

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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5 November 2014

1:30 PM – 3:30 PM

Waldorf Ballroom, 2nd Floor, Waldorf Astoria Beijing
Beijing, People's Republic of China

Meeting Paper 2-A Report of the Meeting of the Advisory Group of 8 July 2014, Seattle, USA Office of the Advisory Group Chair

<i>PURPOSE</i>	For consideration.
<i>ISSUE</i>	N.A.
<i>BACKGROUND</i>	N.A.
<i>PROPOSAL</i>	N.A.
<i>DECISION POINT</i>	Endorse the meeting report

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

Third Meeting 2014

8 July 2014

2:00 PM – 3:45 PM

Leonesa Room, Grand Hyatt Seattle
Seattle, Washington, USA

MEETING REPORT

Draft as of 27 October 2014

Welcome and Introduction

The meeting started at 2:00 pm. Participants included ABAC members and staffers, APFF work stream sherpas and attendees of the July 7 APFF Symposium.

The Advisory Group Chair, Mr. Hiroyuki Suzuki, opened the meeting. He welcomed participants and advised them on key documents for endorsement during the meeting. These include the APFF Interim Report to Finance Ministers, the draft ABAC comments on the Asia Region Funds Passport consultation paper that has been prepared by APFF; key issues for the Finance Ministers' PPP implementation roadmap; this year's Financial Inclusion Forum report; a proposal to develop a strategy for improving valuation practices; and the 2014 Advisory Group Report.

The Chair observed that a lot of work has gone into these items over the past several months. He mentioned that the APFF symposium has brought together the results of many activities by different work streams, including the funds passport issue. He also referred to the report of the Financial Inclusion Forum that was held in Shanghai on 19-20 March 2014, APFF's participation in several meetings convened by finance ministries, and the meeting held in Hong Kong last May to develop proposals for improving valuation practices. He noted that this huge amount of work is reflected in the very high quality of the proposals.

Review of the Second 2014 Advisory Group Meeting in Santiago

The Advisory Group Coordinator, Dr. J.C. Parreñas, presented the draft Report of the Advisory Group Meeting of 4 May held in Santiago, Chile.

The Advisory Group approved the Meeting Report.

Asia Pacific Financial Forum

The Chair introduced the subject with a reference to the successful APFF symposium of the previous day and noted that consensus has been achieved on the recommendations and action plans, which are to be presented for endorsement. He also advised participants of the upcoming seminar on financial markets in Seoul that the Korean Ministry of Strategy and Finance will host together with ABAC, which will discuss various proposed APFF action plans.

The Chair reported that based on discussions among the sherpas in Hong Kong on 24 June, it was decided to start developing the APFF's online presence. Noting that it may take a few weeks or months to agree on a good solution, he suggested that as a first provisional step, the Advisory Group could request the ABAC Secretariat to set up a sub-section on APFF in the Business Resources section of the ABAC website, where all the relevant documents can be made accessible to interested parties.

The Coordinator presented an overview of the APFF Interim Report as discussed at the Symposium. He highlighted the main focus of the report, which proposes that the APFF serve as a regional platform for relevant participants from the public and private sectors, international and academic institutions to undertake several action plans. The action plans are as follows:

- Pathfinder initiative to develop credit information sharing systems;
- Pathfinder initiative to improve the legal and institutional architecture for security interest creation, perfection and enforcement and related workshops;
- Dialogues on regulatory issues in trade and supply chain finance;
- Workshops on emerging facilitators of trade and supply chain finance;
- Pathfinder initiative to develop classic repo markets;
- Workshop to develop strategies to improve legal and documentation infrastructure for the development of OTC derivatives markets;
- Self-assessment templates on information for capital market investors: development and workshop series;
- ARFP Support Initiative;
- Workshop series to develop an enabling Asia-Pacific securities investment ecosystem;
- Dialogue series on regulation and accounting issues impacting the long-term business of the insurance industry in Asia-Pacific economies and longevity solutions;
- Collaboration with APEC Finance Ministers' Process in promoting long-term investment, including infrastructure; and
- Conference and workshop series on linkages and structural issues.

The Chair acknowledged the role of the APEC Policy Support Unit (APEC PSU), which has been participating actively in the APFF, and provided valuable research support for the trade and supply chain finance work stream. He noted that the PSU also published a study on the Asia Region Funds Passport. Dr. Gloria Pasadilla described the participation of the PSU in the work of APFF, including the survey undertaken in collaboration with the Trade and Supply Chain Finance Work Stream and the discussions with APEC senior finance officials on these issues.

The Chair also encouraged members to join the Asia-Pacific Financial Cooperation Seminar in Seoul on August 29.

The Advisory Group agreed to recommend that APEC Finance Ministers encourage public-private collaboration through the Asia-Pacific Financial Forum (APFF) to (a) expand access of micro-, small and medium enterprises (MSMEs) to loans through improved legal and institutional frameworks for credit information and the use of factoring, movable assets and accounts receivables as collateral in secured transaction systems, as well as to trade and supply chain finance; and (b) develop deep, liquid and integrated financial markets through better financial market infrastructure and cross-border capital market practices, increased ability of insurers and pension funds to invest in long-term assets and provide longevity solutions and effectively meeting capital market participants' needs for hedging instruments and information.

The Advisory Group also agreed that the APFF Interim Report should be included as an annex in the ABAC report to finance ministers, noted the agenda of the Seoul seminar, and endorsed the suggestion to set up an APFF sub-section in the Business Resources section of the ABAC website.

Asia Region Funds Passport

The Coordinator provided a brief background on the Asia Region Funds Passport process. He reported on the release of a Consultation Paper and the deliberations of the APFF Capital Markets Sub Stream on Regulatory Mutual Recognition, which included more than two dozen experts from leading banking, financial, asset management and legal firms in the region as well as multilateral and research institutions.

Mr. Steven Chan described the highlights of a paper that the APFF is proposing to ABAC to adopt and submit to the participating jurisdictions in response to the Consultation Paper. These are as follows:

The ARFP framework and enlargement. With the decision of six APEC jurisdictions to start discussions on passport arrangements, the ARFP has crossed an important milestone toward attaining a critical mass that would attract active industry participation. While not all APEC economies that can potentially join the ARFP may be ready to do so by the launch date foreseen by the current timeline, this critical mass can be reached through the addition of jurisdictions that have an established history of public fund offerings, a robust legal and regulatory framework that provides best-practice investor protection, and a large and growing savings pool that would make the economy attractive as a host market.

The paper recommends the following practical steps to ensure that these aspirations are fulfilled: (a) clear message on enlargement; (b) greater clarity about the mechanisms for the management of ARFP and how consistency of implementation, facilitation of enlargement, accessibility to investors, wider choices, cost-effectiveness and continued relevance of the ARFP can be ensured; (c) address legal architecture issues that limit enlargement opportunities; (d) creation of two different categories of ARFP membership based on two distinct roles, i.e., home economy members and host economy members; and (e) flexibility for future consolidation of funds passport initiatives.

Taxation and transparency issues. The paper suggests the following:

- that passport arrangements address taxation at the fund level, taxation of distributions in each participating economy and the use of different structures to invest into an ARFP mutual fund (which could pose transparency issues for the ultimate beneficiaries if taxation necessitated their identification and reporting);
- a streamlining of tax treatment of eligible funds in participating jurisdictions that would promote a level playing field, as well as addressing issues related to transparency and how differences in capital gains and withholding taxes should be dealt with; and
- that regulators of participating jurisdictions host forward-looking discussions that would provide greater clarity and certainty in tax related matters, help industry incorporate known developments in their views and identify solutions that are already in place to facilitate ARFP's launch.

Issues requiring further clarification. The paper requests regulators to provide clarification on various issues related to other products, distribution and intermediaries, suspension of redemption, and data privacy and protection.

Other issues. The paper also suggests a clear cost-benefit analysis of ARFP; that the only requirement for CISs to participate in the ARFP should be that its operator is regulated in a passport member economy; standardized formats for information; and proportionate investor protection to the ability of actors to monitor and manage the risks that are within their control.

Finally, the paper conveys a proposed offer to APEC to use the APFF platform to undertake regular discussions with industry and experts from private sector, international organizations and academe.

The Advisory Group endorsed the paper for adoption by ABAC and submission to the ARFP participating authorities.

Asia-Pacific Infrastructure Partnership

In his introductory remarks, the Chair mentioned that infrastructure had become a top priority of the Finance Ministers and APIP has contributed to this and to ongoing work of the FMP. He also proposed that Mr. Mark Johnson continue in his role as APIP Chair.

The Coordinator briefed the Advisory Group on the draft proposals for an implementation roadmap for PPP. Key sections of the proposals are the following:

- Effectively allocating risks between public and private sectors (establishing benchmark projects in various sectors; facilitating better understanding of the market by the private sector);
- Improving institutional capacity to promote PPPs (coordination across ministries/departments and relevant agencies; developing transactional capacity; developing long-term infrastructure planning capacity; strengthening the project preparation process; communicating with the private sector; Building strong and credible public institutions; and ensuring successful initial projects);
- Facilitating infrastructure finance, especially long-term and local currency funding;
- Providing an enabling legal, policy and regulatory environment; and
- Promoting public support for PPPs.

The Advisory Group agreed to recommend that APEC Finance Ministers develop an implementation roadmap for promoting infrastructure PPP projects to assist member economies in (a) effectively allocating risks between public and private sectors; (b) improving institutional capacity to promote PPPs; (c) facilitating infrastructure finance, especially long-term and local currency funding; (d) providing an enabling legal, policy and regulatory environment; and (e) promoting public support for PPPs, as well as recommend that Ministers encourage APEC economies to continue dialogues with APIP. The Advisory Group also agreed to endorse the continuation of Mr. Mark Johnson as APIP Chair.

Financial Inclusion

The Chair introduced the subject by observing that the Financial Inclusion Forum is one of the three Finance Ministers' policy initiatives that are being managed by ABAC through the Advisory Group, producing every year a report that is published and disseminated to relevant stakeholders including leaders, finance ministries and central banks. He noted that this has been possible through a project funded by the Citi Foundation and managed by the Foundation for Development Cooperation. He expressed his thanks to Citi Foundation for this support and to FDC, especially to Mr. Shawn Hunter, for the good work they have been doing in preparing the Forum and for drafting the report.

Mr. Shawn Hunter presented a summary of the 2014 Forum report, which is as follows:

The 2014 Asia-Pacific Forum on Financial Inclusion was hosted by the Asia-Pacific Finance and Development Center (AFDC) and co-organized by the APEC Business Advisory Council (ABAC), the Asian Development Bank Institute (ADBI), The Foundation for Development Cooperation (FDC) and APEC China 2014, with sponsorship support from the Citi Foundation. The Forum brought together participants from the public and private sectors, including financial regulators and policy makers, multilateral institutions, financial institutions

and related market players, microfinance institutions, financial inclusion experts, industry organizations and private foundations.

The 2014 Forum report (<https://www.abaonline.org/v4/download.php?ContentID=22611867>) discusses the current situation of financial inclusion in China, Philippines, Peru, India, Thailand and Indonesia, as well as regional development and key initiatives.

Based on the discussions of this year's Forum, the following policy recommendations have been prepared for the consideration of policy makers and regulators to support their endeavours for increasing access to financial services to the poor.

- Financial regulators clearly can play an important role to further financial inclusion by developing a framework that balances the objectives of safety, soundness, integrity, and consumer protection with those of market innovation and accelerating financial inclusion. Furthermore, consensus around the need for a framework has emerged in an environment of growing awareness that there are neglected opportunities to extend non-credit services to the financially excluded (such as savings, especially for retirement, housing for low income buyers, and remittances recipients). This suggests that a financial inclusion framework can also balance the development of these services in an economy.
- One major lesson from the Peruvian experience is that an approach that focuses on making regulatory requirements proportionate to risk is key to developing that balance. Moreover regulators must be ready to adapt and revise the framework to promising new technologies and innovations in the market.
- The development of a financial inclusion strategy can be an effective way to prioritize goals, balance the development of different financial services needed to achieve financial inclusion and align the roles of and expectations for regulators. Such a formal, public strategy may also work to ensure that financially excluded populations gain access to a broad range of financial services, rather than just one kind of financial service.
- Financial inclusion strategies often focus on providing access to financial products and services. In some economies, this is even narrower, targeting access to credit specifically. To make a significant impact on the poor, financial inclusion strategies need to encourage development and provision of a broad range of quality financial products and services, aligned to the needs of client segments.
- By developing a financial inclusion framework through a public-private dialogue a prudential system that also retains incentives to innovate is possible. To enhance understanding in this area, regulators should gather as much information as possible on developments in the demand side of the market for financial services among lower income segments.
- The case of the Philippines has highlighted the importance of this close dialogue and cooperation between the public and private sectors in order to develop an effective and sustainable microfinance industry. By including this participatory process within policy formation the quality and effectiveness of policies can be significantly increased. Furthermore, close cooperation between line ministries and other public stakeholders within the financial sector is also very important. Such cooperation leads to greater impact in advancing sustainable livelihoods for the poor and other important development goals such as nutrition, health and education.
- Adequate market infrastructure, such as that related to financial identity, credit information, collateral management and payments, is necessary to support greater financial inclusion in rural areas and the poorest segments. The development of this infrastructure will enable the expansion, use and functionality of microfinance products and channels, such as mobile and agent banking, savings, insurance, pensions and also expand the reach of financial education.

- Financial inclusion markets need to be well regulated in order to mitigate risks of indiscriminate lending and other possibilities of malpractice. However, if regulation, particularly with regard to consumer protection, is too strict it will limit innovation. With this view regulatory frameworks need to appropriately balance risk mitigation with consumer protection while still enabling experimentation with new products and delivery mechanisms.

The Advisory Group agreed to endorse the Forum report and to recommend that APEC Finance Ministers encourage greater public-private collaboration in capacity building initiatives to help member economies: (a) develop financial regulatory frameworks that are proportionate to risks and balance the objectives of safety, soundness, integrity and consumer protection with market innovation and accelerating financial inclusion; (b) design financial inclusion strategies that promote a broad range of financial services and prudential systems that retain incentives to innovate; (c) promote coordination among relevant ministries and stakeholders and private sector inputs in policy formulation; and (d) accelerate the development of market infrastructure, particularly those related to financial identity, credit information, collateral management and payments.

Improving Valuation Practices in APEC

The Chair introduced the topic by mentioning that the Advisory Group had agreed at their meeting in Auckland to include valuation practices in the work program and to work with the International Valuation Standards Council. He noted that valuation plays an important role in many economic and financial activities and so the quality is very important for market participants to have confidence in these activities. Because we are also promoting regional integration, how to promote consistency of valuation standards across economies in the region is also a major issue.

Mr. Nicholas Brooke and Ms. April Mackenzie of IVSC presented a proposal for the Advisory Group to develop a strategy to promote high quality valuation processes and professionals across APEC economies, in collaboration with IVSC, VPOs and other relevant public and private sector bodies and experts from industry. This strategy will seek to address the following challenges in the region:

- lack of alignment of standards across jurisdictions for the valuation of key asset classes;
- fragmented professional landscape;
- lack of regulatory recognition of the importance of quality valuation practices; and
- lack of infrastructure and common designations and benchmarks for the valuation profession.

The strategy will focus on promoting region-wide convergence toward robust global valuation standards to be embraced by member economies' regulatory authorities and the development of sustainable VPOs as caretakers of professional standards, education and knowledge depositories, in support of the development of integrated financial markets in APEC. To develop this strategy, a Valuations Task Force (VTF) will undertake activities to:

- explore the valuation landscape in Asia Pacific economies;
- discuss model valuation architecture, associated best practice, the role of internationally accepted valuation standards and of VPOs;
- undertake a gap analysis to record strengths, weaknesses and impediments to improving valuation practices in the region and in particular to identify where there is a need to develop or reinforce the valuation infrastructure;
- prioritize opportunities to enhance existing landscape and implementation challenges; and
- outline the development process for member economies that do not have valuation infrastructure in place.

The deliverables will be recommendations on:

- how the valuation profession can assist in developing and reinforcing the financial architecture of APEC economies;
- requirements for education and training of professional valuers, development of strong valuation professional organizations, region-wide convergence toward robust global valuation standards; high ethical standards and codes of conduct; transparent regulatory frameworks; access to transaction data and disclosure in the public markets and private transactions; and formation of regional forums for real estate and business valuation promoting convergence toward international valuation standards;
- the contribution that strong, independent, harmonized and collaborative professional organizations in APEC economies can make to enhancing valuation standards within each economy; and
- the extent of legislative and regulatory support required to achieve high quality valuation outcomes across tangible and intangible property.

The Advisory Group agreed to recommend that APEC Finance Ministers encourage the public sector to collaborate with ABAC, the International Valuation Standards Council, valuation professional organizations (VPOs), experts from industry and other relevant bodies to promote high quality valuation practices and professionals across member economies through region-wide convergence toward robust global valuation standards and the development of sustainable VPOs as caretakers of professional standards, education and knowledge depositories.

2014 Advisory Group Report on Capacity Building Measures to Strengthen and Develop Financial Systems

The Coordinator presented the draft 2014 report of the Advisory Group with recommendations based on the conclusions of the discussions under the previous agenda items.

The Advisory Group endorsed the report for attachment as annex to the ABAC Report to APEC Finance Ministers.

Chair's Closing Remarks

The Chair delivered his closing remarks and thanked ABAC USA and NCAPEC for hosting the meeting. He also announced that the next meeting will take place in Beijing during the ABAC meeting in November, and that participating institutions will be informed of the exact date and time as soon as this information becomes available.

Adjournment

There being no other matters to discuss, the Chair declared the meeting adjourned at 3:45 pm.