monitors and reviews the institution's compensation practices and ensures that compensation works in harmony with other practices to implement balanced risk postures.	OECD	Guidelines on Insurer Governance (Principle I.A.2.h; II.C)
850. The governing body of an institutional investor selects, compensates, monitors, and, where necessary replaces internal executive staff as well as external service providers (e.g. asset managers, actuaries, custodians, auditors, etc.); in a two-tier board system, the appointment of external service providers (e.g. actuaries, auditors) may be the responsibility of the supervisory board.	OECD	Guidelines on Insurer Governance (Principle I.A.2.g) Principles of Occupational Pension Regulation (6.2)
851. The government body of an institutional investor fully aligns the interests of their fund managers with their own obligations to beneficiaries by setting out their expectations in fund management contracts to ensure that the responsibilities of ownership are appropriately and fully delivered in their interests. This includes ensuring that the timescales over which investment risk and opportunity are considered match those of the client and aligning interests effectively through appropriate fees and pay structures	ICGN	ICGN Global governance principles
852. The governing body establishes for its members, and for management staff and employees compensation arrangements that promote prudent behaviour consistent with the institution's long-term interests and fair conduct toward end-investors and stakeholders, and customers as appropriate.	FSB	FSB (FSF) Principles for Sound Compensation Practices 2(5)
853. Compensation arrangements are designed to promote long-term, firm-wide	FSB	FSB (FSF) Principles for Sound Compensation Practices 2(4) and

profitability, be adjusted for all types of risks and symmetric with outcomes, reflect the time horizon of liabilities and discourage excessive short-term risk taking.	OECD	2(5) Guidelines on Insurer Governance (Principle II.C)
854. The risk management and internal control system considers any risks arising from compensation arrangements and incentive structures.	FSB OECD	FSB (FSF) Principles for Sound Compensation Practices 2(4) Guidelines on Insurer Governance (Principle II.C)
855. Compensation payout schedules are required to be sensitive to the time horizon of risks.	FSB	FSB (FSF) Principles for Sound Compensation Practices 2(6)
856. An employee's compensation takes account of the risks that the employee takes on behalf of the institution. Compensation policies take into consideration prospective risks as well as risk outcomes that are already realised and check that the risks taken by the employee are consistent with the institution's long-term objectives.	FSB	FSB (FSF) Principles for Sound Compensation Practices 2(4)
857. Where appropriate, the evaluation of the performance of the external asset manager takes long-term absolute performance into account as opposed to performance relative to a benchmark index or other asset managers pursuing similar investment strategies.	ICGN	ICGN model mandate between institutional investors and asset managers
<p>3.8 Legal, regulatory and supervisory framework: Regulatory and supervisory authorities overseeing institutional investors and other actors within the investment management chain should monitor the governance, agency relationships, remuneration, and risk management mechanisms underpinning long-term investment and take prompt and adequate measures when relevant. They should, where appropriate, provide guidance to institutional investors regarding the governance and risk management requirements to meet long-term investment objectives.</p>		
Effective Approaches	Source of information	Criteria for Implementation
858. Legal frameworks provide mandates for specific regulatory/supervisory authorities/agencies with responsibilities, powers, and rules to oversee, monitor compliance and undertake enforcement on activities of institutional investors, including ensuring solvency in cases where the institutional investor has a contractual obligation to provide a specific return to investors, beneficiaries, or policyholders or is subject to other fiduciary obligations.	IOPS IAIS IOSCO	Principles of Private Pension Supervision (Principle 1) Insurance Core Principles, Standards, Guidance and Assessment Methodology (ICP 1) Objectives and Principles of Securities Regulation (Principle 1, 24)

<p>859. Relevant legal provisions empower supervisory authorities or oversight bodies of institutional investors to conduct a full investigation when a problem is suspected or observed and to take necessary corrective measures and remedial actions as need be.</p>	<p>IOPS</p>	<p>Principles of Private Pension Supervision (Principle 4.4)</p>
<p>860. Relevant legal provisions clearly define the main duties of the governing body of institutional investors, focusing on key, strategic decisions and functions such as the choice of investment policy, the selection and monitoring of the fund’s key executive staff and external service providers, and the monitoring of the institution’s performance.</p>	<p>IAIS IWG</p>	<p>Insurance Core Principles, Standards, Guidance and Assessment Methodology (ICP 4, ICP 5) GAAP 1, GAAP 23</p>
<p>861. Supervisory authorities of institutional investors take a risk-based approach to oversight, allocating resources and attention to target institutions and activities which pose the highest risks to achieving the core objectives of supervision.</p>	<p>IOPS</p>	<p>Implementing Guidelines for Core Principle 6 (IOPS Principles of Private Pension Supervision) Principle 5: Risk-based Supervision</p>
<p>862. Relevant legal provisions require institutional investors to disclose their use of credit ratings in risk assessment processes and their compensation practices so that investors and other stakeholders are able to evaluate the quality of internal credit assessments, monitor agency relationships and remuneration and the quality of support for the firm’s strategy and risk posture.</p>	<p>FSB</p>	<p>Principles for Sound Compensation Practices Principle 3 (8) and FSB Principles for reducing reliance on CRA ratings –Principles II and III.3.b</p>

PRINCIPLE 5

Financing Vehicles and support for long-term investment and collaboration among institutional investors

5.1 *Public intervention in long-term investment projects - selected in light of socio-economic and environmental impact assessments - should be decided on the basis of identified market failures, should avoid crowding-out private investments, and should be selected by carrying out appropriate cost-benefit analysis of such interventions and ensuring that any public support is appropriately priced and is subject to fiscal considerations.*

5.2 *Governments may consider providing risk mitigation to long-term investments projects where it would result in more appropriate allocation of risks and their associated returns. Such risk mitigation mechanisms may include credit and revenue guarantees, first-loss provisions, public subsidies, and the provision of bridge financing via direct loans.*

5.3 *Governments should establish the necessary regulatory framework for pooled investment vehicles and securities channelling financing for long-term investment in a sound and sustainable manner.*

5.4 *In markets with limited participation by institutional investors, governments, national development banks, and multilateral development agencies should consider the need for establishing and promoting pooled vehicles for long-term investment, and supporting other instruments for long-term investment such as project bonds or securitised assets, and risk mitigation policies. Such financing vehicles should have an investment horizon in line with those of the underlying projects and should be developed in close cooperation with institutional investors.*

5.5 *Governments should establish a policy environment to address any market failures which inhibit long-term investment by institutional investors in start-up firms with a high growth potential, and more generally in small and medium-sized companies. They should consider mechanisms to facilitate the provision of seed capital to such firms and their access to appropriate financing, utilising competitive processes and private sector expertise. They should also consider establishing suitable financing vehicles for such firms, where appropriate.*

5.6 *Collaborative actions and resource sharing amongst institutional investors and with other financial institutions should be encouraged and supported in order to facilitate the exchange of expertise, ensure the effective exercise of ownership rights and to allow sufficient scale and diversification to be reached for investment in large, long-term projects.*

Please answer the following questions²¹

What economic factors does your country take into account when making decisions about public intervention in long-term investment projects?

Australia

863. The major form of public intervention by the Australian Government in long-term investment projects is providing grant funding to state and territory governments to spend on infrastructure projects.

²¹ As required, Members may also wish to consult with relevant sectoral and/or sub-national agencies.

The Australian Government makes decisions on how to allocate grant funding to states and territories based on the expected costs and benefits of the proposed infrastructure project and broader, national policy objectives, such as projects' strategic fit in national networks in order to enhance national productivity and unlock regional economic growth potential.

864. State and territory governments are responsible for project delivery including determining which method of project delivery will deliver the best value for money. As part of this, state and territory governments will consider whether a public-private partnership (PPP) model represents the most effective delivery mechanism. Over the last 25 years, 131 PPP have been contracted in Australia. Australian governments have collectively developed National Public Private Partnership Guidelines and National Alliance Contracting Guidelines to help provide industry with consistency and clarity in the application of PPP models.

865. The Australian Government is open to other forms of public interventions in long-term investment projects. For example, the Australian Government recently agreed to provide a concessional loan of up to \$2 billion to support a major road infrastructure project. The Australian Government is considering the recent findings of its independent research and advisory body, the Productivity Commission, which reported in May 2014 on the costs and financing of public infrastructure.

Brazil

866. No comments for answer of Principles 5 or 7 (not under their jurisdiction)

Canada

867. Canada is committed to developing the infrastructure for strong and sustainable growth. 2014 saw the launch of the new Building Canada Plan, which was announced last year. The 10-year, \$53-billion plan will help build roads, bridges, commuter rail and other public infrastructure assets that promote productivity and economic growth. This long-term commitment will also afford predictability and flexibility for provinces, territories and municipalities to deliver large infrastructure projects efficiently. In addition, Canada's 2014 federal budget allocates a further \$1.3 billion over two years to support additional strategic investments in public infrastructure and transportation services across Canada. These investments will contribute to economic growth, job creation, and provide a high quality of life for Canadians, leveraging the expertise and innovation of the private sector where it makes sense to deliver projects on budget and on time.

China

868. The economic factors include:

- a) Scale of fiscal resources which could be used for long-term investment;
- b) Overall economic and social development planning, regional planning and special planning;
- c) Investment demand of public infrastructures;
- d) Regional difference of economic development;
- e) Macroeconomic situation.

France

869. Acknowledging that the success rate of an infrastructure project is highly correlated to the legal and institutional settings for economic evaluation and decision making, France has not only made ex-ante socio-economic evaluation compulsory for public investment project, but has also demanded that the largest project be submitted to a second independent expert opinion. France has also established a task force to support and regulate PPP project. An interesting part of this task force's mission is to verify that the PPP format provides operational, legal and financial advantage in comparison to traditional procurement.

Germany

870. A central argument in favour of public intervention is market failure. If long-term investment projects have the characteristics of a public good (e.g. large externalities, non-rivalry, natural monopoly, non-excludability) public intervention is justified in principle. However, a clear demarcation is not always possible, both theoretically and practically. When it comes to the nature and extent of public intervention, decisions must be made on a case-by-case basis. In this respect, in addition to economic factors (which include, in particular, the project's contribution to growth, competitiveness and employment as well as the costs for public budgets), other aspects are also important. For this reason, decisions regarding the provision of public goods and the implementation of public projects also need to take into account factors such as the environmental impact and social ramifications.

871. Accordingly, a cost-benefit analysis is, as a rule, produced for public projects, in order to incorporate the macroeconomic effects of a project into the political decision-making process. In this respect, all the positive and negative effects of the project need to be taken into account, irrespective of where they occur and who they affect.

Italy

872. Fostering sustainable economic growth and job creation, through enhancing productivity and competitiveness by participating in infrastructure initiatives.

873. The article 161 of the Code of public contracts (legislative decree n. 163, 12 April 2006) provides that the "Strategic Infrastructure Programme" includes a list of the priority infrastructure projects to be selected on the basis of the following general criteria:

- ✓ integration coherence with European and territorial networks;
- ✓ procedure progress;
- ✓ possibility of prevalent financing with private capital.

874. Moreover, PPP projects must ensure economic and financial viability, in particular through exhibiting both economic and financial positive internal rate of returns. For PPP operations to be approved, both economic viability (economic performance) and financial sustainability must be ensured and assessed in the economic and financial plan. Investment economic viability refers to its capacity to create value over the construction and management concessions; this aspect regards also the guaranteed shareholder yield of the project throughout the project lifetime (reference shall be made to the standard indices of the Internal Rate of Return and the Net Present Value of investments). Financial sustainability refers to the project capacity to generate cash flows over the years to repay the initial bank loan. In this respect the Debt Service Cover Ratio (DSCR) is the most used indicator.

Japan

875. Government affiliated financial institution provides a loan or government guarantee to firms when the project is highly public but it is difficult to conduct appropriate risk assessment, thereby facing difficulty financing from private financial institutions.

Mexico

876. Mexico's Federal Government recently presented the National Infrastructure Program 2014-2018, which includes a comprehensive infrastructure development strategy that aims to increase the country's economic growth and productivity, based on three guiding principles: i) sustainable urban development, ii) balanced regional development and iii) intermodal connectivity (upgrading the inter-connection of highway networks, ports, airports and cities).

877. According to the Federal Law on Budget Federal agencies must identify those projects that will contribute the most to achieve the objectives of the National Development Plan and solve specific population's needs in the short, medium and long term. These projects must be registered in the Ministry of Finance and Public Credit, which certifies the projects net social benefits. Additionally, the Inter-Secretariat Expenditure Commission prioritizes infrastructure projects according to the following criteria.

- Social returns.
- Contribution to poverty reduction.
- Regional development.
- Synergies with other investment projects.

New Zealand

878. In general, the Government will consider such an intervention where:

- there is an unambiguous market failure (eg, where the private sector is unwilling to provide services). In some circumstances, the nature of the goods and services are such that a private market cannot flourish (these circumstances are generally where the goods have the characteristics of "public goods"), or
- distributional and equity objectives are demonstrably better achieved through in-kind provision than through income support or other targeted measures

Portugal

879. No comment

Russian Federation

880. No comment

South Africa

881. The principle of conducting sound cost-benefit analysis on large projects is acknowledged, and studies are carried out on large projects in particular. The National Treasury produces guidelines for feasibility studies for large projects, and the submission of these is conditional for financial support from the Treasury. However, there are differences in how broad principles are interpreted and applied, and different processes followed. In addition to looking for cost-effective solutions, there are strong policy

objectives in South Africa, such as job creation, poverty alleviation, industrialization objectives, localization, and preference towards previously disadvantaged groups.

Spain

882. Value for money, cost of opportunity and lack of private push to certain long-term investments.

Switzerland

883. When investing in infrastructures which lay in the competence of the state, economic factors are taken into account in the course of the impact analysis mentioned in the response to question 4 on principle

Turkey

884. Lack of access to finance, low quality of deal flow and lack of awareness about entrepreneurship and venture capital, insufficient institutional capacity are the factors for public intervention in long-term investment projects. Moreover, the government considers a range of economic and social factors in line with the long-term development plan and the sectorial plans. Besides, PPP projects are evaluated by their merits in terms of economic, financial, social and environmental returns.

United Kingdom

885. The UK has developed a model of investment whereby responsibility for funding, financing and delivery is split between the public and private sectors. In many cases, such as in science, flood defence and communications sectors, public investment is provided on the basis that it leverages investment from private sources in the form of matched or partnership contributions.

886. The Government looks at the likelihood of private investment before any decisions are made on public intervention for long term investment in projects. Our intention is to avoid crowding out the private sector where there is a supply. We are now witnessing the return of some private investors for long term investment projects.

United States

887. The TIFIA program provides federal credit assistance in the form of direct loans, loan guarantees, and standby lines of credit to finance surface transportation projects of national and regional significance, including highway, transit, railroad, intermodal freight, and port access. Applicants must demonstrate that credit assistance will enable the project to proceed faster than otherwise, or with reduced lifecycle costs.

<http://www.fhwa.dot.gov/ipd/tifia/defined/>

http://www.fhwa.dot.gov/ipd/tifia/guidance_applications/tifia_applications.aspx

888. Under the TIGER grant program, the federal government invests in road, rail, transit and port projects that achieve critical national objectives, such as economic competitiveness or environmental sustainability. In addition, the federal government provides capitalization grants to state revolving funds that make loans to finance investment in publically and privately owned community water systems (EPA), and guarantees loans for new energy technology projects typically unable to obtain conventional private financing due to high technology risks (DOE).

<http://www.dot.gov/tiger/about>

<http://www.dot.gov/tiger>

http://water.epa.gov/grants_funding/cwsrf/basics.cfm

http://www.epa.gov/ogwdw/dwsrf/pdfs/manual_dwsrf_programoperationalmanual.pdf

<http://energy.gov/lpo/services/section-1703-loan-program>

EU

Common answer to Questions 1 & 2:

889. In recent years it has become evident that there is a substantial market failure as well as numerous sub-optimal investment situations leading to underinvestment in viable investment opportunities in the European Union (EU). To address these market failures, the Commission (EC) has launched various financial instruments meant to facilitate infrastructure projects' access to project and corporate financing by using Union funding as leverage, such as the joint EC and European Investment Bank (EIB) Project Bond Initiative (PBI), and the more recent Connecting Europe Facility (CEF) which is the funding instrument for the trans-European networks (TEN) in the fields of transport, energy and telecommunication. In the same vein, financial instruments in the form of guarantees on loans, risk-sharing with financial intermediaries or investments in venture capital funds aim at addressing specific market gaps and are made available to promote SME access to finance and funding for research and innovation under the Programme for the Competitiveness of Enterprises and SMEs (COSME) and Horizon 2020. The initiatives do not aim at replacing other instruments that provide finance to long-term investment projects, but complement them and ensure critical size. Before setting-up these instruments, the Commission conducted ex-ante and impact assessments to identify the respective market failures and evaluate whether EU policy action is needed in each of the sectors covered, taking into account the relevant economic factors. The assessments concluded that there was a strong case for the use of financial instruments to address the gap in infrastructure and SME financing in the EU in the next decade, as the size and nature of the market failures identified meant that it was highly unlikely that the envisaged financial instruments would lead to any crowding out of existing economic operators.

890. With regards to the success of this approach, the Interim Report of the EC to the European Council and the European Parliament (COM/2013/0929 final), as well as the external evaluation carried out during the Pilot Phase of the Project Bond Initiative pointed out that despite the small number of projects signed to date, the instrument proved to be successful in raising the interest of institutional investors in infrastructure projects and is seen as a valuable complement to bank lending solutions. The three PBI transactions closed so far demonstrated the appetite of institutional investors for the bond financing solution as a result of the credit enhancement provided by the instrument.

891. In the case of the CEF Debt Instrument that will be launched in the following months under the CEF platform, the Commission envisages to further address market failures and maximise the value added of the initiative by working closely with financial instruments at regional or national levels across different EU Member States.

892. In the case of the instruments aimed at SME financing, evidence suggested that the market gap in getting access to finance is smaller for large corporates and mid-caps than for SMEs and therefore the focus will be on those that are active in areas of identified priorities or societal importance, such as research or innovation.

Do you ensure that public intervention is decided on the basis of identified market failures and avoids crowding out private investments? How? Has the approach been successful?

Australia

893. As noted above, the main form of public intervention by the Australian Government in long-term investment projects is by providing grant funding. This is generally provided to projects that are not capable of private investment because they are unable to generate sufficient financial returns. This form of public intervention does not crowd on private investments.

894. The Australian Government recognises the risk of government investment indirectly crowding out private sector projects by competing for capital and construction resources. To this end, the Australian Government has established the National Infrastructure Construction Schedule (NICS) which provides industry with information about major infrastructure projects committed to by Australian governments, including advanced notice of scheduling information.

Canada

Questions 2-7

895. Canada employs a number of mechanisms to ensure appropriate public involvement in infrastructure projects. Governments tend to limit their involvement to the area of public infrastructure (i.e. where a good or service would not otherwise be available for public use), leaving a stable and predictable regulatory regime provide a framework for private sector investments in privately-owned infrastructure.

896. The Government of Canada supports a greater role for the private sector in its delivery of public infrastructure through the use of public-private partnerships (PPP) where such an approach makes sense. PPP Canada is a federal Crown corporation created to lead federal efforts in promoting the use of the PPP model to improve the delivery of public infrastructure by achieving better value, timeliness and accountability for taxpayers. PPP Canada administers the \$2.5 billion P3 Canada Fund, a merit-based infrastructure program with dedicated funding for public infrastructure projects that are procured through a PPP arrangement by provinces, territories, municipalities and First Nations. The program gives priority to public infrastructure in the following sectors: transportation; water/waste-water; solid waste disposal; and brownfield redevelopment. Other eligible sectors include: green energy; disaster mitigation, culture, connectivity and broadband, and tourism.

897. Canada has also instituted PPP screening requirements to ensure that large capital projects are assessed for their PPP potential, whether these projects are federal or led by another order of government seeking federal funding. To ensure the effective use of public resources, all projects with capital costs of \$100 million are required to undergo a PPP screening.

898. This PPP screen consists of a two-stage assessment. The first stage involves a suitability assessment to determine whether or not the proposed project is suitable for PPP procurement. Next, the second stage:

- In the case of federal projects: If a PPP is deemed to be a suitable option, the responsible federal department is required to develop a procurement options analysis that includes a PPP option.
- In the case of projects from other orders of government: If a PPP is deemed to be a suitable option, the procuring jurisdiction is required to develop a procurement options analysis that examines and compares the traditional procurement delivery model versus a PPP delivery model to assess which model provides the best value for money. Should the federal government determine that the

proposed project could be successfully procured through a PPP, federal funding will be contingent upon the project being delivered as a PPP.

899. The Government of Canada provides funding support to the public sector side of PPP transactions, whether they are federally-led or not. In the absence of market failures that would be evidenced, for example, by the inability of private sector consortia to raise the financing (equity and debt) required from capital markets to complete PPP transactions, the government does not intervene on the private sector side of such transactions as this could undermine the risk transfer at the core of the PPP value proposition.

China

900. In China, public intervention only occurs in the fields that public interests are involved or resources cannot be effectively allocated by market mechanism. Generally speaking, China's public intervention is decided on the basis of identified market failures and avoids crowding out private investments. The outcome is favourable.

France

901.

There is a broad range of economic factors taken into account when making decisions about public intervention in long-term public investment projects.

902. Earlier work has been recently updated and developed further with the Quinet Report, published in 2013: « *L'évaluation socioéconomique des investissements publics, Rapport de la mission présidée par Emile Quinet* », *Commissariat général à la stratégie et à la prospective, septembre 2013*²².

903. In the more specific case of Public Private Partnership (availability model, i.e. public payment PPP) a more specific approach is undertaken : an *ex ante* comparative assessment is required, as described in the PPP Guide, published in 2011 (« *Les contrats de partenariat : Guide méthodologique* », *Mission d'appui aux PPP (MAPPP), Ministère de l'Economie, des Finances et de l'Industrie, mars 2011*)²³.

Germany

904. Public intervention in terms of public procurement does not mean crowding out of private investment. Public procurement takes place where public responsibilities and “*Daseinsfürsorge*” are concerned. Regarding all measures having a financial impact procurement projects must strive to achieve the most favourable relation between the objective pursued and the resources utilized. Therefore, in suitable cases, private-sector providers shall be given the opportunity to demonstrate whether and to what extent they can perform government tasks or commercial activities serving public purposes just as efficiently or more efficiently (interest notification procedure) (section 7 (2) Federal Budget Code).

²² Quinet Report- Volume 1 : http://www.strategie.gouv.fr/blog/wp-content/uploads/2013/09/CGSP_Evaluation_socioeconomique_170920132.pdf . Quinet Report - Volume 2 : <http://www.strategie.gouv.fr/blog/2013/10/rapport-l-évaluation-socioéconomique-investissements-publics-tome-2>

²³ MAPPP PPP Guide:

http://www.economie.gouv.fr/files/files/directions_services/ppp/GuideContratPartenariat.pdf

Italy

905. As a general note, the anchor of the EU state aid regulation provides a broad framework ensuring that public interventions do not crowd out private investments.

Legal Framework and soft law:

906. Public works realization is entrusted to a process of planning and evaluation of investments regulated by the Legislative decree n. 228/2011. All Ministries are required to carry out the assessment referred to Legislative decree n. 228/2011 in order to ensure rationalization, transparency, efficiency and effectiveness of capital expenditure allocated to public works.

907. The Legislative decree n. 228/2011 is aimed at optimizing the decision-making process of public works and provides that Ministries must carry out a process investment evaluation in the field of its expertise, based on specific guidelines. The same Ministries must report the results in the "Multi-year Planning Document" (MPD) whose contents are regulated by Annex II of the Decree of the President of the Council of Ministers (Prime Minister's decree or DPCM) August 3, 2012. The MPD ensures consistency with the other legislative instruments of planning (such as general agreement, EU-funded programs, public-private partnerships, etc.).

908. The MPD includes all plans and investment programs of the Ministries. It is prepared every three years according to the standard guidelines set out in Annex I of DPCM August 3, 2012. For this purpose, the Ministers shall prepare guidelines for the valuation of investments in accordance with their areas of competence.

909. The guidelines should define, specifically, the criteria and procedures for:

- ✓ *ex-ante* evaluation of needs and services,
- ✓ *ex-ante* evaluation of works,
- ✓ selection of the works,
- ✓ *ex-post* evaluation²⁴.

910. See also question 1 under Principle 5 as far as PPP projects are concerned.

911. Finally, CDP routinely engages market participants (both financial and industrial players), their associations and the Government in dialogue. CDP mission is to be complementary to the market operators and not in competition with them.

Japan

912. See answer 1 above.

²⁴ As regards the above mentioned four evaluation steps, in order to standardize the whole assessment process, Ministers must explain in the Guidelines the criteria, the quantitative indicators and assessment methodologies that will be applied. Therefore, the MPD, is the result of an evaluation process of public works structured into four steps. The Legislative decree 228/2011 provides that the Ministries are supported by the Department for the Planning and Coordination of Economic Policy (DIPE) in the drafting of the Guidelines. For this purpose, to ensure that each ministry draws up guidelines consistent with the law, DIPE in collaboration with the Evaluation Unit of public investments and UVAL (of the Department for Development and Cohesion Policies of Ministry of Productive Activity) drafted an "Handbook for the application of the Guidelines for the preparation of the Multi-Annual Planning Document" according to Legislative decree n. 228/2011, available at www.cipecomitato.it.

Mexico

913. The current regulation for infrastructure development seeks to promote the development of well-structured projects with high social returns. The structuring process includes different studies and analysis associated with:

- Technical feasibility.
- Land acquisition, road rights, concessions and permissions required.
- Legal feasibility.
- Environmental protection and urban development.
- Investment estimation.
- Economic and financial viability.
- Cost-benefit analysis including risk management and sensitivity analysis.
- The convenience of the PPP scheme.

914. Particularly, the cost-benefit analysis allows to determine the project's net social benefit, while the economic and financial viability analysis determines if the project requires public resources for its execution.

New Zealand

915. Policy for such an intervention is underpinned by regulatory and business case requirements and frameworks. The government's Regulatory Impact Analysis framework encourages an evidence-based approach to policy development which helps ensure that all practical options for addressing the problem have been considered and the benefits of the preferred option not only exceed the costs, but will also deliver the highest level of net benefit. A business case for material investments is required in accordance with the Better Business Case methodology which addresses the strategic, economic, commercial, and financial and management cases for the proposed investment. The frameworks provide for a more consistent and robust assessment of the merits of long-term investments.

Portugal

916. No comment

Russian Federation

917. In Russia, public intervention occurs mainly in the fields where public interests are involved or resources cannot be effectively allocated by market mechanism. Also Russia tries to minimize public interventions using the PPP mechanisms and attracting private capital where possible.

918. Public investment will be focused primarily on expansion of the transport infrastructure via implementation of the federal program "Development of Transport System". It implies increase in overall road construction rate, as total length of federal highways is to reach 44.1 thousand km by 2018, reduction of transport costs in the economy, improve in accessibility of transport services for population, enhancing external competitiveness of national transport system, ensuring proper safety and sustainability of transport.

919. As for investment in large long-term infrastructure projects it's worth mentioning recent Government decisions to finance construction of the Central Circular Road in the Moscow region and reconstruction of the Baikal-Amur and Trans-Siberian Mainline Railways. These projects will be financed through the Sovereign Wealth Fund in amount of 150 bn. rubles (3.1 bn. euro) assigned for each project.

South Africa

920. This is a difficult question to answer, and difficult to generalize on. This is both because decisions are made on a case by case basis by different authorities at different levels of government, but also because there are ideological differences over the role of the state, compared with more neoliberal approaches. The government sees South Africa as a 'developmental state', and therefore sees a strong role for the state in economic development. However, the justification of new projects does pay attention to perceived market failures. A single case study would not be useful here, because there is no one case that can be extrapolated on to account for all other cases.

921. The extent of state intervention also varies considerably by sector. For example, in the electricity sector there is a heavy state presence monopolizing the sector; there is strong private sector appetite and ability to get involved, however, and opportunities are gradually being made available; however, the extent of this opening up may be limited by a preference amongst policy makers for state ownership in certain areas. However, in the telecommunications sector, the private sector dominates, with a few public players; similarly in the liquid fuels sector the private sector dominates, with one public player playing a minor role.

Spain

922. In the field of transport, there is not such a crowding-out in Spain.

Switzerland

923. Certain areas of infrastructure investments are in the sole competence of the Federal, Cantonal or Communal authorities. This is especially the case for infrastructure projects which create public goods, as for example roads and rail. A competence of the state for investments in a specific area requires a legal basis, which is the result of a broad political debate about pros and cons of a public intervention.

Turkey

924. Every sector has its own decision mechanism to initiate a PPP Project according to their economic and political priorities.

United Kingdom

925. Avoiding crowding out private investment is a key policy objective for the Government. The Government seeks to act only when there is a clear policy rationale.

926. Public spending decisions are informed and supported by proportionate business cases. The Government maintains guidance on how to assess the case for public intervention, which is reviewed periodically and published on its website: <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>. Managing Public Money, a HM Treasury publication, offers further, more general guidance on how public funds should be handled: <https://www.gov.uk/government/publications/managing-public-money>.

927. An independent body, the National Audit Office, scrutinizes individual public spending decisions on behalf of the UK Parliament.

United States

928. See Question 3, Principle 1.1 for a discussion of how the TIFIA and TIGER programs address certain barriers to infrastructure investment. In addition, TIFIA credit assistance is limited to no more than

49 percent of reasonably anticipated eligible project costs for a secured loan or loan guarantee, and no more than 33 percent for a TIFIA standby line of credit in order to “crowd in” private investment. The TIFIA program also facilitates the use of public private partnerships by including the degree to which projects foster PPPs in eligibility criteria, and by providing project sponsors with supporting analytical tools covering topics, such as Value for Money analysis, risk allocation and procurement guidelines.

http://www.fhwa.dot.gov/ipd/pdfs/tifia/program_guide/tifia_program_guide_022414.pdf

http://www.fhwa.dot.gov/ipd/p3/toolkit/fact_sheets/

EU

929. In recent years it has become evident that there is a substantial market failure as well as numerous sub-optimal investment situations leading to underinvestment in viable investment opportunities in the European Union (EU). To address these market failures, the Commission (EC) has launched various financial instruments meant to facilitate infrastructure projects' access to project and corporate financing by using Union funding as leverage, such as the joint EC and European Investment Bank (EIB) Project Bond Initiative (PBI), and the more recent Connecting Europe Facility (CEF) which is the funding instrument for the trans-European networks (TEN) in the fields of transport, energy and telecommunication. In the same vein, financial instruments in the form of guarantees on loans, risk-sharing with financial intermediaries or investments in venture capital funds aim at addressing specific market gaps and are made available to promote SME access to finance and funding for research and innovation under the Programme for the Competitiveness of Enterprises and SMEs (COSME) and Horizon 2020. The initiatives do not aim at replacing other instruments that provide finance to long-term investment projects, but complement them and ensure critical size. Before setting-up these instruments, the Commission conducted ex-ante and impact assessments to identify the respective market failures and evaluate whether EU policy action is needed in each of the sectors covered, taking into account the relevant economic factors. The assessments concluded that there was a strong case for the use of financial instruments to address the gap in infrastructure and SME financing in the EU in the next decade, as the size and nature of the market failures identified meant that it was highly unlikely that the envisaged financial instruments would lead to any crowding out of existing economic operators.

930. With regards to the success of this approach, the Interim Report of the EC to the European Council and the European Parliament (COM/2013/0929 final), as well as the external evaluation carried out during the Pilot Phase of the Project Bond Initiative pointed out that despite the small number of projects signed to date, the instrument proved to be successful in raising the interest of institutional investors in infrastructure projects and is seen as a valuable complement to bank lending solutions. The three PBI transactions closed so far demonstrated the appetite of institutional investors for the bond financing solution as a result of the credit enhancement provided by the instrument.

931. In the case of the CEF Debt Instrument that will be launched in the following months under the CEF platform, the Commission envisages to further address market failures and maximise the value added of the initiative by working closely with financial instruments at regional or national levels across different EU Member States.

932. In the case of the instruments aimed at SME financing, evidence suggested that the market gap in getting access to finance is smaller for large corporates and mid-caps than for SMEs and therefore the focus will be on those that are active in areas of identified priorities or societal importance, such as research or innovation.

How do you ensure that any public support is properly priced and subject to fiscal considerations and that investment opportunities enable the different parties to earn returns commensurate to the risks they take? Is the approach successful?

Australia

933. As noted above, the Australian Government does not generally offer public support for infrastructure projects being financed by private investors, other than providing grant funding to address viability gaps where required.

Canada

934. Canada employs a number of mechanisms to ensure appropriate public involvement in infrastructure projects. Governments tend to limit their involvement to the area of public infrastructure (i.e. where a good or service would not otherwise be available for public use), leaving a stable and predictable regulatory regime provide a framework for private sector investments in privately-owned infrastructure.

935. The Government of Canada supports a greater role for the private sector in its delivery of public infrastructure through the use of public-private partnerships (PPP) where such an approach makes sense. PPP Canada is a federal Crown corporation created to lead federal efforts in promoting the use of the PPP model to improve the delivery of public infrastructure by achieving better value, timeliness and accountability for taxpayers. PPP Canada administers the \$2.5 billion P3 Canada Fund, a merit-based infrastructure program with dedicated funding for public infrastructure projects that are procured through a PPP arrangement by provinces, territories, municipalities and First Nations. The program gives priority to public infrastructure in the following sectors: transportation; water/waste-water; solid waste disposal; and brownfield redevelopment. Other eligible sectors include: green energy; disaster mitigation, culture, connectivity and broadband, and tourism.

936. Canada has also instituted PPP screening requirements to ensure that large capital projects are assessed for their PPP potential, whether these projects are federal or led by another order of government seeking federal funding. To ensure the effective use of public resources, all projects with capital costs of \$100 million are required to undergo a PPP screening.

937. This PPP screen consists of a two-stage assessment. The first stage involves a suitability assessment to determine whether or not the proposed project is suitable for PPP procurement. Next, the second stage:

- In the case of federal projects: If a PPP is deemed to be a suitable option, the responsible federal department is required to develop a procurement options analysis that includes a PPP option.
- In the case of projects from other orders of government: If a PPP is deemed to be a suitable option, the procuring jurisdiction is required to develop a procurement options analysis that examines and compares the traditional procurement delivery model versus a PPP delivery model to assess which model provides the best value for money. Should the federal government determine that the proposed project could be successfully procured through a PPP, federal funding will be contingent upon the project being delivered as a PPP.

938. The Government of Canada provides funding support to the public sector side of PPP transactions, whether they are federally-led or not. In the absence of market failures that would be evidenced, for example, by the inability of private sector consortia to raise the financing (equity and debt) required from capital markets to complete PPP transactions, the government does not intervene on the

private sector side of such transactions as this could undermine the risk transfer at the core of the PPP value proposition.

China

939. To ensure that any public support is properly priced and subject to fiscal considerations, Chinese government has established a set of improved appraisal systems and made strict rules on scale, ratio and standard of payment of governmental investment. The outcome is favourable.

940. To ensure that investment opportunities enable the different parties to earn returns commensurate to the risks they take, Chinese government has continuously improved environmental influence appraisal system, land acquisition and resettlement compensation system, differentiated regional investment policy and transfer payment system. The outcome is favourable.

France

941. Adequate pricing of public support is of great importance. The methodologies developed through the Quinet Report and the MAPP PPP Guide cover to a large extent pricing, fiscal and risk considerations and are subject to growing practice.

Germany

Response to questions 3 and 4:

942. Regarding the Federal Budget Code appropriate economic feasibility analysis must be conducted for all measures having a financial impact. Germany uses an iterative approach, whereby capital investment projects are subject to increasing levels of scrutiny of their overall societal cost/benefit and various financial options. The risk distribution associated with the measures shall be taken into consideration in the analysis (section 7 (2) Federal Budget Code). In general, that party that can bear and manage the risks best should take them.

Italy

943. Public technical structures prepare financial analysis on the public contribution related to the economic and financial investment balance of the projects. Public contribution, e.g. grant, is granted when project cash flows, for a variety of reasons, are estimated to be lower than the amounts necessary for covering the debt and ensuring fair remuneration to investors.

944. As regards CDP, its support is always given on market terms. CDP always acts as a market player and is very careful to comply with EU state aid regulation.

Japan

945. See answer 1 above.

Mexico

946. According to The Federal Law of Budget and Fiscal Accountability, infrastructure projects, including PPP, that require federal budgetary resources must be authorized by:

i) Inter-Secretariat Expenditure Commission, which evaluates if they will contribute to achieve the objectives of the National Development Plan and solve specific population's needs in the short, medium and long term, and

ii) Congress.

947. For PPP projects, contracts define the risk allocation between the parties, but remain flexible in order to cope with unforeseen events.

- The law considers flexible contracts that can be modified to improve the infrastructure project, the level of services or to recognize unexpected situations, only if adjustments do not involve risk transfer between the parties. This process has to follow clear procedures.
- Contracts must include a methodology for determining price variations.
- The contracts also consider “upside sharing” between the private and public sector.

New Zealand

948. The approval process requires consideration of the fiscal and economic impacts and the appropriate procurement methodology in accordance with the frameworks above.

Portugal

949. No comment

Russian Federation

950. Public investment efficiency is expected to increase by the means of implementing obligatory public technical and price audit of all large projects partially financed by state, including investment of the natural monopolies. In 2014 public audit will be obligatory for the projects estimated at 8 bn. rubles (0.2 bn. euro) or above. In 2015 and further – for the projects 1.5 bn. rubles (more than 30 mil. euro) or above.

South Africa

951. This is also difficult to generalize on for the same reasons as above. However, there is a thorough process by which requests for fiscal support are made through the national budgeting system, and are subjected to critical analysis, including the pricing. Whether such support is properly priced or not is highly subjective, though, depending on what values are placed on good or service required, and any other external benefits perceived as valuable.

Spain

952. Firstly, public support is given after competition, so the amount is suitable. Secondly, by giving “equity loans” there is certain level of “earning returns” guaranteed.

Switzerland

953. The budgetary and fiscal consequences of long-term public investments are part of the political decision-making process. On the federal level, long-term public investments are regularly assessed for their necessity, case-by-case. Construction contracts are subject to the rules of public procurement, which requires that the “economically most favorable” offer is selected.

Turkey

954. To ensure that any public support is properly priced and subject to fiscal considerations, the government has established in its PPP law that any project planned as a PPP must have a technical,

financial, economic, environmental, social and legal feasibility including risk analysis and expected public contributions like guarantees etc. along with an analysis of public sector comparator as a basis for the decision by a higher committee.

United Kingdom

955. The UK Guarantees Scheme was introduced to encourage investment in infrastructure projects by providing a Government guarantee to investors. Guarantees are provided on a commercial basis, so the sponsor is charged a fee in line with project risks. This fee has to be in line with market rates to ensure the Guarantee is consistent with European Commission guidance.

956. Investors will be investing in gilts rather than taking project risks which is borne and priced by the Government. This provides the funds required to allow projects to go ahead with the reassurance that the Government will guarantee these funds. This measure allows projects to raise the necessary debt finance required for the project to develop.

United States

957. In order to qualify for TIFIA credit assistance, the creditworthiness of each candidate project is reviewed, which involves evaluation of the project's financial plan, financial model, and feasibility of the pledged revenue. If a project satisfies all of the statutory eligibility criteria, including creditworthiness, it will be invited to apply for TIFIA credit assistance. If an application is approved, credit and business terms for the financing are negotiated and the loan agreement is drafted. The interest rate on a secured TIFIA loan will be equal to, or greater than, the yield on U.S. Treasury securities of comparable maturity. The ability of different parties to earn returns commensurate with risks is determined as part of the review process.

http://www.fhwa.dot.gov/ipd/tifia/letters_interest_applications/tifia_review_process_chart.aspx

EU

958. Public authorities' awareness raising towards proper use of financial instruments and grants is one tool that the Commission uses to ensure that public support across the EU is properly priced. To this effect, the Commission cooperates with the EIB, the European PPP Expertise Centre (EPEC), Innovation and Networks Executive Agency (INEA) to raise understanding of EU grants and financial instruments and of the risk pricing herein. Key activities include workshops and trainings as well as active participation in working groups and publications focused on specific issues relevant to structuring of PPP projects.

959. Furthermore, the Commission and the EIB have developed the PBI to be deployed by the private sector in order to enhance the credit quality of the project's financial structure and support a bond issue on a cost-competitive basis compared to bank loans. The Commission and the EIB designed a credit enhancement (PBCE) mechanism for the instrument that could improve the rating of senior debt and hence provide cost advantages to the public authority, while the pricing by the EIB is in line with market conditions. The transactions closed to date proved that PBCE reduced investment risk, enabled the projects to attract private finance at a competitive pricing and allowed the public authority to achieve significant savings.

Do you run a cost benefit analysis of projects? What do you consider is the appropriate approach to cost benefit analysis?

Australia

960. In Australia, state governments undertake a cost-benefit analysis of infrastructure projects in their jurisdiction. State governments can submit their cost-benefit analysis to Infrastructure Australia for review. The Commonwealth Government has a policy that the cost benefit analysis for any infrastructure project seeking more than \$100 million in Commonwealth funding must be reviewed by Infrastructure Australia.

961. To ensure consistency across jurisdictions and to provide clarity to industry, Australian governments have developed the National Guidelines for Transport System Management in Australia. The National Guidelines provide a comprehensive framework for strategic-level transport planning and analytical approaches to transport project appraisal, including agreed cost benefit analysis methodology.

Canada

962. Canada employs a number of mechanisms to ensure appropriate public involvement in infrastructure projects. Governments tend to limit their involvement to the area of public infrastructure (i.e. where a good or service would not otherwise be available for public use), leaving a stable and predictable regulatory regime provide a framework for private sector investments in privately-owned infrastructure.

963. The Government of Canada supports a greater role for the private sector in its delivery of public infrastructure through the use of public-private partnerships (PPP) where such an approach makes sense. PPP Canada is a federal Crown corporation created to lead federal efforts in promoting the use of the PPP model to improve the delivery of public infrastructure by achieving better value, timeliness and accountability for taxpayers. PPP Canada administers the \$2.5 billion P3 Canada Fund, a merit-based infrastructure program with dedicated funding for public infrastructure projects that are procured through a PPP arrangement by provinces, territories, municipalities and First Nations. The program gives priority to public infrastructure in the following sectors: transportation; water/waste-water; solid waste disposal; and brownfield redevelopment. Other eligible sectors include: green energy; disaster mitigation, culture, connectivity and broadband, and tourism.

964. Canada has also instituted PPP screening requirements to ensure that large capital projects are assessed for their PPP potential, whether these projects are federal or led by another order of government seeking federal funding. To ensure the effective use of public resources, all projects with capital costs of \$100 million are required to undergo a PPP screening.

965. This PPP screen consists of a two-stage assessment. The first stage involves a suitability assessment to determine whether or not the proposed project is suitable for PPP procurement. Next, the second stage:

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966. The Government of Canada provides funding support to the public sector side of PPP transactions, whether they are federally-led or not. In the absence of market failures that would be evidenced, for example, by the inability of private sector consortia to raise the financing (equity and debt) required from capital markets to complete PPP transactions, the government does not intervene on the private sector side of such transactions as this could undermine the risk transfer at the core of the PPP value proposition.

China

967. Yes. For government investment projects, feasibility study reports which include analysis on necessity and possibility of the projects are required by Chinese government. The cost benefit analysis of government investment projects includes financial evaluation and national economic evaluation. Financial evaluation is mainly analysing and forecasting financial benefit and expense, examining profitability and solvency, then judging the financial feasibility of the projects. National economic evaluation is mainly examining the social cost and benefit of the projects from the perspective of national economy, then appraising the economic rationality of the projects.

France

968. A regulation issued in 2013, makes mandatory for all government investment projects above 20M€, to be subject to a socio-economic ex ante assessment. Such assessment must be sent to the CGI (*Commissariat général à l'investissement*). The latter is in charge of formally reviewing such assessment for all projects above €100 M.

969. For all Government investment projects in the form of a Public Private Partnership (availability model), a comparative socio-economic ex ante assessment is mandatory. Such assessment is being reviewed by the MAPPPP.

Germany

970. Regarding the Federal Budget Code appropriate economic feasibility analysis must be conducted for all measures having a financial impact. Germany uses an iterative approach, whereby capital investment projects are subject to increasing levels of scrutiny of their overall societal cost/benefit and various financial options. The risk distribution associated with the measures shall be taken into consideration in the analysis (section 7 (2) Federal Budget Code). In general, that party that can bear and manage the risks best should take them.

Italy

971. Independent third parties, which are selected on a competitive basis, carry out cost-benefit analysis on the basis of the criteria and guidance provided for by the “Guide to Cost-Benefit Analysis of Investment Projects”²⁵ prepared by the European Commission. As regards PPP operations see also question n. 1 under Principle 5.

Japan

972. See answer 1 above.

²⁵ http://ec.europa.eu/regional_policy/sources/docgener/guides/cost/guide02_en.pdf

Mexico

973. For those projects that require federal public resources, a Cost-Benefit Analysis must be carried out, for PPP's an additional Value for Money Analysis is required. For this purpose the Investment Unit of the Ministry of Finance issued **the Cost-Benefit Analysis Guidelines**¹ for assessing projects' net social benefits; and the **Convenience of the PPP Scheme Guidelines**², which evaluate the convenience in terms of economy, efficiency and effectiveness of the PPP scheme.

i) **Cost-Benefit Analysis Guidelines**

The analysis must include, at least:

- Executive Summary.
- Current situation.
 - Supply and demand analysis.
- Situation without the execution of the project.
 - Supply and demand analysis with the current infrastructure.
 - Alternative solutions.
- Situation considering the execution of the project.
 - Description of the project, including physical characteristics and main outputs.
 - Alignment with the NDP and sector-specific national programs.
 - Total amount of investment, and sources of financing.
 - Supply and demand analysis through the project's lifetime.
- Project Evaluation.
 - Social Cost-Benefit Assessment. Each project is evaluated in order to gauge its net benefits for society. This evaluation considers direct and indirect costs, benefits and externalities, the next indicators must be calculated:
- Net Present Value (NPV).
- Internal Social Rate of Return (ISRR).
 - Relevance of the period in which the project will start:
- The Immediate Rate of Return (IRR)³.
- Risk Analysis.
 - All risks associated with the project must be identified, quantified and concrete measures to mitigate those risks must be defined.
- Sensitivity Analysis.
 - Analyse different stress scenarios and their impact over the main project evaluation indicators.
- Conclusions, annexes, and bibliography.

ii) Convenience of PPP Scheme Guidelines

For determine the convenience of the PPP scheme the Federal Government has issued some guidelines. The guidelines establish that all PPP projects that require federal resources must have a register in the Investment Unit of the Ministry of Finance and Public Credit, an eligibility index, a risk analysis and the calculus of Value for Money.

¹ These Guidelines are available at http://www.dof.gob.mx/nota_detalle.php?codigo=5328458&fecha=30/12/2013

² These Guidelines are available at http://www.dof.gob.mx/nota_detalle.php?codigo=5328552&fecha=31/12/2013

³ First Year Net Benefits/Cost of Investment) determine the optimal time for the project to begin.

New Zealand

974. Yes, the Treasury publishes a cost benefit primer as guidance

Portugal

975. All regulatory measures in the financial field are subject to impact assessment exercises.

Russian Federation

976. No comment

South Africa

977. The National Treasury requires large projects requesting fiscal support to submit feasibility studies, mostly which would need a cost benefit analysis. These requirements are contained in a guiding document that Treasury publishes, including the exact approach that should be taken to undertaking cost-benefit analysis. The Treasury also has internal expertise that assesses any requests, checking the cost-benefit of projects and making recommendations based on this – although this has only been in place for a few years. However, there are projects that are financed without Treasury support, such as state-owned entities – they generally do conduct cost benefit analysis, but this not regulated and nor is there a consistent approach between them.

Spain

978. Yes. It is only advisable for selecting different alternatives, and only if the Government has established the discount rate to make such an analysis, but not for “Value for money” studies.

Switzerland

979. For major rail or road investments financed by the Federal Government, an elaborated and standardized impact analysis (“*Wirkungsanalyse*”) is undertaken. The analysis focuses on economic and business aspects (e.g. direct costs, benefits for economic development through better accessibility etc.) as well as ecological and societal aspects.

Turkey

980. Yes. Before approval by the High Planning Council a PPP Project is evaluated by the Ministry of Development, Ministry of Finance and the Treasury in terms of cost benefit analysis.

United Kingdom

981. The UK has developed and promulgated world leading approaches and guidance on the valuation of public spending projects and how public spending proposals should be developed through the business case process to deliver best public value. These are freely available on the Treasury web pages as the Green Book and the treasury Guidance on Business Cases using the Five Case Model.

982. The public value of projects is measured as laid out by the Green Book which calls for costs and benefits to the public to be valued as far as possible and expressed in money terms using accepted tools of welfare economics. This includes the identification and costing of risks as part of the social cost of a spending proposal. The net benefits are then discounted by the social time preference rate to derive a Net Present (Public) Value. This calculation of public NPV is carried out in the so called “Economic Case” which includes both effects on the economy and a wide range of other costs and benefits to society including health, environmental, cultural and social welfare costs and benefits.

983. The relative merits of alternative options are judged by a balance decision comparing the public value NPV along with considerations of risk and budgetary impact and any decisively important issues which cannot be realistically monetised.

984. The net impact for the exchequer is valued differently using accounting rules in a separate part of the analysis, known as the financial case.

United States

985. Cost benefit analysis of projects are conducted. In general, the approach is to identify, and to the extent possible, quantify the relevant elements of costs and benefits, and where appropriate, conduct sensitivity analysis around baseline assumptions. If the benefits do not justify the costs, the project will not be undertaken. For example, applicants for TIFIA credit assistance must submit a detailed financial plan that covers projected costs and revenues, including, among other things, capital costs, environmental assessments, debt service coverage ratios, and revenue sources. TIGER applicants must provide evidence that expected benefits of the project justify the costs, including benefits that improve quality of life, economic competitiveness, or environmental sustainability.

http://www.fhwa.dot.gov/ipd/tifia/guidance_applications/tifia_applications.aspx
<http://www.dot.gov/sites/dot.gov/files/docs/TIGER%20BCA%20Guidance%202014.pdf>

EU

986. In the case of PBI, the EIB performs a full due diligence of projects, including a fully-fledged cost-benefit analysis.

Has your country set up a National Assessment Agency (NAA) or its equivalent? If yes, has it been successful?

Australia

987. As noted above, Infrastructure Australia conducts reviews of major infrastructure projects in Australia. These reviews are based on information submitted by project proponents and the reviews are prior to investment decisions being made, and are not ex-post reviews.

Canada

988. Canada employs a number of mechanisms to ensure appropriate public involvement in infrastructure projects. Governments tend to limit their involvement to the area of public infrastructure (i.e. where a good or service would not otherwise be available for public use), leaving a stable and predictable regulatory regime provide a framework for private sector investments in privately-owned infrastructure.

989. The Government of Canada supports a greater role for the private sector in its delivery of public infrastructure through the use of public-private partnerships (PPP) where such an approach makes sense. PPP Canada is a federal Crown corporation created to lead federal efforts in promoting the use of the PPP model to improve the delivery of public infrastructure by achieving better value, timeliness and accountability for taxpayers. PPP Canada administers the \$2.5 billion P3 Canada Fund, a merit-based infrastructure program with dedicated funding for public infrastructure projects that are procured through a PPP arrangement by provinces, territories, municipalities and First Nations. The program gives priority to public infrastructure in the following sectors: transportation; water/waste-water; solid waste disposal; and brownfield redevelopment. Other eligible sectors include: green energy; disaster mitigation, culture, connectivity and broadband, and tourism.

990. Canada has also instituted PPP screening requirements to ensure that large capital projects are assessed for their PPP potential, whether these projects are federal or led by another order of government seeking federal funding. To ensure the effective use of public resources, all projects with capital costs of \$100 million are required to undergo a PPP screening.

991. This PPP screen consists of a two-stage assessment. The first stage involves a suitability assessment to determine whether or not the proposed project is suitable for PPP procurement. Next, the second stage:

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992. The Government of Canada provides funding support to the public sector side of PPP transactions, whether they are federally-led or not. In the absence of market failures that would be evidenced, for example, by the inability of private sector consortia to raise the financing (equity and debt) required from capital markets to complete PPP transactions, the government does not intervene on the private sector side of such transactions as this could undermine the risk transfer at the core of the PPP value proposition.

China

993. Chinese government has chosen a group of first class and qualified engineering consulting institutions and entrust these institutions to appraise and demonstrate the proposals and feasibility study reports of central government investment projects. By doing so, the scientific level of decision making of government investment projects improved significantly.

France

994. The *Commissariat Général à l'Investissements* (CGI) was created in 2010. In 2013, the CGI mission was extended to receive all socio-economic ex ante assessments regarding every government investment projects above 20 M€, and to review all such assessments for all projects above M€100.

995. The MAPPP was created in 2005 to review all ex ante assessments regarding Government investment projects in the form of a Public Private Partnership (availability model).

Germany

996. In Germany setting up a “National Assessment Agency” or a similar institution is not necessary, nor appropriate. As far as our country is concerned, it is to stress that it is each individual project that needs to be assessed on the basis of its own merits (the individual appropriately comprehensive cost benefit analysis for each project must have a positive outcome).

997. As already mentioned in our response to question 1 on Principle 1.5 (in Part 1), regarding the question of PPP instead of traditional procurement, Germany uses an iterative approach that is used for each individual procurement project, which is opposed to a possible (national) strategy of an infrastructure project pipeline to promote long-term investment.

Italy

998. No comment

Japan

999. No

Mexico

1000. For those projects that require federal public resources, the Investment Unit of the Mexican Ministry of Finance certifies the projects’ net social benefits based on the cost-benefit evaluation, for PPP’s, the convenience in terms of economy, efficiency and effectiveness of the PPP scheme is also evaluated.

1001. Nonetheless, each Federal Government Agency is responsible for their infrastructure projects, depending on the infrastructure sector: Ministry of Communications and Transportation (SCT), National Water Commission (CONAGUA), Ministry of Health, etc., determine the feasibility of the project based in the aforementioned studies.

New Zealand

1002. No

Portugal

1003. Please revert to answer N° 4

Russian Federation

1004. No comment

South Africa

1005. No. However, as detailed above, project assessment is carried out by the National Treasury on large projects requesting financial assistance. There is another agency for infrastructure, the Presidential Infrastructure Co-ordinating Commission (PICC), which looks at the country's large projects, but whose focus is on catalysing their implementation, and does not perform CBA on their feasibility. There is also the Development Bank of Southern Africa, (DBSA), the country's largest development finance institute that has a focus on infrastructure investment, and it does conduct CBA on potential projects through its own fairly rigorous system.

Spain

1006. No

Switzerland

1007. As mentioned in the response to questions 3 and 4 on principle 5, public interventions in long-term investments are regularly assessed case-by-case with a standardized analysis. Therefore a NAA is not necessary at the moment.

Turkey

1008. The Undersecretariat of Treasury serves this function in respect of fund of funds. The law was enacted but no resources have been transferred to any fund so far. After transferring resources, statistical information will be gathered from the funds and studies will be carried out based on this information. For PPP projects, there is no central agency but the approval and implementation phases have been divided between the approval bodies and the different line Ministries. Ministry of Development, Ministry of Finance and the Treasury evaluate the Project, High Planning Council- chaired by the Prime Minister and related Ministers are other members-is the authority to approve the Project. If Council approves the PPP method, tendering proceeds and then the related line Minister signs the contract and implement it.

United Kingdom

1009. No. However, Infrastructure UK update a National Infrastructure Plan on an annual basis to address the infrastructure needs of the UK.

United States

1010. No response

EU

1011. N/A

What risk mitigation mechanisms for LTI projects have you adopted or are considering using? What are the private mechanisms? Are they successful?

Australia

1012. As noted above, the Australian Government does not generally offer public support for infrastructure projects being financed by private investors, other than providing grant funding to address viability gaps where required. The Australian Government is considering the recent findings of its independent research and advisory body, the Productivity Commission, which reported in May 2014 on the costs and financing of public infrastructure including the level of private sector investment. This advice will help inform future government policy in this area.

Canada

1013. Canada employs a number of mechanisms to ensure appropriate public involvement in infrastructure projects. Governments tend to limit their involvement to the area of public infrastructure (i.e. where a good or service would not otherwise be available for public use), leaving a stable and predictable regulatory regime provide a framework for private sector investments in privately-owned infrastructure.

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1017. The Government of Canada provides funding support to the public sector side of PPP transactions, whether they are federally-led or not. In the absence of market failures that would be evidenced, for example, by the inability of private sector consortia to raise the financing (equity and debt)

required from capital markets to complete PPP transactions, the government does not intervene on the private sector side of such transactions as this could undermine the risk transfer at the core of the PPP value proposition.

China

1018. Chinese government attaches great importance to risk mitigation of LTI projects, requiring that implementation of projects must be in accordance with specific process of managing fixed asset investment projects. Identifying, evaluating and managing risks in different processes of project cycle through special planning of government investment, feasibility study report and project supervision are also needed. Furthermore, Chinese government has actively promoted establishing and improving bidding system, engineering insurance system and project consignment system in order to further standardize risk management of government investment projects.

France

1019. There is no prescriptive mitigation mechanism. In the *ex ante* assessment processes followed by CGI and MAPPP, risks mapping and risks transfers are subject to analysis.

Germany

1020. The Federal Government has no national guarantee facilities to reduce investors risk in infrastructure investment. In any case the Federal Government and / or the federal states does / do manage the risks they have accepted according to contractual arrangements.

Italy

1021. Italy has adopted risk mitigation mechanisms for LTI projects made by the European Investment Bank (e.g. LGTT)

1022. Risk mitigation mechanisms currently adopted at CDP are mainly based on market best practices and appropriate asset and liability management.

Japan

1023. See answer 1 above.

Mexico

1024. It varies from project to project, the Cost-Benefit Analysis Guidelines establish that all risks associated with the project must be identified and quantified; also the necessary measures to mitigate those risks must be defined.

1025. Some of the risk mitigation mechanisms are mezzanine products, subordinated debt and guarantees.

New Zealand

1026. Risk mitigation is considered as part of the business case process. Major projects are monitoring through implementation (and for example, go through a Gateway assurance process during stages of the process). Major project monitoring is a focus for the Government and opportunities for further improvements are under consideration.

Portugal

1027. No comment

Russian Federation

1028. No comment

South Africa

1029. Most infrastructure is owned by the State, with the state the main investor. For certain types of projects – mainly social - (typically schools, provincial/local roads) etc., there is on-budget funding so no need for risk mitigation. Then for economic infrastructure carried out by state-owned entities, this is usually financed by markets and repaid by users; but there are cases where state support is requested for risk mitigation. Risk mitigation mechanisms provided by the state include the following:

- Co-financing from the DBSA for projects (public or private)
- Guarantees from the Treasury to particular public entities carrying out large investment programmes; although space for this has become limited. Guarantees are rarely given to individual projects – a recent rare exception was a high speed commuter rail project, *Gautrain*, and an off-take guarantee given for the first few rounds of renewable energy projects (although note that the owners of these projects are the private sector, it is only the electricity that is being procured by the State). But this is seen as quite exceptional, and generally not encouraged.
- Grants from various government schemes that are aimed at encouraging private investment (through the Department of Trade and Industry).
- A particular grant was given to the *Gautrain* to address demand risk: a certain level of grant assistance is given should ridership numbers not meet the requirements. However, this was quite unique.
- In short, any type of risk mitigation is decided only on a case by case basis, but there are no pre-approved types of products made available. However, this will be a subject of focus over the coming years, particularly as part of a focus in the National Treasury on ‘development finance’.

1030. Private mechanisms: there are no known products for risk mitigation for projects for items such as construction or operational risk; generally banks would price this into their interest rates on loans for specific projects. However, this is an area that short-term insurers have indicated they are interested to get more involved in. In addition, risk mitigation such as political insurance, or for currency hedging, is available.

Spain

1031. Force Major and “*Factum Principis*” only (economic re-balance)

Switzerland

1032. From a public finance perspective, risks are mitigated with price caps resp. high political barriers for additional credit and a strict credit control. Furthermore, in the case of the largest rail investment of the past decades, a separate company has been established to defend the states interests as the builder of the infrastructure, in order to counter balance the interests of the future operator.

Turkey

1033. There are mainly three mechanisms of risk mitigation used by the Treasury in LTI projects in Turkey. First is Treasury repayment guarantee which is provided for external borrowings of public institutions. This commonly used mechanism makes the financing of the public investment projects easier because it is a direct guarantee to the creditors for the repayment obligations of the related institutions. This mechanism has been successful in the sense that many infrastructure projects by municipalities and SOEs have been financed with Treasury guaranteed loans in the past and the percentage of guarantees called has been quite low.

1034. Second one is the investment guarantee provided by the Treasury within the framework of PPP projects. It refers to the counter guarantee by Treasury provided to the public administration owning the PPP project, for its commitments under the project. In other words, if the guarantor public administration cannot meet its obligations, Treasury steps in by assuming each instalment or other obligations as they become due. To date, Treasury investment guarantee has been provided for 17 projects, only one of them has been called.

1035. Third is the debt assumption commitments made by Treasury within the framework of PPP. According to this mechanism in case of early termination of the PPP contract, the project assets are taken over by the public together with the outstanding senior debt as of the date of termination. This is a recently developed mechanism to support the big infrastructure projects by easing their access to finance.

1036. The purpose of fund of funds and angel investment mechanisms is to mitigate the market deficiencies in the provision of equity for innovative start-ups.

United Kingdom

1037. The UK Guarantees Scheme was introduced to help infrastructure projects raise debt, because it means lenders are effectively taking Government risk, not project risk. The scheme has widened the investor base and increased the amount and term of debt available, whilst not directly affecting the overall cost of financing.

1038. The scheme has been a success as a new investors have emerged that have not traditionally been associated with infrastructure investment. All the rated bonds rising debt under the scheme have been oversubscribed indicating the high level of demand of Government guaranteed debt.

United States

1039. An analysis of a project's credit worthiness is made before a formal application for TIFIA credit assistance can be submitted. The application for credit assistance must include a description of risk mitigation strategies, addressing risks such as cost escalation, construction schedules, approvals and traffic levels, as well as a description of cost containment approaches (e.g. design-build, guaranteed maximum price and/or completion date, warranties, or other incentive/disincentive clauses). TIGER applications must identify project risks and mitigation strategies related to procurement delays, environmental uncertainty, including extreme weather and climate change, and increases in real estate acquisition costs, among other factors.

http://www.fhwa.dot.gov/ipd/tifia/guidance_applications/tifia_applications.aspx
http://www.dot.gov/sites/dot.gov/files/docs/TIGER%202014%20NOFA_FINAL.pdf

EU

1040. In support of investment in LTI projects, the Commission has promoted financial instruments with clearly defined risk mitigation mechanisms. For example, the PBI is a risk-sharing mechanism whereby the EIB provides a direct loan or a contingent liquidity line, while the EU budget contribution serves to partly absorb the EIB's risk by covering the first losses on a portfolio of projects. In this way, the liability of the EU budget is always capped at the level of the budget contribution provided. Other EU-level financial instruments which make use of the credit enhancement mechanism are the Loan Guarantee Instrument (LGTT) deployed for projects with traffic risk, and the Marguerite Fund, which can participate in the equity portion of the capital to enhance the consortia's own capital contribution.

1041. Similarly, the EC (through the European Investment Fund) provides support to SMEs in the form of guarantees and venture capital instruments.

Does your State provide any form of financial instrument and incentive to support infrastructure development during the construction and post-construction phase? If yes, have they been successful?

Australia

1042. The Australian Government provides a Tax Loss Incentive for designated infrastructure projects. The Incentive supports eligible bodies by removing impediments in the existing tax system that may discourage private sector investment in infrastructure. The incentive includes:

- Uplifting the value of carry forward losses by the 10-year Australian Government bond rate; and
- Exempting the carry forward losses and bad debt deductions from the continuity of ownership and the same business tests.

1043. In order to be eligible for the Incentive, infrastructure projects must receive Designated Infrastructure Project status.

Canada

1044. Canada employs a number of mechanisms to ensure appropriate public involvement in infrastructure projects. Governments tend to limit their involvement to the area of public infrastructure (i.e. where a good or service would not otherwise be available for public use), leaving a stable and predictable regulatory regime provide a framework for private sector investments in privately-owned infrastructure.

1045. The Government of Canada supports a greater role for the private sector in its delivery of public infrastructure through the use of public-private partnerships (PPP) where such an approach makes sense. PPP Canada is a federal Crown corporation created to lead federal efforts in promoting the use of the PPP model to improve the delivery of public infrastructure by achieving better value, timeliness and accountability for taxpayers. PPP Canada administers the \$2.5 billion P3 Canada Fund, a merit-based infrastructure program with dedicated funding for public infrastructure projects that are procured through a PPP arrangement by provinces, territories, municipalities and First Nations. The program gives priority to public infrastructure in the following sectors: transportation; water/waste-water; solid waste disposal; and brownfield redevelopment. Other eligible sectors include: green energy; disaster mitigation, culture, connectivity and broadband, and tourism.

1046. Canada has also instituted PPP screening requirements to ensure that large capital projects are assessed for their PPP potential, whether these projects are federal or led by another order of government seeking federal funding. To ensure the effective use of public resources, all projects with capital costs of \$100 million are required to undergo a PPP screening.

1047. This PPP screen consists of a two-stage assessment. The first stage involves a suitability assessment to determine whether or not the proposed project is suitable for PPP procurement. Next, the second stage:

- In the case of federal projects: If a PPP is deemed to be a suitable option, the responsible federal department is required to develop a procurement options analysis that includes a PPP option.
- In the case of projects from other orders of government: If a PPP is deemed to be a suitable option, the procuring jurisdiction is required to develop a procurement options analysis that examines and compares the traditional procurement delivery model versus a PPP delivery model to assess which model provides the best value for money. Should the federal government determine that the proposed project could be successfully procured through a PPP, federal funding will be contingent upon the project being delivered as a PPP.

1048. The Government of Canada provides funding support to the public sector side of PPP transactions, whether they are federally-led or not. In the absence of market failures that would be evidenced, for example, by the inability of private sector consortia to raise the financing (equity and debt) required from capital markets to complete PPP transactions, the government does not intervene on the private sector side of such transactions as this could undermine the risk transfer at the core of the PPP value proposition.

China

1049. Yes. In the recent years, Chinese government has endeavoured to create new investment financing pipelines to attract more private capital into infrastructure construction:

- Firstly, by exploring the use of PPPs, broadening the resources of infrastructure construction through collaboration between government and private sector, promoting reasonable sharing of risks and benefits amongst participants, and maximizing social benefits of infrastructure projects.
- Secondly, by promoting marketization of the operation of infrastructure investment on the basis of price reform. Reasonably determining the price of public transportation, sewage and garbage, water, electricity and other urban infrastructures, improving formation, adjustment and compensation mechanism of price, so as to stimulate private sector investment.

1050. In addition, Chinese government has put forward many direct debt financing vehicles in the inter-bank bonds market, such as short –term financing bills, mid-term notes and super short –term financing bills, in the meantime, promoted the innovation of bonds market products in accordance with the need of social economic development, such as SMEs joint notes and regional optimization mode, effectively widening direct financing channel of infrastructure construction companies.

France

1051. On the European level, financial support to infrastructure development during the construction and post-construction phases is provided by the European Investment Bank (EIB). On the national level, such instruments are provided on a project by project basis by *Bpifrance* and the *Caisse des Dépôts et des Consignations* (CDC).

Germany

1052. See response to question 6 on Principle 5.

Italy

1053.

- ✓ several amendments to the Code of public contracts are aimed at expanding the role of private sector sponsors during the project proposal, selection and definition phases (feasibility studies with a clear set of output requirements and service quality standards);
- ✓ a tax credit - to be calculated on the corporate income tax (IRES) and the regional tax on productive activities (IRAP) - equal to up to 50 per cent of the investment cost, will be granted for the construction of new large strategic infrastructure works, whose public – private partnership contracts exceed € 200 million.;
- ✓ yield on projects bonds benefit from the same more favourable tax regime as sovereign bonds (legislative decree 83/2012).

1054. Different initiatives at the EU level (e.g., the EU Project Bond Initiatives) are under scrutiny in order to potentially build upon those incentive mechanisms.

Japan

1055. The government developed policies to expand the size of PPP/PFI (Private Finance Initiative) projects to 12 trillion yen over the next 10 years (currently 4.2 trillion yen) by utilizing private sector funds and expertise into the development of infrastructure that is traditionally dominated by the public sector. This will not only allow for effective and efficient development and management, but it will also provide private companies with a huge market and opportunities to strengthen their international competitiveness.

Mexico

1056. Please refer to answer 9.

New Zealand

1057. No

Portugal

1058. A number of PPP projects have been launched in the last 15 years, with the State assuming part or the whole of the financial risk of public-private infrastructure projects, but more with a view to put them out of the public budget. Now that the time has come for the State to start paying the costs and comply with the financial duties assumed in those contacts it becomes very clear that a lot of mistakes have been done, and that Portugal will have to learn the lessons from those mistakes and find a different balance between the public and the private responsibilities in the financing and risk taking of infrastructure projects.

Russian Federation

1059. No comment

South Africa

1060. Covered above.

Spain

1061. Very occasionally. Equity loans but for the whole project life.

Switzerland

1062. No

Turkey

1063. The above-cited risk mitigation tools employed by the Treasury can also be considered as financial instruments and incentives to support infrastructure development. In this regard, debt assumption commitments cover both construction and post-construction phases, while Treasury investment guarantees are mostly in the form of demand or revenue guarantees during the post construction period.

United Kingdom

1064. The UK Guarantees Scheme was introduced to give investors the reassurance needed to invest in projects during the construction and post-construction phase. The scheme gives investors the reassurance that may be needed to make investments in infrastructure projects. Projects can be guaranteed during the construction phase and post-construction phase until the debt has been repaid. The scheme also encourages equity investment in projects as equity partners have been reassured by the presence of a guarantee. This scheme has been successful as can be seen by the level of subscription for guaranteed debt for projects that have been issued a guarantee. The long-term bond offering for Mersey Gateway Bridge was three times over-subscribed for a term of almost 30 years.

1065. As part of the PFI reform, the Government introduced a third party equity funding competition for a portion of the equity requirement in Private Finance 2 (PF2) projects. The timing of such a competition, when project documentation and commercial and financial arrangements are complete prior to the construction phase of the project. The aim is to attract a new class of investors to participate in PF2 projects without bearing the cost and risk of development.

United States

1066. At all levels of government, the U.S. features the deepest, most well-developed markets for public debt instruments in the world.

- Interest on most state and local government debt – which is largely used to finance infrastructure – is exempt from federal income taxes. The tax-exempt nature of the debt results in decreased borrowing costs for state and local governments:
- Tax-exempt status of private activity bond interest: qualified private activity bonds (PABs) are tax-exempt bonds issued by a state or local government, the proceeds of which are used for a defined qualified purpose by an entity other than the government issuing the bonds. PABs can be used to fund particular projects in a wide range of infrastructure sectors including education, transportation, utilities, environmental, and health care. For more information on types of infrastructure projects, see this report:

<http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/106xx/doc10667/10-26-taxpreferredbonds.pdf>

- Direct pay tax-subsidy bonds: in this case, the federal government pays a subsidy directly to the issuer covering some percentage of its interest costs. During 2009 and 2010, the Build America Bonds (BABs) program paid a 35 percent subsidy to municipal issuers of direct pay bonds, which a U.S. Treasury report found reduced interest costs by 84 basis points on 30-year debt. See the report here:

<http://www.treasury.gov/initiatives/recovery/Documents/BABs%20Report.pdf>

1067. The President is currently proposing the authorization of a similar program, called America Fast Forward Bonds, which would pay a 28 percent interest subsidy.

EU

1068. The Commission has developed several instruments using centrally managed EU budget in support of infrastructure financing. An example is the LGTT instrument for Trans-European Transport Network (TEN-T) projects aims to facilitate wider participation of the private sector in the financing of TEN-T infrastructure. The LGTT partially covers the revenue risk during the initial operating period and consequently improves the financial viability of TEN-T projects. The LGTT has already been used for 6 major projects in Europe and shows a solid pipeline of projects.

1069. Furthermore, the Project Bond Credit Enhancement instrument provided by the PBI provides a more extensive risk coverage compared to the LGTT (i.e. all risk coverage, versus traffic risk) to support infrastructure projects both during construction and post-construction phase. Some of the PBCE transactions closed to date embedded innovative financing mechanisms that allowed for deferred drawdown structure of bonds and thus mitigate greenfield risk.

1070. The new instruments to be launched under the CEF will incorporate enhancements based on the lessons learnt from the Pilot Phase of the PBI, to provide a fuller coverage of the financing package (i.e. hybrid bank and bond solutions to mitigate construction risk, etc.).

Has the government set up a regulatory framework to allow for/promote pooled investment vehicles? What does this framework include? Is it successful? If not, what would be the necessary regulatory framework required to allow for such development?

Australia

1071. Australia has established a legal framework for the regulation of pooled investment vehicles, referred to in Australia as “managed investment schemes”. This framework is contained in the Corporations Act 2001, and is enforced by the Australian Securities and Investment Commission. The framework specifies and governance and disclosure arrangements for managed investment schemes.

1072. A managed investment scheme cannot operate without a responsible entity. The responsible entity of a registered scheme holds scheme property on trust for members of the scheme. The entity operates the scheme and performs the functions conferred on it by the scheme’s constitution and the law. Chapter 5C includes the corporate governance rules for managed investment schemes, including duties of the responsible entity, its directors and employees.

1073. All managed investment schemes must be registered with ASIC, unless the schemes have less than 20 members or are only able to be accessed by wholesale clients. A managed investment scheme must have a scheme constitution, a compliance plan and, in some circumstances, a compliance committee.

1074. The process of offering interests in a scheme is regulated by various disclosure requirements, including the requirement to provide a product disclosure statement, and other related documents, to retail investors in advance of any investment. ASIC provides disclosure guidance for various types of schemes, including infrastructure funds, hedge funds and agribusiness schemes.

1075. A responsible entity must be a public company that holds an Australian Financial Services licence which permits it to operate the scheme. Specific requirements are imposed on responsible entities through the licencing system, including the need to have adequate resources to meet the operating costs of the scheme.

1076. Members of a managed investment scheme have statutory rights to call meetings of the scheme for various purposes, including to replace the responsible entity or alter the scheme constitution. There is also a statutory procedure for members seeking to withdraw their investment in a scheme (including the freezing of withdrawal rights for non-liquid schemes).

1077. The legal framework also includes various provisions for the winding up of managed investment schemes.

1078. While the legal framework for managed investment schemes is generally working well, it has been subject to a number of reviews over the past five years. The Australian Government's broad-ranging Financial System Inquiry may consider the current role played by managed investment schemes in the Australian economy, as well as the effectiveness of the legal framework. The Inquiry is expected to report in November.

1079. Australia's tax system provides concessional tax treatment for managed investment schemes that are widely held and engage in passive investment activity. These are known as managed investment trusts for tax law purposes. The concessional tax treatment for managed investment trusts includes a lower withholding rate for distributions to non-resident investors and access to rules which provide greater certainty and simplicity in relation to the tax treatment of certain types of transactions and interests.

1080. The Australian Government is committed to implementing reforms to modernise and improve the tax rules for managed investment trusts. The reforms are designed to reduce complexity, lower compliance costs and increase certainty for managed investment trusts and their investors. This follows a review of the tax rules undertaken by the Board of Taxation in 2009.

Canada

1081. As noted in the response to questions under Principle 2.2, the government maintains a legislative and regulatory regime for public and private pension funds, which act as pooled funds for the purposes of investment. In addition, the federal Pooled Registered Pension Plan framework was adopted in December 2012. PRPPs will provide a low-cost and large-scale retirement savings option for Canadians who do not have access to a workplace pension plan. Some PRPP administrator licenses have been issued, but no PRPP has been registered yet.

China

1082. Yes. Securities Investment Fund is an important pooled investment vehicle in China. In the recent years, Chinese government has continuously improved regulatory framework for SIF, regarding *Securities Investment Fund Law of the People's Republic of China (issued in 2003 and revised in 2012)* as key

regulatory rule and CSIC as key regulatory unit. The framework includes market entry system, trusteeship system, information disclosure system, sales adaptation principle and investment monitoring system. After years of standardization and development, the scale and market influence of SIF has increased significantly.

France

1083. First, the regulatory framework for FCTs (“*Fonds commun de titrisation*”, i.e. securitization mutual fund) was adapted in order to include infrastructure debt.

1084. Secondly, as previously mentioned, French regulation has been amended, in conformity with Solvency I directive, to make investment rules for insurance companies more flexible in order to facilitate debt financing for SMEs and other financing like infrastructures debts.

1085. To respond to these newly available financial resources, it was important to develop in the meantime new tools available for long-term investors. 17 insurance companies, the *Fonds de réserve des retraites* (Pensions reserve fund), and the *Caisse des dépôts et consignations* (both as coordinator of the initiative and direct investor) decided to gather their forces to launch in July 2013 two pooled investment vehicles called Novo (Novo 1 and 2), with the support of the Ministry of finance, as well as of the *Fédération française des sociétés d'assurance*. Equity funding from institutional investors also benefit from its pooled investment vehicles since the Nova funds (Nova 1 and Nova 2) were previously launched in February 2012. 11 insurance companies and the *Caisse des dépôts et Consignations* raised more than 160M€ in two funds closed for 5 years periods

Germany

1086. The German Capital Investment Code regulates both open-ended and closed-ended investment funds with the aim of investor protection. This Code includes notably licensing and reporting requirements as regards certain fund types (that are defined therein).

Italy

1087. No comment

Japan

1088. Yes. The Financial Instruments and Exchange Act allows a person to conduct the following acts:

(Collective Investment Scheme in Japan)

- collect money from investors
- -invest and manage the collected money under the contract with the investors
- distribute profits arising from the invested businesses

(Some of the activities require registration with JFSA)

Mexico

1089. Recent changes in Pension Funds (AFORES) investment regime have allowed them to invest in private equity funds and productive projects through structured instruments called Development Capital

Certificates (CKD's). Institutional Investors are able to diversify their resources in different financial infrastructure products in Mexico, such as Equity, Fixed Income, Securities (CEBURES), CKD's, Real Estate Trusts (RETS - FIBRAS) and Private Equity Funds.

1090. The Law of Investment Funds regulates the organization and operation of these instruments, including pooled investment vehicles. The framework includes the trading of these funds' shares on the stock exchange market, their corporate governance organizational structure.

New Zealand

1091. The government has recently improved its regulatory framework with the FMC Act to promote pooled investment vehicles. The new framework is comprehensive and clearly sets out the duties of those who run those vehicles. These improvements will work to increase investor confidence in New Zealand's financial markets, and encourage the growth of our capital markets, which then supports longer-term investment among institutional investors.

1092. It is too early to judge the success of this framework, but we are confident the FMC Act will create the requisite regulatory involvement for such investment vehicles to be successful, and will prove to be a vast improvement on the framework that previously existed.

Portugal

1093. No comment

Russian Federation

1094. No comment

South Africa

1095. South Africa has a very well developed Collective Investment Scheme regime that covers the full range of investment products for the retail investor from money market funds through to specialist equity funds.

Spain

1096. No

Switzerland

1097. As investments in public goods are financed by the State, no such regulatory framework has been set up.

Turkey

1098. To promote pooled investment vehicles, CMB has recently published regulations on lease certificates, asset backed securities, mortgage backed securities, asset covered bonds, mortgage covered bonds.

1099. The law regarding the promotion of angel investments was enacted in Turkey in 2012 and the system was launched in 2013 with the secondary legislation. It is to be in force till 2017 with the option to extend 5 more years. It offers a new mechanism to ease access to finance for entrepreneurs, increase professionalism and improve business culture as well as ethics among angel investors. The

Undersecretariat of Turkish Treasury has so far issued 226 licenses for angel investors a part from 43 applications. 5 investment applications were also successfully completed and 2 applications are being processed. There are also 4 business angel networks which has accredited by the Undersecretariat of Treasury. Although it is a new system which started on February 15th, 2013 in Turkey, the results obtained so far are promising. Decree of council of ministers that authorizes the Undersecretariat of Treasury to contribute to the funds of venture capital funds that directly invest in venture capital funds as well as early stage companies together with angel investors has come into force in March 2014. In this context, The Additional Article 1 of the Law on Regulating Public Finance and Debt Management (Law no. 4749 issued on March 28, 2002) is amended by the Law No. 6456 issued on April 3, 2013, which authorizes the Council of Ministers to regulate resource transfers to the fund of funds. Within the scope of the Additional Article 1, The Decree setting the general principles and procedures of the resource transfers to the fund of funds is published on the official gazette numbered 28941 and dated March 14, 2014. This regulation has not been executed yet. Studies on further regulations are being processed. Syndicated loans are encouraged by the regulation regarding business angel scheme.

United Kingdom

1100. N/A

United States

1101. No

EU

1102. In 2013 the EC proposed a Regulation on European Long-Term Investment Funds (COM/2013/0462) that seeks to create a new type of investment fund available for retail and professional investors (ELTIFs) which will be used as long-term collective investment vehicles to invest in infrastructure projects and un-listed companies. Negotiations are on-going on the adoption of the Regulation.

Has your country set up any government-sponsored/government-linked investment vehicles for LTI (like national development banks, sovereign wealth funds, state-sponsored infrastructure funds)? If yes, has it been successful?

Australia

1103. Australia has established a long-term investment fund, known as the Future Fund, to assist the Government in meeting the cost of public sector superannuation liabilities. As at 31 December 2013, the fund had around \$96.5bn in assets of which around 8 per cent was invested in infrastructure assets.

Canada

Questions 9-10

1104. As noted in the responses to questions under principles 1.1 and 2.2, the Canada Pension Plan Investment Board (CPPIB) was established to invest the funds of the second pillar Canada Pension Plan. The CPPIB's mandate is to invest in the best interests of Canada Pension Plan contributors and beneficiaries and to maximize investment returns without undue risk of loss. As of December 31, 2013, CPPIB managed assets valued at C\$201.5 billion. The CPPIB is a long-term investor and has investments in longer term assets. For example, infrastructure assets accounted for 6.1% of its total, while bonds accounted for more than 28%.

China

1105. Yes. In 1994, Chinese government set up China Development Bank, a policy bank focusing on supporting the development of key domains such as infrastructure, basic industries and pillar industries. In 2008, CDB transformed to a commercial bank- China Development Bank Co. Ltd.

1106. In 1997, Chinese government set up SAFE Investment Co. LTD, focusing on managing foreign exchange reserves on behalf of SAFE.

1107. In 2000, Chinese government set up National Social Security Fund, focusing on managing social security funds gathered by central government.

1108. In 2007, Chinese government set up China Investment Company, focusing on managing the investment of foreign capitals.

France

Caisse des dépôts et consignations (CDC)

1109. The *Caisse des dépôts et consignations* (CDC), set up in 1816, is a public long-term investor "at the service of the public interest and of the country's economic development". Together with its subsidiaries, with which it forms the CDC group, it "fulfills public interest missions in support of the policies pursued by the State and by local authorities" (Monetary and Financial Code, article 518-2). The CDC manages a variety of funds. These include the sums held by individuals in regulated savings accounts, which the CDC invests in safe public-interest projects, in particular social housing. The CDC also acts as a public banker to the judicial and social security systems, and manages public and semi-public pension schemes. The CDC mainly operates in the following sectors: housing and real estate, urban renewal, universities and the knowledge economy, public infrastructures, digital technologies, renewable energies, creation of very small and small enterprises. At year-end 2012, the CDC group's consolidated assets represented € 287 billion, most of which being deployed toward social housing and the financing of other long-term investments.

Bpifrance

1110. Bpifrance is a public investment bank whose two equal shareholders are French State and the Deposits and Consignment Fund, created in 2013. This public-sponsored financial institution assists businesses of all sizes, primarily micro-businesses, SMEs and mid-caps. Bpifrance is present in every key phase of business development (innovation, cash flow, financing, guarantees, and equity investment) and encourages the French businesses internationally. At the end of 2013, the balance sheet of Bpifrance consolidated represented € 53.9 billion with 14 € billion for Investment, 26.4 € billion for financing and 13.5 € billion for securities portfolio in repo, subscribed but unpaid capital and cash.

Agence française de développement (AFD)

1111. The *Agence française de développement* (AFD), France's bilateral development agency, provides long-term funding, risk-sharing mechanisms and technical assistance for development projects and programmes that enhance green and inclusive growth – efforts that improve living conditions for the poorest, strive to preserve the environment, and stabilize countries in fragile situations. In addition to its international activities, the AFD is also active in French overseas territories. The AFD administers the French Global Environment Facility (FFEM), which co-funds projects that combine development with the preservation of the environment. Proparco, a subsidiary of the AFD, provides loans and investment capital to the private sector. The FISEA fund (*Fonds d'investissement et de soutien des entreprises en Afrique*), wholly owned by the AFD, also provides equity for businesses that aim at developing the private sector in Sub-Saharan Africa.

Germany

1112. In 1948 the Federal Republic of Germany established the German Development Agency, *Kreditanstalt für Wiederaufbau* (KfW). Inter alia, KfW successfully promotes small and medium-sized enterprises, business founders, start-ups and self-employed professionals and provides long-term financing for infrastructure projects, primarily for municipalities. KfW takes particular responsibility for promoting the protection of the environment and the climate (share of total promotional business volume in 2011: 32%).

1113. In 2011 the Energy and Climate Fund was founded by law. This fund is supposed to support the energy change in Germany. The fund is financed through revenues from auctions of European Emission Allowances. Within the fund several additional programmes are financed, for example the so called "CO₂-Gebäudesanierungsprogramm" operated by KfW. During the last 7 years the energy-efficient renovation or construction of 3.4 million houses and buildings has been supported (investment amount 155 billion €).

1114. In 2008 the Partnership Germany was established (the Ministry of Finance acts on behalf of the Federal Government as a major shareholder in Partnership Germany). The Federal Government and the federal states identified the need for groundwork to develop PPP in Germany. Partnership Germany deals, on one hand, with mandated groundwork activities in terms of developing guidelines, best practices, et al. On the other hand the organisation's more operative focus is on consulting activities for the public sector, especially in an early stage of PPP-projects.

1115. Besides, the PPPs of strategic importance for European industry launched by the European Commission are listed under http://ec.europa.eu/research/industrial_technologies/ppp-in-research_en.html.

Italy

1116. See above response to question n.2 under Principle 1.1

Japan

1117. Yes. For example,

- The Development Bank of Japan Inc. (DBJ)
- Japan Finance Corporation (JFC)
- Japan Bank for International Cooperation (JBIC)
- Urban Renaissance Agency (UR)
- Innovation Network Corporation of Japan (INCJ)

are sponsored by the government and invest in SMEs, environmental technologies and infrastructure.

1118. Also, the government decided to reform the Government Pension Investment Fund (GPIF, approximately 130 trillion yen), which is an independent administrative institution to manage the public pensions. GPIF developed a new asset mix policy based on the results of the revaluation of pension finances. The fund is also launching infrastructure investments with DBJ and the Ontario Municipal Employee Retirement System (OMERS), Canada.

Mexico

1119. Mexico has Development Banks that provide long-term financing to infrastructure projects and SME's. The recently enacted Financial Reform's objective is to reduce costs and promote efficiencies in credit origination, mainly for infrastructure and SME's, as well as to provide a new mandate for Development Banks, in order to foster financial market development and financial inclusion. In this area Federal Government's policy aims for more flexible risk taking entities that work together with Commercial Banks and private sector in general.

1120. In this sense, the major National Development Banks recently presented their medium term plans (2014-2018), which define objectives and strategies to complement commercial banks' lending, with adequate risk sharing, that could allow to increase credit growth, in particular in areas that are not fully covered by Commercial Banks, like infrastructure and SME's.

1121. The main strategies include:

- Induce and expand credit (up to almost 45 billion dollars for 2018).
- Foster the participation of Commercial Banks in infrastructure financing (mini-term financing, mezzanine products).
- Contribute to channel institutional investors' resources for infrastructure (guarantees).
- Foster infrastructure development by local governments.
- Strengthen credit and guarantee programs for SME's, which will contribute to create a credit history record for these enterprises.

1122. Additionally, the Federal Government has the National Infrastructure Fund (FONADIN) as its main tool to promote PPP project development, with the participation of local governments. It is a specialized project financing vehicle that promotes high social impact infrastructure projects with private sector participation. FONADIN is the concessionaire of a network of 51 toll highways. Toll income

allows financing new infrastructure projects with high social returns (using brownfield projects to finance greenfield).

1123. FONADIN is a flexible risk taking entity that can efficiently promote a wide range of projects. The different funding modalities used by FONADIN include several financial alternatives such as guarantees, mezzanine loans and capital. This flexibility allows providing the funding or risk sharing that a particular project requires and is not able to obtain from the market.

FONADIN Financial Products

I. Contributions. Resources provided to public sector entities mainly for public works, land acquisition and studies. Maximum size: up to 50% of the project's total investment.

II. Grants. Resources provided in order to achieve the financial balance of a project, making private sector participation feasible. Maximum size: up to 50% of the project's total investment. The private sector must commit at least 20% of the total investment in equity.

III. Contingent Grants. Resources provided to cover the materialization of a risk component assumed by the public sector.

IV. Senior Debt. Traditional financing for infrastructure projects that complements private sector financing.

V. Subordinated Debt. Subordinated loans to complete projects financing mainly during the construction stage. Maximum size: up to 30% of the senior debt or up to 24% of the project's total investment.

VI. Debt Guarantees. Credit guarantees to facilitate private sector financing to the project. Maximum size: up to 50% of the senior debt.

VII. Contingent Subordinated Debt. Contingent credit lines subordinated to a senior debt. Maximum size: up to 30% of the senior debt or up to 24% of the project's total investment. the project's equity requirement. FONADIN also participates in private equity funds, up to 20% of the fund size.

IX. Investment in FONADIN's concessioned highways. FONADIN can develop additional highways for its own network.

1124. Projects supported by FONADIN must be carried out under a PPP scheme and should have a partial source of payment. FONADIN has financed more than 8.7 billion dollars, which are promoting investments for more than 20.8 billion dollars.

New Zealand

1125. Yes – the New Zealand Superannuation Fund. This fund invests money, on behalf of the Government, to help pay for the increased costs of superannuation entitlements in the future. The New Zealand Superannuation Fund is generally regarded as being a successful investment vehicle.

Portugal

1126. A national development bank is being set up and will start operating until the end of the year (2014).

Russian Federation

1127. Russian national development bank - *Vnesheconombank* (VEB) funds major investment projects aimed at developing Russian economy. VEB does not compete with profit making financial institutions and funds only complex, long-term capital-intensive projects which can't be financed through capital markets without the development bank's participation. Main requirements for projects funded by VEB are: a project's total value is to be no less than 2 bn. rubles (50 mln. euro); a minimum amount of credit extended to a customer is 1 bn. rubles (25 mil. euro); a payback period is to be no less than 5 years, a project should conform with principles of *Vnesheconombank's* investment business. Forms of VEB's participation in carrying out investment projects and support for industrial exports are: credits, guarantees, participation in economic entities' authorized capitals, leasing transactions, insurance of export credits, financial and guarantee support for exports. In 2011, VEB's loan portfolio as the development bank exceeded 500 bn rubles (11 bn. euro) having increased by more than 40% in comparison with 2010. Under *Vnesheconombank's* Strategy its loan portfolio is to increase to 850 bn rubles (18 bn. euro) by 2015 and a total amount of VEB's support for the Russian economy is to amount to 2 trn .rubles (50 bn. euro) or 2.4% of GDP.

South Africa

1128. Yes – a development bank – the DBSA for infrastructure. It is broadly considered to be successful. Some adjustments have been made in previous years to concentrate its focus more on infrastructure, and further, there is ongoing focus to ensure that it focuses more on playing a 'developmental role', locking in other private investors, and does not incidentally compete with private sector investors.

1129. There are no sovereign wealth funds or state-sponsored infrastructure funds (with the exception of the state's pension fund, the Public Investment Corporation, which pools some of the state pension contributions into a specific fund that focuses on infrastructure.

1130. The National Treasury does not issue infrastructure bonds – this is because it can already raise sovereign bonds at very good rates (and does so fairly extensively), and then has the flexibility of how/when it uses this for infrastructure. There do not appear to be many benefits, therefore, for South Africa's government to issue infrastructure bonds.

Spain

1131. No

Switzerland

1132. State-financed infrastructures are financed through so called "infrastructure funds", where the parliament decides on the expenditures.

Turkey

1133. The Additional Article 1 of the Law on Regulating Public Finance and Debt Management (Law no. 4749 issued on March 28, 2002) is amended by the Law No. 6456 issued on April 3, 2013, which authorizes the Council of Ministers to regulate resource transfers to the fund of funds. Within the scope of

the Additional Article 1, The Decree determining the general principles and procedures of the resource transfers to the fund of funds is published on the Official Gazette numbered 28941 and dated March 14, 2014. This regulation has not been started yet.

United Kingdom

1134. No investment vehicles have been set up for LTI however measures have been taken to facilitate and encourage long-term investment in projects including the UK Guarantees Scheme. The scheme can provide investors with a guarantee for the project term.

1135. The Government has been keen to encourage new and underused sources of equity investment to enter the market. This includes supporting the establishment of the Pensions Infrastructure Platform (PIP), which is helping to make long-term infrastructure investment more accessible to pension funds. Despite being independent of the Government we have worked closely with the National Association of Pension Funds in setting up the PIP and continue working with the platform on an advisory capacity.

1136. The Green Investment Bank was set up by the Government and capitalised with public funds. The finance is used to back green projects on commercial terms. Investments are generally categorised into three sectors: energy efficiency; waste and bioenergy; and offshore wind. The bank work to mobilise other private sector capital and crowd in additional finance through joint equity investments.

1137. Continued long-term investment as a result of these measures will lead to more long term investments in the future.

United States

1138. No

EU

1139. For the existing financial instruments, please see above (i.e. Marguerite Fund).

1140. Moreover, the CEF Regulation foresees that dedicated investment vehicles may be envisaged to allow the pooling of contributions from multiple investors. The Commission is considering the development of such a vehicle that would provide additional resources for the CEF financial instruments.

Has your country established or promoted (or considered establishing and promoting) instruments for long-term investment such as project bonds or securitized assets? Which ones? Have they been successful?

Australia

1141. Project bonds and securitised assets are created and traded in the Australian market, but are not sponsored or promoted by the Australian Government. The use of project bonds to finance infrastructure investment in Australia declined significantly following the global financial crisis. Bank debt is now the primary source of debt financing for projects.

Canada

1142. As noted in the responses to questions under principles 1.1 and 2.2, the Canada Pension Plan Investment Board (CPPIB) was established to invest the funds of the second pillar Canada Pension Plan. The CPPIB's mandate is to invest in the best interests of Canada Pension Plan contributors and beneficiaries and to maximize investment returns without undue risk of loss. As of December 31, 2013, CPPIB managed assets valued at C\$201.5 billion. The CPPIB is a long-term investor and has investments in longer term assets. For example, infrastructure assets accounted for 6.1% of its total, while bonds accounted for more than 28%.

China

1143. In 2005, Chinese government carried out pilot of asset securitization. From the feedback of the pilot, we found that securitized assets included long-term infrastructure investment projects such as telecom, electricity and municipal, not only enriched the market products, meeting the needs of products multiplication from institutional investors such as pensions and insurers, but also gathered a lot experiences on exploring multiple mechanisms for infrastructure investment financing, and supported the development of basic national industries and infrastructure construction in China.

France

Project bonds

1144. France believes the project bonds initiative constitutes a good example of what can be made at the European level to foster new beneficial dynamics on capital markets, i.e. both deal with market failures and set up new financing standards with public support so as to enable a more productive use of institutional funds for long-term investment. France is, in that respect, in favour of a full roll-out of the project bonds initiative beyond its current pilot phase and considers that the proper conditions of this full roll-out should be made. Amounts and rules of European funds dedicated to the project bonds initiative must possibly be changed, as much as it may appear to be needed during the pilot phase evaluation, in order to stabilise a sufficiently funded and operational / well designed / flexible enough framework.

Securitization of SME loan portfolio

1145. Market participants have recently taken the initiative, supported by Banque de France, to elaborate a simple and transparent form of securitization for credit claims on non-financial entities currently eligible as collateral for Eurosystem monetary policy operations. SME financing is targeted in particular, with a goal of fostering the use of credit claims and create an incentive for banks to grant loans to SMEs. This initiative is led by five major banks based in Paris (BNP Paribas, BPCE, Crédit Agricole, HSBC France and Société Générale). It is based on the Euro Secured Notes Issuer (ESNI), a securitization vehicle, set up in March 2014, that pools credit claims with a strong credit quality (i.e. a one-year default probability lower or equal to 0.4%). Each of the five banks has access to its own sub-fund within the

vehicle; the securities issued are *pari passu* and take the form of negotiable debt securities and bonds. The vehicle has launched its first issuance of EUR 2 650 million Euro Secured Notes (ESN) on April 11, 2014. This initiative should also allow to reduce rating agency dependence, as the credit quality assessment of the underlying credit claims, not rated by rating agencies, relies on FIBEN (for “*Fichier Bancaire des Entreprises*”), a Companies’ Database managed by Banque de France and set up to facilitate the implementation of monetary policy, and on banks’ Internal Rating-Based (IRB) approaches.

1146. Moreover, life insurance companies have been allowed since August 2013 to buy collateralized loan obligations (CLOs) to match their underwriting liabilities. In a low rate context, these companies should be keen on diversifying their asset portfolio in line with this reform, yet it is too recent to be able to assess the results for the time being. France also welcomes the development of infrastructure funds and is willing to adapt the regulatory framework if needed.

Germany

1147. Within the regulatory framework for investment funds, such specific instruments for long-term investment have not been established or promoted. On the European level, however, a proposal of the European Commission for an EU-Regulation on European Long-Term Investment Funds (ELTIF) which aims at facilitating and securing long-term financing for the real economy is presently under discussion. Already in force is the EU-Regulation on European Social Entrepreneurship Funds (EUSEF) to create a single market framework for the provision of funds to social undertakings.

Italy

1148. Yes, CDP has set specific financial instruments as investment vehicles for LTI for infrastructure, SMEs and export finance.

Project bonds

1149. Italy has established project bonds²⁶. In the past, such instruments for long-term investment have not been successful. However, the regulatory measures adopted in the period 2012-2013 should promote the use of project bonds through a favourable legal and tax regime, in particular: i) certain limits and rules relating to bonds issued by companies (as set forth under the Italian Civil Code) are not applicable to project bond provided that such bonds are subscribed only by qualified investors; ii) interest paid on projects bonds benefit from the same tax regime as government bonds (which is more favourable); iii) project companies benefit from the favourable regime for the deductibility of interest provided for banks).

Japan

1150. See answer 1.1

²⁶ The first project bond was issued by the end of May 2013 in order to finance an energy efficiency project of the University Hospital S. Orsola Malpighi in Bologna. Fully underwritten by the European Energy Efficiency Fund (EEEEF), the total amount of the issue was Euro 32 million with a duration of 20 years, while total project costs were roughly Euro 41 million. The EEEF S.A., SICAV-SIF is a “*société d’investissement à capital variable*” governed by Luxembourg law and was launched by the European Commission in cooperation with the European Investment Bank. The initial capitalization provided by the European Commission was increased with contributions from the sponsors European Investment Bank, CDP as well as the Investment manager Deutsche Bank.

Mexico

1151. Capital markets represent in Mexico an important financing vehicle for infrastructure projects:

i) There are projects, which by their characteristics and risks, are very suitable for capital markets financing.

ii) On the other hand, for those projects with low credit rating, different funding modalities and credit enhancements have been developed, such as guarantees, mezzanine loans and subordinated debt. These modalities provide for a more flexible risk sharing process, allowing for a more efficient project financing, that sometimes cannot be obtained under more traditional financing from the market. FONADIN will analyse new alternatives to channel in a more efficient manner local institutional investors' resources to infrastructure through specific products (project bonds, securitization, etc.).

New Zealand

1152. No

Portugal

1153. The creation of a framework for project bonds is being considered and discussed.

Russian Federation

1154. In 2010 Russia for the first time introduced infrastructure securities. "The Main Road", a company engaged in construction of a toll bypass road near Odintsovo (Moscow Region) issued bonds worth 8 bn. rubles (some 0.2 bn. euro), with maturity of 18 years and floating coupon tied to inflation and GDP growth rates. The project consists of the construction of a 19 km, six-lane highway between the Moscow ring road and the existing motorway (Federal Road M-1 'Belorussia') to Minsk. In 2012 the main road placed one more issue of infrastructure bonds worth 1.4 bn. rubles (30 mil. euro) for 17 years. Its coupon will be calculated as consumer price index (May to May) plus 1/2 of GDP growth rate. The expected yield amounts to some 9%. Project bonds are already issued by such public companies as Federal Grid Company of Unified Energy System (FGC UES), the volume is 20 bn. rubles (0.5 bn. euro), maturity – 35 years, Gazprom (30 years, 30 bn. rubles or approximately 0.7 bn. euro), Russian Railways (30 years, 25 bn. rubles or approximately 0.6 bn. euro). There are numerous other infrastructure projects planned that could be partly financed by project bonds, e.g. Yamal LNG, an Arctic liquefied natural gas project by OJSC Novatek, Russia's biggest independent gas producer.

South Africa

1155. Project bonds are rare in South Africa. There are only one or two state agencies that issue large project bonds, and recently a solar energy project listed a project bond (R1bn / US\$100m) that was a first of its kind. Hence this market is fairly underdeveloped.

Spain

1156. No

Switzerland

1157. As investments in public goods are financed by the State, no such instruments have been established.

Turkey

Consolidated answer for Q7, Q9 and Q10

1158. CMB aims to support the development of necessary financial instruments to ensure the financing of infrastructure investments through capital markets. In this sense CMB had a regulation on the “real estate investment companies investing in infrastructure investments and services” but it was re-regulated and consolidated under Real Estate Investment Companies with new administrative flexibility and tax incentives. Within this legislation; principles and procedures with regard to founders and establishment procedures, organizational structure, registration of securities with the CMB, investment activities, disclosure requirements and information policies of real estate investment companies investing in infrastructure projects were regulated. The main purpose of the legislation is to produce new investment instruments for domestic and foreign investors, thereby increasing the depth of Turkish capital markets. This financing model is supported by the tax regulations as well. In order to ensure maximum efficiency, a corporate tax offset is provided to “real estate investment companies investing in infrastructure projects and services”. In addition to this incentive, corporate and income tax reduction rate is determined as zero percent. This tax incentive which is newly granted to real estate investment companies investing in infrastructure projects, is expected to increase the willingness to use this financing model which introduces an alternative of using capital markets in financing long-term and high-cost infrastructure investments by means of capital market institutions. On the other hand, there are no statistics related to the success of new implementation because the mentioned re-regulated communique entered into force at 23.01.2014.

1159. In relation to pension funds; an important incentive has been introduced where the government matches 25% of individual contributions up to a minimum gross monthly salary in Turkey. In this system participants will have access to government contributions through a gradual vesting system, which means 15% after the first three years, 35% after six years, 60% after 10 years and 100% at retirement at the age of 56.

1160. Beyond the regulations and incentives mentioned above, in Turkish capital markets, companies are able to collect funds for long-term investment projects including infrastructure projects especially via *Sukuk* (lease certificate) and real estate certificates. Within the CMB’s *Sukuk* regulation, there is one type of *Sukuk* which specially fits for this purpose; EPC (Engineering, Procurement and Construction) Contract-Based Lease Certificates internationally known as “*Istisna Sukuk*”. This financial instrument is basically a lease certificate issued with the purpose of creation of works pursuant to an EPC contract to which the issuer SPV is a party as work owner. In these *Sukuk* issuances, funds collected from investors are directly paid to the contractor to create a specific work and at the end of or during the term, the revenue acquired from the sale/rent of this completed work is transferred to *Sukuk* holders. So this instrument can be used during the construction phase as well as post construction. Moreover due to the expansion of structured instruments relying on Islamic principles, this instrument also serves for the use of capital markets to finance long-term investment projects of investors and issuers sensitive to Islamic rules.

1161. Another instrument that can be used for long-term investment projects is real estate certificates that are specifically designed for this purpose. Basically real estate certificates are issued for financing real estate projects to be built or being built representing certain particular individual sections or a certain area unit of individual sections of a real estate project. Issue proceeds from real estate certificates shall be used solely for the completion of a real estate project or for refinancing the same project as of the date of application.

1162. On the other hand, real estate certificates also include an indirect government support. According to the relevant Communiqué, issuers must individually hold the ownership of land where the real estate project shall be realized, and the land title deed must be converted into a construction servitude title deed, or a construction servitude must have been established on the land in favor of the issuer. But in issues where the real estate project shall be developed on lands and fields fully or partially owned by TOKI

(Housing Development Administration of Turkey) or Ilbank Co., Inc. (investment and development bank designed to meet financing needs of municipalities and special provincial authorities) or their affiliates, the investors are protected against the issuer's failure to complete the real estate project as the Communiqué requires the project to be completed in accordance with principles of the contract signed by TOKI or Ilbank Co., Inc. or their affiliates for this purpose.

1163. As both regulations have recently been put into effect, there have been no issuances so far.

United Kingdom

1164. The introduction of project bonds would be counted in the same way as conventional Government borrowing (through the Gilt markets) and as such, unless compensated for by a reduction in planned Gilt sales, would mean increased deficit funded spending which would run counter to the Government's policy of fiscal consolidation.

1165. The Government remains open to the idea of issuing new debt instruments, any such instruments would need to be demonstrably cost-effective to the taxpayer compared to Gilts. For this to be the case there would need to be clear evidence that such an instrument would enjoy the same level of demand and liquidity that Gilts do. In order to attract investment with a promise of minimal or zero up-front return it is likely that any infrastructure bond would need to promise a long term return above the level that the Government currently borrows at from the wholesale and retail markets through the use of conventional instruments. This would therefore represent poor value to the taxpayer when compared to funding infrastructure spending in the normal way.

1166. However the Government has introduced the UK Guarantees Scheme to encourage long term investment in infrastructure projects by taking away project risks from long term investors.

United States

1167. Project sponsors can use corporate and municipal bonds for project bonds and securitized assets.

EU

1168. For the actions taken at EU level to promote LTI instruments such as project bonds, please refer to the points above.

In order to facilitate the exchange of expertise, have you supported initiatives promoting collaborative actions and resource sharing amongst institutional investors? Have they been successful?

Australia

1169. The Government welcomes initiatives from the market that facilitate the exchange of expertise through collaborative actions and resource sharing. For instance, as a leading provider of investment services to institutional investors, IFM Investors has promoted collaborative action amongst its owners—30 Australian superannuation funds—for long-term investment purposes.

1170. In addition, the NSW Government and Commonwealth Government are promoting collaborative actions and resource sharing amongst institutional investors. For example, the NSW Government and Commonwealth Government hosted a Forum on superannuation and infrastructure in July 2014. This Forum brought together representatives from major superannuation funds, investment institutions and industry groups and regulators to discuss issues associated with investing in infrastructure.

Canada

1171. Canada has a long history with respect to collaboration and resource sharing between institutional investors. Canadian pension plans have been amongst the pioneers in direct investing in large projects, often collaborating with other plans, both domestic and international. As an example, OMERS, one of the largest pension plans in Canada, has entered into a co-investment agreement with Japan's Government Pension Investment Fund (GPIF), the world's largest pension fund, and the Development Bank of Japan (DBJ). The co-investment agreement sets out a framework under which GPIF and DBJ may participate in a range of investment opportunities that are sourced and actively managed by OMERS through its various investment arms.

China

1172. Yes. Chinese government supports the collaboration and resource sharing amongst institutional investors in order to jointly promote market development and make full use of everyone's best. For instance, Chinese government requires corporate annuities and social welfare funds to carry out marketized investment management mode, in which funds management companies, securities companies and insurance capitals management companies act as investment manager, insurance companies act as trustee, and commercial banks act as trustee and account manager. By doing so, not only the scale, influence and competitiveness of fund management companies and securities companies are improved, but also the value preservation and increment of corporate annuities and social welfare funds are promoted.

France

1173. Data collection and resource sharing on infrastructure debt and equity could lead to a more efficient channeling of private resources to projects, while also providing useful evidence for regulatory and industrial debates. In this perspective, academics and market participants should cooperate in order to gather information and expertise regarding infrastructure investments' risks and financial performances.

In that respect, France supports EDHEC Risk-Institute's current research on the matter of infrastructure as a specific asset class, with the support of Meridiam and Natixis, two well-known participants within the equity and debt infrastructure markets.

Germany

1174. KfW *Entwicklungsbank* and KfW's subsidiary, *Deutsche Investitions- und Entwicklungsgesellschaft* (DEG), have been carrying out numerous projects in collaboration with other development institutions and maintain close cooperative relations with numerous institutions concerned with international development or climate issues. Besides national development institutions, such as the French AFD (*Agence Française de Développement*), above all, the institutions concerned also include all multilateral organisations, such as the EIB (European Investment Bank) or the EBRD (European Bank for Reconstruction and Development). Cooperation ranges from consultations in strategic dialogue with the partner organisations to provide joint support and finance for specific programmes and projects.

Italy

1175. No comment

Japan

1176. See answer 7.1 below.

Mexico

1177. Mexico has organized several international summits and round tables with the key objective of exchanging ideas and experiences among institutional investors in order to develop best practices for corporate governance. These initiatives have influenced changes in pension funds regulation.

New Zealand

1178. No

Portugal

1179. A SME Forum, composed by the regulator, companies, academics and market representatives has been set up aiming at creating a discussion forum to identify issues of relevance and possible solutions for SME financing and sustainability.

Russian Federation

1180. No comment

South Africa

1181. Yes – we have formed a Task Team with the private sector on this. This is still in its early stages, but the relationship is growing very well.

Spain

1182. No

Switzerland

1183. No

Turkey

1184. CMB supports collaborative actions and knowledge sharing amongst institutional investors. Training activities, seminars and workshops are the most used ones. Regarding information sharing facilities provided by the CMB, please see the answer to Principle 7, Q4.

United Kingdom

1185. The Government has made progress in promoting collaborative action between institutional investors. This includes supporting the establishment of the Pensions Infrastructure Platform (PIP), which is helping to make infrastructure investment more accessible to pension funds. The Government also welcomed the establishment of the Insurer's Infrastructure Investment Forum and the subsequent industry-level commitment to invest £25bn in infrastructure.

1186. The Government has also welcomed the recent establishment of an Investor Forum, following a recommendation in the Kay Report and a working group on collective engagement set up by representative bodies in the UK investment industry. The Forum will be investor-led and operate independently of any trade association, and will be open to a broad range of investors with an interest in UK companies, whether based in the UK or overseas. Its stated primary objective is to promote the value of long-term approaches to investment to match the long-term objectives of individual savers.

United States

1187. No

EU

1188. No comment

PRINCIPLE 7

Information sharing and disclosure

7.1 *Information sharing on long-term investments should be promoted at both the national and international level subject to cost and efficiency considerations. Data collection and information sharing can facilitate monitoring by supervisors, enhance the knowledge of institutional investors, reduce information asymmetries and improve the functioning and liquidity of markets.*

7.2 *Governments and international organisations should evaluate the need for promoting further research and the establishment of an international information platform accessible to investors that would provide comparative information on existing or foreseen long-term investment projects and their financing needs.*

7.3 *Where appropriate, institutional investors should disclose with sufficient granularity information on the extent to which their investment strategies are in line with their investment horizon and how they address long-term risks.*

7.4 *Institutional investors should be encouraged to report their recent allocation to and performance of different long-term assets following standardised classifications and methods, while ensuring the confidentiality of any market-sensitive or proprietary information. The reporting should have an appropriate frequency and should include performance measures calculated over sufficiently long periods. Such information should be at least available for members, policyholders and other beneficiaries as well as supervisory authorities. To fulfil those reporting requirements, adequate existing reporting sources should be used as far as possible.*

Please answer the following questions²⁷

How do you promote information sharing on long-term investments at national (and possibly international) level? Is it successful?

Australia

1189. The Australian Government promotes national information sharing on major, publicly announced long-term investments through a variety of mechanisms, including the National Infrastructure Construction Schedule (NICS), which is updated regularly by jurisdictions.

1190. NICS is publicly available at <www.nics.gov.au>, including for international investors interested in Australian infrastructure projects.

1191. As part of current reforms to the advisory body, Infrastructure Australia will publish its reviews of cost benefit analysis for all projects valued at \$100 million or more which are seeking Commonwealth Government funding.

²⁷ As required, Members may also wish to consult with relevant sectoral and/or sub-national agencies.

Canada

Questions 1-4

1192. Specific data on long-term investments is currently limited in scope. Certain regulatory authorities, for example, pension regulators, are able to collect detailed information on institutional investor investment allocations for supervisory purposes.

1193. In addition, data on long-term investment can be found on Statistics Canada website (see the links in Question 1 under Principle 2 for more details).

1194. Finally, the Pension Investment Association of Canada collects and publishes data on the asset allocation of pension plan breakdowns for both Defined Benefit and Defined Contribution plans. The allocations are sourced from their member organizations and are published at the following web address: <http://www.piacweb.org/publications/index.html>.

China

1195. N/A

France

1196. At the national level, information on institutional investors' long-term investments is shared with the national statistical institute and published through the national financial accounts.

1197. This information is also shared at the European level through the ECB which adopted on the one hand common rules of development and on the other hand a standardized format in order to promote cross-country comparability of data.

1198. Finally, at the international level, information on institutional investors' long-term investments is shared with international organizations like the OECD through standardized templates.

Germany

1199. With a view to Solvency II, insurance companies are obliged to elaborately report in their annual statement on the investments they have taken. In our understanding this also comprises long-term investments.

1200. With regard to information on specific investment types / projects we would like to refer to the Commission's initiative on ELTIFs.

1201. As both of these regimes are still work in progress (respectively will only enter into force in the future) we are not yet in a position to give testimony about their success.

Italy

Statistical publications, harmonization, quality

1202. The Bank of Italy, mandated by Italian law and European Council and ECB regulations, disseminates statistics on investments by institutional investors in the following Bank's publications: Annual Report; Quarterly Economic Bulletin; the Quarterly Statistical Bulletin and in its Supplements "The financial market" (monthly) and "Financial Accounts" (quarterly).

1203. At the national level, data sharing and coordination are established among Bank of Italy, National Institute of Statistics (Istat) and Ministry of the Treasury to facilitate the mutual provision of statistical data, while respecting confidentiality.

1204. At the European level, pursuant to Article 5 of the Statute of the European System of Central Banks, the Bank of Italy collaborates with the European Central Bank and the other national central banks of the ESCB in the collection of data of common interest. The Bank of Italy is represented in all ECB statistical committees and other level working groups. At EU level, the Bank of Italy also participates, together with the Istat, in the Committee on Monetary Financial and Balance of Payments Statistics.

1205. The statistics, processed and checked according to international standards, are transmitted to the ECB, to Italian and foreign institutions (Eurostat, OECD, BIS), and to the intermediaries, organizations and institutions that provided the basic data. They are also made available to markets and to scholars through the Bank's publications and publicly accessible databases. A good part of the Bank's statistics can be consulted through the electronic Statistical Database (BDS). It is also possible to request customized processing, i.e., different representations of the statistical data already published. The dissemination of statistical data complies with the law on statistical confidentiality.

1206. Data can also be accessed through the on-line statistical database of the aforementioned International institutions.

1207. At national level, the Department for Coordination and Planning of Economic Policy (DIPE), among its various activities, coordinates and manages a database on public investments. Moreover, the Italian PPP Task Force (UTFP), in staff of the Head of the DIPE participates into the European PPP Expertise Centre and shares information with the latter about Italian projects that have reached financial closing

1208. As regards the insurance sector, even though a specific classification of Long -Term investments is not currently in place, information concerning insurance undertakings' investments and assets representing technical provisions is gathered by the Italian *Insurance* Supervisory Authority (IVASS) at a high level of granularity and frequency. In particular, insurance undertakings are required to send to IVASS and regularly update (on a quarterly basis) the analytical list of the securities eligible to cover technical provisions."

Japan

1209. JFSA and relevant ministries generally establish councils and round tables with the regulated companies, experts and academics before making policies. The main objective of the meetings is to discuss the review of the existing regulatory framework and to make policy recommendations. The results of discussions are disclosed to the public on their website in order to promote the understanding of the policy by people.

Mexico

1210. The Federal Government has promoted a Public Investment Registry, which encourages strategic planning for investment.

1211. Infrastructure projects that require Federal Government's resources are included in the Public Investment Registry, which is on charge of the Investment Unit of the Ministry of Finance.

1212. The portfolio of projects is classified in the following sectors:

- i) **Economic Infrastructure:** water, communications, transports, energy, etc.

- ii) **Social Infrastructure:** health, education, science and technology, culture, etc.
- iii) **Government Infrastructure:** national security, public security and administrative offices.
- iv) **Others:** maintenance and acquisitions programs among others.

1213. The projects are classified by State and by Federal Government Sponsor Agency. For each of the registered projects detailed information is included (see example below).

Example: Bus Rapid Transit (BRT) Indios Verdes – Ecatepec			
Description	Bus Rapid Transit System from Indios Verdes to Ecatepec, in Mexico City Metropolitan Area, with a length of 24.4 km, two terminals, and 29 intermediate stations. The project includes 135 bi-articulated buses.	Project number	13093110007
Expected benefits of the project	To reduce operating vehicle costs; passengers' travel times; greenhouse gas emissions; and to improve users' security.	Type of Investment Project	Economic Infrastructure
Name	BRT Indios Verdes-Ecatepec.	State	State of Mexico
Total Investment	USD 180,004,871	Valuation period	30 years
Funding Sources:		Net Present Value	USD 230,593,013
Federal Budgetary Resources	0	Internal Rate of Return (real)	27.86%
State Resources	USD 50,070,769	Immediate Rate of Return (real)	31.00%
Municipality Resources	0	Discount Rate (real)	12.00%
Private Sector	USD 98,420,000	Cost-Benefit Analysis	Electronic file of the cost-benefit analysis
FONADIN	USD 31,514,365		

New Zealand

1214. As well as initial disclosure requirements for managed funds, the FMC Act also introduces ongoing disclosure requirements for most financial products. The FMC Act also establishes offer and scheme registers for managed funds as a way of ensuring compliance and for providing investors with a tool for information and comparison. The success of these requirements will be able to be evaluated once the regulations have had some time to bed in – please note that many of them will not come into force until the end of this year (2014).

Portugal

1215. By actively participating in international and regulatory discussion for a where the long-term investment issues are being tackled.

Russian Federation

1216. No comment

South Africa

1217. The Reserve Bank of South Africa collates data on a quarterly basis that is broken in to the various asset classes, and has been doing this for a long time. From this data quarterly changes can be calculated. There is very little information specifically on infrastructure investments. A first attempt has

been made to collate this data with a certain amount of granularity, but there remains a great need to get standardised definitions to ensure the information is more meaningful. It is planned to collect this information at least on an annual basis.

1218. Public projects: There is no particular public platform for information sharing on investments such as infrastructure in particular. The PICC mentioned earlier is attempting to monitor large projects for the purpose of reporting to government leadership on progress and issues identified; some of this information is made available, but there is no one platform for doing so, and information tends to be on progress of projects under development. The PICC has developed a pipeline of projects, it is intended this will be shared publicly at some point; in the meantime, some information is shared by the National Treasury, usually in budget documentation. Large state-owned companies will share information on projects in their annual reports.

1219. Private project: individual project information might be available from disparate sources, but no cross-industry source can supply the total project information.

Spain

1220. So far the only way we promote tenders that imply long-term investments in the international level it is through the Official Journal of the European Union, and it can be considered successful. In the national level we use our Official Journals.

Switzerland

1221. Switzerland has sophisticated financial service providers. The information level of LTI Investors is sufficient.

Turkey

1222. No comment

United Kingdom

1223. IUK publishes a forward infrastructure investment pipeline twice annually. The latest iteration in July 2014 identified around £380 billion of infrastructure investment in energy, telecoms, transport and environmental infrastructure projects and programmes. The publication is proving successful at supporting improved visibility for suppliers and investors. Link below:

<https://www.gov.uk/government/publications/national-infrastructure-pipeline-2014>

1224. The Government also includes information on investment in infrastructure as a key part of the National Infrastructure Plan, updated annually. This was supplemented at Budget 2014 by a dedicated finance update. Link below:

<https://www.gov.uk/government/publications/national-infrastructure-plan-finance-update>

1225. An Institutional Investment and Infrastructure Team has been set up within UK Trade & Investment to develop long-term strategic relationships with sovereign wealth funds and other major overseas financial institutions. To support this work, the Government has recently published a specific guide to investment in UK infrastructure targeted primarily at the international investment community, but also to support domestic investors. Link below:

<https://www.gov.uk/government/publications/investing-in-uk-infrastructure>

United States

1226. Yes. Government agencies and regulators make data publically available online.

EU

1227. The Commission announced several actions in the context of the Communication on Long-Term Financing of the European Economy (COM/2014/168), one of which focuses on promoting information sharing at an EU level:

1228. "The Commission services will evaluate in 2014 the feasibility and practical arrangements of collecting and, where possible, making available comprehensive and standardised credit statistics on infrastructure debt within a single access point."

1229. The action included in the Communication is to identify the available data on infrastructure debt and assess the possibility of making it accessible to a wider market. Key steps will include establishing working groups and organising meetings with Member States, NPBs, OECD, National Expertise Centres, think-tanks and institutional investors. A report will be drafted to provide the findings of the feasibility exercise as well as recommend the next steps to follow.

How do you ensure information sharing on LTI is subject to cost and efficiency considerations and meets the requirements of data protection?

Australia

1230. The NICS contains information on all infrastructure projects over \$50 million procured by the general government sector, as defined by the Australian Bureau of Statistics. It also contains information on tender opportunities within a project for contracts estimated to be worth more than \$25 million.

1231. NICS also includes information on some smaller projects, including local government projects and planning and feasibility studies.

1232. NICS contains projects with opportunities for firms to bid on contracts. Over time, these projects, as well as any new projects, move along the project lifecycle, leading to a deep and liquid pipeline of infrastructure opportunities. The information published on the NICS is provided by state, territory and local governments who are responsible for delivering the projects.

Canada

1233. Specific data on long-term investments is currently limited in scope. Certain regulatory authorities, for example, pension regulators, are able to collect detailed information on institutional investor investment allocations for supervisory purposes.

1234. In addition, data on long-term investment can be found on Statistics Canada website (see the links in Question 1 under Principle 2 for more details).

1235. Finally, the Pension Investment Association of Canada collects and publishes data on the asset allocation of pension plan breakdowns for both Defined Benefit and Defined Contribution plans. The

allocations are sourced from their member organizations and are published at the following web address: <http://www.piacweb.org/publications/index.html>.

China

1236. N/A

France

1237. Cost and efficiency on information sharing of long-term investments are ensured through the merits and costs procedure of the ECB. Indeed, all the data collected from institutional investors by the French national central bank are subject to a merits and cost assessment where the estimated costs of the reporting agents are confronted to the usefulness of the data as assessed by the users. The protection of data is also a part of the ECB's statistics quality charter on the confidentiality of data

Germany

1238. We are not in a position to answer this question until the above mentioned regulations will have been implemented entirely.

Italy

1239. The Bank of Italy regularly conducts strategic and operational planning processes to ensure an efficient and effective information sharing with the overview of High-Level Committees. Planning and controlling, internal auditing, expenditure controls, operational risk and business continuity management as well as similar ESCB-wide coordinated exercises are in place.

1240. Confidentiality is ensured by the National Law and the European Statistical Legislation. Council Regulation (EC) No. 2533/98, as amended by Council Regulation (EC) No. 951/2009, includes a requirement for confidentiality (Article 8). The ECB guideline 1998/NP28 defines common rules and minimum standards to protect the confidentiality of the individual statistical information collected by the European Central Bank assisted by the national Central Banks

1241. The Bank of Italy regularly conducts strategic and operational planning processes to ensure efficient and effective information sharing with the overview of High-Level Committees. Planning and controlling, internal auditing, expenditure controls, operational risk and business continuity management as well as similar ESCB-wide coordinated exercises are in place.

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Japan

1243. Depending on each policy measure. Refer to answer 1 above.

Mexico

1244. The Federal Law of Transparency regulates the access to public sector information, defining clear rules for information sharing and disclosure. Additionally, the Data Protection Law aims to protect personal data in order to ensure citizens' privacy.

New Zealand

1245. No comment

Portugal

1246. In Article 312° of the Portuguese Securities Code, “Information Duties”, point e) mentions “special risks involved in operations to perform”. Within CMVM, and in a market context (best suited for short term, but however) long-term investments fall under point e).

Russian Federation

1247. No comment

South Africa

1248. This question is difficult to answer given the paucity of existing information, and that which is available is not controlled by a single source.

Spain

1249. No comment

Switzerland

1250. A high level of cost transparency is legally requested of pension funds.

Turkey

1251. No comment

United Kingdom

1252. The investment plans are sourced from publically available data and is freely available to all. The investment plans are published on the Government website.

United States

1253. No comment

EU

1254. N/A

What kind of information do you collect on institutional investors and their allocations to long-term investment assets? For example, do you collect information on institutional investors' recent allocation to and performance of different types of long-term assets based on standardised classifications and methods?

Australia

1255. The Australian Prudential Regulation Authority (APRA) requires that Registrable Superannuation Entity (RSE) licensees report two levels of asset allocation information: broad asset classes as well as detailed asset types within those asset classes:

- The broad asset classes collect summary information about investment exposure of the RSE and at sub- RSE levels i.e. each MySuper product and, subject to consultation, from 1 July 2015, each select choice investment option. APRA collects this information separately for Australian-domiciled investments and internationally domiciled investments.
- APRA supplements collection of the summary asset allocation information with more detailed information for each asset class. This detailed information will show the types of assets invested in and whether the investments are via investment vehicles. Reporting investments in each asset class for each investment vehicle (termed by APRA as look through) provides necessary information to understand not only the vehicles being used to implement an investment strategy, but also the investment risks to which a registrable superannuation entity is exposed. APRA also collects information regarding an RSE licensee's largest exposures. This includes look through of associated investment vehicles for investments that are at least one per cent of the assets of the fund.
- APRA collects information regarding the fees, costs and net returns of each MySuper product (sub-RSE level) on a quarterly basis, and proposes to collect similar information for select choice investment options from 1 July 2015.

1256. APRA collects the following data items on asset allocation and investment performance:

- Actual investment allocation on a quarterly basis, broken down by asset class, listing and domicile (standardised classifications). This information is collected at the RSE level and sub- RSE level.
 - The asset class types are: cash, fixed income, equity, property, infrastructure, commodities and 'other'.
 - The asset domicile types are: Australia domicile, international domicile and 'not applicable'.
 - The asset listing types are: listed, unlisted and 'not applicable'.
 - Where investments are not held directly but instead held through an investment vehicle, investments in these investment vehicles must be allocated to each asset class, asset domicile and asset listing type represented in the underlying investment. The investment vehicle types are: cash management trust, life company guaranteed, life company investment linked, life company other, listed retail trust, pooled superannuation trust, unlisted retail trust and wholesale trust.
- Investment movements relating to actual investment allocation on a quarterly basis broken down by asset class, listing and domicile. This information is collected at the RSE level and sub- RSE level.

- Investment movements include net transactions, investment income, unrealised gains/losses, realised gains/losses and foreign exchange gains/losses. This information provides the performance of each combination of asset class, listing and domicile.
- Strategic Asset allocation at a sub- RSE level only, broken down by asset class, listing and domicile.
- Investment allocation to derivative assets and liabilities on an annual basis at the registrable superannuation entity level only
- Investment allocation to hedge fund investments at the registrable superannuation entity level only on a quarterly basis at the registrable superannuation entity level only, by Open Protocol Enabling Risk (OPERA) Standards classifications

1257. Investment allocation concentrations (1% materiality threshold) on a quarterly basis at the RSE level only, classified into directly held and indirectly held, classified by country of investment.

Canada

1258. Specific data on long-term investments is currently limited in scope. Certain regulatory authorities, for example, pension regulators, are able to collect detailed information on institutional investor investment allocations for supervisory purposes.

1259. In addition, data on long-term investment can be found on Statistics Canada website (see the links in Question 1 under Principle 2 for more details).

1260. Finally, the Pension Investment Association of Canada collects and publishes data on the asset allocation of pension plan breakdowns for both Defined Benefit and Defined Contribution plans. The allocations are sourced from their member organizations and are published at the following web address: <http://www.piacweb.org/publications/index.html>.

China

1261. N/A

France

1262. The data collected by the French national central bank on behalf of the ECB on institutional investors consist of a detailed reporting on accounting balance sheet of these entities. Information on long-term investments is retrieved through the characteristics of the assets held: type of the asset (shares, debt security), issuing sector of the asset and maturity of the asset (short-term, long-term).

1263. This information is updated until end 2013 (insurance statistics) - early 2014 (statistics on investment funds), since institutional investors report a quarterly statement to the French national central bank.

Germany

1264. See response to question 1 on Principle 7.

1265. Only the investment portfolio as of the end of the reporting period is available - no transactions (between the cut-off dates) are going to be reported.

1266. With respect to performance no detailed analysis is available as performance calculations are only to be made available on an aggregated level (no distinction between LTI as defined for the purpose of this questionnaire and other investments available).

Italy

1267. The Bank of Italy collects granular information on institutional investors' portfolio investments.

Japan

1268. For regulatory purpose, JFSA, the integrated financial supervisor in Japan, oversees financial institutions daily and on other regularly bases and collects information on their activities, including their asset allocation.

Mexico

1269. Infrastructure projects with Federal Government's resources are included in the Public Investment Registry of the Ministry of Finance^{4,28}.

1270. The CNBV publishes relevant financial information of different entities, including Commercial Banks, Development Banks, brokerage firms, and other financial corporations⁵.

1271. The CONSAR reports to Congress the current situation of the Pension System, including: AFORES' assets, investment portfolio, etc.⁶

New Zealand

1272. As above in question 1, under the new FMC Act there are ongoing disclosure requirements for managed funds, which include information about allocations to long-term investment assets. The Reserve Bank collects and reviews information about asset allocations by banks.

Portugal

1273. The Portuguese Insurance and Pension Funds Supervisory Authority receives, on a quarterly basis, a line by line report about investments of each individual insurance undertaking and pension fund. Apart from this regular reporting, we do not currently collect any additional specific information about long-term investment assets.

1274. The Portuguese Securities Market Commission (CMVM) has several competences in what concerns institutional investors, and their allocation to long-term investment assets.

1275. Under the perspective of listed issuers there is a requirement to inform about their qualifying holdings (any entity reaching or exceeding namely, a Holding of 10%, 20% a third, a half or two thirds and

⁴ http://www.apartados.hacienda.gob.mx/sistema_cartera_inversion/index.html

⁵ <http://portafoliodeinformacion.cnbv.gob.mx/Paginas/default.aspx>

⁶ https://www.consar.gob.mx/panorama_sar/panorama_sar.aspx

⁷ Information is available in Spanish and in Mexican Pesos.

90% of the voting rights in the capital of a public company subject to Portuguese Law or reducing its holding to a value lower than any of the above mentioned thresholds).

1276. CMVM and the market itself have information about institutional investor recent allocations.

Russian Federation

1277. No comment

South Africa

1278. Information is provided on request, but not regularly collected.

Spain

1279. No

Switzerland

1280. No

Turkey

1281. Further works will be made on this context by collecting data.

United Kingdom

1282. No comment.

United States

1283. Regulators collect some of this information for regulatory purposes.

EU

1284. N/A

Are mechanisms in place to ensure such information can be shared on a cross-border basis? If yes, please describe.

Australia

1285. APRA publishes quarterly and annual superannuation statistics data which includes a statistics data feed to the Australian Bureau of Statistics.

1286. APRA also participates in the OECD Global Pension Statistics survey.

Canada

1287. Specific data on long-term investments is currently limited in scope. Certain regulatory authorities, for example, pension regulators, are able to collect detailed information on institutional investor investment allocations for supervisory purposes.

1288. In addition, data on long-term investment can be found on Statistics Canada website (see the links in Question 1 under Principle 2 for more details).

1289. Finally, the Pension Investment Association of Canada collects and publishes data on the asset allocation of pension plan breakdowns for both Defined Benefit and Defined Contribution plans. The allocations are sourced from their member organizations and are published at the following web address: <http://www.piacweb.org/publications/index.html>.

China

1290. N/A

France

1291. The ECB promotes a cross-border basis to share information collected from the national central banks through a statistic portal on its website: the statistic data warehouse. The information collected from the euro zone countries is fully comparable and consistent with the international standards (ESA 2010, BPM 6).

Germany

1292. Under Solvency II information is handed in to EIOPA but not to any other cross-border institution.

Italy

1293. The Bank of Italy's statistical publications and the on-line Statistical Database are available also in English. ECB harmonized statistics on mutual funds allow comparability across member states. See answer to question 1 for further information.

Japan

1294. No specific mechanism is in place to ensure information on long-term investment can be shared on a cross-border basis.

Mexico

1295. The Infrastructure Projects Public Registry, CNBV and CONSAR reports are available in the web⁷.

New Zealand

1296. Although there is no specific cross-border information-sharing mechanism, there are no apparent restrictions on the sharing of such information – including there being no restrictions on access to the offer and scheme registers set up by the FMC Act.

Portugal

1297. Under international markets and EU regulation, some of the information can be shared on a cross-border basis.

Russian Federation

1298. No comment

South Africa

1299. No, no such mechanisms are in place.

Spain

1300. No

Switzerland

1301. No

Turkey

1302. About information sharing regarding capital market participants the CMB has set up an internet platform called “Public Disclosure Platform” which everyone can have an access from the website www.kap.gov.tr. In this platform one can access a variety of information such as partnership structure, paid capital amount, number of shareholders, names of senior managers and Board of Directors, financial statements, independent audit reports, annual reports and other related information regarding publicly held corporations, intermediaries and independent audit firms. As venture capital investment corporations and real estate investment companies are publicly held companies one can have access to mentioned information from this platform. Moreover CMB collects and keeps information on portfolio allocation, portfolio value, and performance of pension funds, mutual funds, and other institutional investors where the information disclosed via their own web site in the form called “Continuous Disclosure Form”. In addition to that pension funds, investment funds and investment companies are required to disclose their investment strategies and benchmark information so that participants/investors are able to compare fund performance and benchmark returns. Both domestic and international parties can have online access to the information mentioned above through.

United Kingdom

1303. N/A

United States

1304. No comment

EU

1305. N/A