Asia-Pacific Economic Cooperation

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Report of the Meeting of the Advisory Group of 12 February 2010, Melbourne, Australia

[Second Draft]

Office of the Advisory Group Chair

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First Meeting 2010
12 February 2010
The Park Hyatt Melbourne
Melbourne, Australia

MEETING REPORT

Second Draft
As of 14 May 2010

Welcome and Introduction

The meeting started at 10:15 am. Participants included members and staffers of the ABAC Finance and Economics Working Group (FEWG) and representatives from the Australian Treasury, the International Monetary Fund (IMF), the International Finance Corporation (IFC), the Australian APEC Study Centre at RMIT University, the Alliance for Financial Inclusion (AFI), the Asia-Pacific Credit Coalition (APCC), the Foundation for Development Cooperation (FDC), the US National Center for APEC (NCAPEC), Developing World Markets (DWM), Dun & Bradstreet (D&B), and the Pacific Economic Cooperation Council (PECC).

The Advisory Group Chair, Mr. Mark Johnson, presided over the meeting. In his opening remarks, he welcomed the participants, conveyed the Advisory Group Chair's warm greetings, and gave an overview of the agenda items for discussion. He acknowledged the presence of Mr. Bill Brummitt of the Australian Treasury; Dr. Akira Ariyoshi of the IMF; Mr. Anthony Lythgoe, Principal Financial Specialist of the IFC's Global Credit Bureau Program; Mr. Kenneth Waller, Director of the Australian APEC Study Centre at RMIT University; Mr. Craig Wilson, Executive Director of FDC; Dr. Alfred Hannig, Executive Director of AFI; Ms. Sung-Ah Lee of AFI; Mr Peter Johnson and Ms. Simone Balch of DWM; Mr. Thomas Clark from GE Money Asia, representing NCAPEC; Mr. Damian Karmelich from D&B, representing APCC; Mr. Garry Bowditch, representing PECC; and Mr. John Conroy.

Review of the Fourth 2009 Advisory Group Meeting in Singapore

The Advisory Group Coordinator, Dr. J.C. Parreñas, presented the draft Report of the Advisory Group Meeting of 11 November 2009 in Singapore.

The Advisory Group approved the Meeting Report.

2010 Work Program

The Coordinator presented a ***summary of the work of the Advisory Group in 2009***, which included (1) the 31 March – 3 April Tokyo workshop "Promoting Financial Inclusion through Innovative Policies;" (2) the 16 July Singapore bond market forum, and (3) the dialogue between regulators and the region's finance industry held in Bangkok on 27-28 July. This annual dialogue started in 2005, and last year's was the fifth.

The Advisory Group dealt with a number of issues in 2009, which included capital markets, implementing financial regulatory reforms, financial inclusion, infrastructure PPP and credit reporting systems. The Advisory Group's 2009 Report was endorsed by ABAC to the Finance Ministers.

The Coordinator also presented the proposed ***2010 Work Program*** of the Advisory Group. The work program will include (a) working with APEC officials to promote the adoption by APEC Finance Ministers of two initiatives – an APEC Financial Inclusion Initiative and an Asia-Pacific Infrastructure Partnership; (b) co-organizing several forums; (c) compiling reports of forums and discussions of the Advisory Group; and the (d) drafting of the 2010 Report of the Advisory Group, which will be submitted to ABAC for final consideration and incorporation in its recommendations to Finance Ministers.

The forums to be co-organized by the Advisory Group in 2010 are the following: (a) the Public-Private Partnerships Forum held on 9 February in Melbourne; (b) the APEC Financial Inclusion Forum to be held in Sapporo, Japan in the afternoon of 31 May 2010; (c) the APEC Public-Private Sector Forum on Bond Market Development to be held in Sapporo, Japan in the morning of 31 May 2010; and (d) the dialogue with financial regulators to be hosted by the Philippine central bank on June 15-16 in Manila, which will focus on the regulatory reforms coming out of the G-20 process and their implications for Asian emerging markets and their capacity- building needs. Depending on the circumstances, the Advisory Group will consider holding a forum related to the proposed Asia-Pacific Infrastructure Partnership (APIP) toward the end of the year.

The Advisory Group approved the 2010 Work Program as proposed. (*See Annex A.*)

Infrastructure Public-Private Partnership

Mr. Kenneth Waller of the Australian APEC Study Centre reported the successful holding and conclusion of the Public-Private Partnerships Forum held on 9 February at the Offices of Corrs Chambers Westgarth and a Workshop on Measures to Promote an Institutional Framework for Public-Private Partnerships held on 10 February at the Park Hyatt.

Mr. Waller explained that the Forum and Workshop were convened to further APEC's work in promoting PPPs in infrastructure in the region and to consider the idea of an Asia Pacific Public-Private Infrastructure Partnership which would bring together public and private sector interests, multilateral agencies, academics and professional groups and which would assemble knowledge and information, address issues of asymmetry of information and support and promote capacity-building. He noted that the forum was well attended, with over 60 participants drawn from business, public sectors, the Asian Development Bank, academia and professional groups involved in PPP design, administration, financing and management.

The summary report contained the following key points:

- Looking ahead beyond the global financial crisis, the appetite for risk is beginning to improve but the crisis heightened risk and there are long-term changes to the debt market. There is greater sensitivity to market disruption and a focus on which groups might guarantee against risk.
- In Australia there is a push for a more comprehensive approach and a growing recognition of the need for PPPs to operate on an equity basis. There are limits to how much infrastructure can be built and a need to fit projects into broader planning. Taxation policy should focus on economic efficiency. While the financial crisis did have an impact, governments have reacted and projects had been successfully transacted.
- As regards developments in Japan, it was noted that in the past the public sector led the construction of infrastructure. Companies had experience in PPPs in the domestic market but were now focusing on operational aspects of PPPs. The new government is now focusing on growth frontiers and business involvement through technology and know-how. With a declining population, deeper investment in innovation and technology is a crucial aspect of Japan's development. There is considerable cooperation between Japan and India in a major transportation corridor. An Indian Minister had noted that this decade will be the "Infrastructure Decade".

- In Thailand, there is a need, the will and the money for more infrastructure but few PPPs are proceeding. There are political issues regarding concessions in PPPs to private operators. Changes in governments have tended to discourage private investment. There are limits on private equity in Thailand and on foreign ownership and all projects need to be at least 51% Thai owned. Thought is being given to establishing a private investment fund offshore in the hope that this would encourage private capital into the PPP space.
- Risk sharing needs to be economically feasible and financially viable, and risks should be allocated to the party best suited to bearing them. For any risk sharing, government commitment to a project is essential. Host governments need to provide commitment, a stable policy, legal and regulatory framework and sound environmental and social policies. Currency convertibility is a prerequisite in attracting foreign capital as is a right to remit funds. The tendency for host governments to push risk onto the private sector is to be avoided, as are overly optimistic assumptions for demand projections. Governments should allow for flexibility to adjust arrangements and mechanisms should be agreed with the private sector.
- Taking a bottom up approach in looking at PPP transactions, sovereign risk is an issue in some economies even where a project might appear to be soundly constructed. Commercial banks support economies they know and have experience with. However, international banks and local commercial banks are coming back into PPP financing. While multilateral institutions like the ADB 's AAA rating means that through associating with a project it provides confidence to private sector participants, the guarantees available are under- utilized. The ADB has provided guarantees on political risk in projects in Afghanistan and this demonstrates a capacity to get projects implemented.
- The ADB has the capacity to do a lot more in PPP infrastructure and finance is available. However, frameworks to transact PPPs need to be in place. Longer-term it will be important to fund infrastructure from local savings. Self -assessments by economies on their capacity to undertake PPP projects suggests that a number have unrealistic expectations about their preparedness to implement projects. In these situations, the ADB will work, through its various facilities, to encourage private sector involvement in PPPs.
- Not enough is being done to attract funding into PPPs. The idea of a perfect match between public and private interests is an unlikely scenario and much rigour and work is required to bring this decade into the decade of "infrastructure PPPs" There is a large pool of finance and expertise in the region but there is a case now to build the relationships between all concerned parties.
- Optimism in forecasting should be avoided. Facilities should be made available to manage risk. Capital pools are available to finance PPPs but work is needed to bring long-terms savings pools in the region into infrastructure financing. Money is available but capital market structures are under-developed. Investors are less interested in PPP financing and attracting this remains a challenge. It was also observed that political support is a critical factor. An issue was raised on the need to incorporate in contracts the concept of risk-bearing over the life of a project and whether the tender procurement mode is the only mode or whether other practices were relevant to some economies.
- Various efforts are in place in promoting PPPs and a partnership is needed to relate to PPPs at national level, sub-national and national level and sub-regional level involving public and private parties. The ADB is promoting various financial arrangements and seeking to address asymmetry in information as well as long-term financing requirements through a Pan Asia Infrastructure Forum. There are presently no counterpart groups in the private sector to match those of governments. APEC includes the largest economies and it has a mechanism for involving the private sector and an objective through ABAC is to deepen government/private sector relationships.
- Japan as chair of APEC is supportive of an institutional partnership. There is keen interest on the part of Japanese senior officials to work with ABAC to promote regional efforts to further PPPs. The desalination plant in Victoria involved Japanese and other private sector investors and

transport infrastructure would promote supply chain connectivity – another important APEC objective. A regional group would encourage private sector financing and support an expanding growth agenda.

- As regards an APIP, it would be important to recognize that on some projects there could be cooperation between various parties but that others might benefit from a competitive approach. There would be a need to look at the unique strengths of each project and of each economy. Capital market mechanisms needed to be developed to generate the enormous capital required to finance infrastructure and to cooperate with government funds in project financing. Matching financing opportunities for projects is the key objective and there are now some guidelines in place. We need mechanisms to create projects and to reduce risks. Also needed is a facility to share best practices. An APIP could further promote PPPs and while there is sound technical knowledge available, generating political will and appreciation would be relevant.

- Capacity training and education would also be important, including the private sector. It was noted that various parties needed to come together to make a partnership effective and that an institutional framework should contribute to resolving some of the many challenges in PPP development. Partnership between governments, the private sector, academics and researchers is critical and with its wide reach into Asia and Australia, RMIT University is well placed to support educational efforts which are relevant to PPPs. Education is an infrastructure investment for the future and that is why RMIT University supports the APEC Study Centre and the initiative at the heart of the Forum.

- The Victorian government has dual objectives in PPPs. These cover industry involvement in developing PPPs and a financial interest in getting best value for money in PPPs in the State. PPPs are a strength for Victoria as an exporter of financial services and the development of PPPs helps position Melbourne as a global centre of excellence – also a Government goal – for training in financial services in the APEC region. Government support for the Melbourne APEC Finance Centre, a facility at the Australian APEC Study Centre at RMIT University, fits well with these priorities. Partnerships Victoria is internationally recognized as a specialist in PPP development and for its expertise.

- Whether in Australia or in overseas markets, documentation and legal risk is a challenge but if a bank can build and deliver services then governments would collaborate with banks in implementing PPPs. One impact of the financial crisis has been that financing is available for shorter periods – 7/9 years – compared with the pre-crisis environment. Currency issues also pose challenges for banks and regional PPPs require regional solutions.

- There is strong support for the concept of a partnership arising from the discussions. Research and training and data collection to support regional PPPs and the network of institutions in this field are very relevant contributions such a partnership can make. Participants welcomed the lead taken by RMIT University and the State Government of Victoria noting that Victoria was a good place on which to build the initiative. There is a rich experience in PPPs and cross-border interest in infrastructure. Japan is entering a period where business and the government are looking at the Asian region to sustain growth. There is an opportunity now to address the many issues in promoting PPPs.

- There is a need to pay greater attention to the politics of PPPs. Tackling technical issues was important but political sensitivities on pricing was a critical aspect of gaining aspect of regional PPP development. Emphasis was placed on enhancing PPP activities to generate political support. Education at various levels was discussed. Education needed to be at the “high” political end and at the technical level. Different approaches would be required. Dislocation was noted as a real problem arising from PPPs in smaller economies where private sector managers of projects drew scarce labour from other economic sectors.

Mr. Bill Brummitt from the Australian Treasury welcomed ABAC’s work on infrastructure PPP and mentioned that this complements the efforts being undertaken by officials under the APEC Finance Ministers’ Process. He noted that ABAC’s 2009 Report was well-received by the Finance Ministers.

Going forward, he briefed the Advisory Group on the APEC FMP policy initiative on infrastructure PPP where the Australian Treasury is playing the lead role. This initiative consists of two capacity-building activities this year to promote greater commonality in PPP infrastructure markets, which would help decrease bidding costs for contracts; reduce government transaction costs; increase competition, facilitate greater flows of finance across borders and fast-track projects to a bankable stage. The first workshop will be held in Bangkok in May 2010 while the follow-up workshop will take place in Melbourne in August. A high-level dialogue is planned to be held in conjunction with the follow-up workshop.

The workshops will provide technical training to government officials responsible for infrastructure PPP policy and project development, focusing on established best practices in specific areas of PPP infrastructure project development and implementation. Participants will explore how economies could adopt some of these practices and to do so in accordance with their local conditions and development priorities. The wider adoption of these best practices by APEC economies is expected to create greater commonality in the function of PPP markets across the region. The Treasury plans to invite a number of APEC finance ministers to the high-level dialogue, which will involve broad discussions of reforms needed to further enhance PPP infrastructure financing and growth.

Mr. Brummitt confirmed that the Australian Treasury welcomes ABAC's collaboration in making this initiative a success, as well as ABAC representation at the high-level dialogue. He underscored the benefits of officials and business delivering a common message on infrastructure PPP to APEC Ministers, and eventually to APEC Economic Leaders.

The Advisory Group Chair summarized the discussions by observing that the work of the FMP being led by the Australian Treasury and the work of ABAC in collaboration with other institutions in the Advisory Group are complementary. He suggested as an important next step that after endorsing the conclusions of the February 9 Public-Private Partnerships Forum, the Advisory Group flesh out the institutional framework for private sector involvement and collaboration in regional efforts to promote PPP, designing a structure that reflects broad interests of the various stakeholders in the region and that ensures objectivity and neutrality. He emphasized that the concept for such a structure, which would effectively complement the aspirations of senior finance officials, should be finalized at the Taipei meeting in May.

The Advisory Group endorsed the summary conclusions of the February 9 Public-Private Partnerships Forum as reported by Mr. Waller as well as the next steps suggested by the Chair, and requested Mr. Waller and the Advisory Group Coordinator to work on the full report of the Forum for circulation before the Taipei meeting.

Financial Inclusion

The Coordinator referred participants to a paper circulated by the Office of the Chair on the progress of efforts to promote an APEC Financial Inclusion Initiative. The paper included the following updates:

- At the APEC 2010 Symposium held last December in Tokyo, which was attended by APEC senior officials, there were very strong expressions of support -- both in public and in private -- for incorporating financial inclusion in APEC's 2010 agenda.
- The proposed initiative is now on the agenda for discussion under the official APEC Finance Ministers' Process, and is tabled for discussion at the APEC Senior Finance Officials Meeting (SFOM) on February 18-19 in Tokyo and during an APEC officials' meeting in Sapporo around the end of May.
- The SFOM Chair (Japan Ministry of Finance) has requested ABAC to make a short initial presentation to the officials during the February 18-19 SFOM. The Coordinator prepared a brief 15-minute presentation based on the Advisory Group's previous discussions, the conclusions of the 31 March-3 April 2009 Tokyo Financial Inclusion Workshop and the January 2008 Jakarta Microfinance Workshop.

- Currently under discussion is the outline of a session likely to last from one hour to one hour and fifteen minutes on financial inclusion in Sapporo for APEC officials. A possible format is a panel discussion with key Advisory Group participating institutions providing perspectives on various aspects of the APEC financial inclusion initiative proposal. Presentations could include an overview of financial inclusion including latest developments relating to access to capital markets, the six key policy solutions, brief summaries of case studies of successful policy reforms in mobile phone banking and agent banking, comments by multilaterals on how APEC can contribute to ongoing initiatives and proposals on the contents of an APEC Financial Inclusion Initiative.

The Coordinator also referred to remarks made by the APEC SOM Chair at the ABAC-SOM Dialogue, where he mentioned that financial inclusion through microfinance will be included in APEC's agenda for discussion this year.

The Coordinator also informed the Advisory Group that the ADB Institute (ADBI) has offered to publish the report of the Tokyo Financial Inclusion Workshop held at the ADBI on March 31 – April 3, 2009, which has been reported and approved by the Advisory Group last year. The report would undergo some editing to make it suitable for publication. He proposed that the Advisory Group accept the offer of ADBI to publish the report.

Mr. Peter Johnson and Ms. Simone Balch of Developing World Markets gave a presentation on microfinance as an emerging asset class and microfinance investment vehicles. Key ideas from the presentation are as follows:

- Microfinance has emerged as a fast growth mechanism to address the gap created by the fact that Asia's high growth rates have often excluded low-income population groups. Half of the world's population lives on US$2 per day, and a fifth, or over a billion people, are living on less than US$1 a day. Low income people are often left behind in the process of development, as they lack skill, education, water, health care and access to finance. Microfinance has grown rapidly over the past few years, in terms of the global gross loan portfolio and number of borrowers. As current microfinance clients only number less than 100 million people while the "working poor" presumed to be in need of microfinance services are estimated to number about 1.5 billion, there is a huge growth potential.

- Microfinance investment vehicles have emerged as a bridge between investors and microfinance institutions (MFIs), providing debt, equity, hybrids and others. Taking DWM as an example, it structured and placed the first collateralized loan obligation (CLO) in microfinance in 2004; structured, placed and managed the first rated CLO in 2006; managed the first and second major institution-only microfinance fund in 2007 and 2008, and arranged the first cross-border bond issue by an MFI (Access Bank Bond I) in 2008. It created the DWM Microfinance Equity Fund in 2009, which is open to taking controlling stakes in MFIs, and the DWM Microfinance Fund in 2010 offering local currency. It plans to create the first Asia-wide structured MF fund offering local currency in the course of the year. Other financial institutions such as Citi, Morgan Stanley and Deutsche Bank have also been active in securitizing microloans and creating CLOs.

- The MIV mechanism involves the allocation of funds by international investors to MIVs investing in MFIs in developing economies, with MIVs providing debt, equity and guarantee financing to MFIs. Total MIV assets have grown from US$1.195 billion at end-2005 to US$5.037 billion at end-2008, with number of MIVs growing from 41 to 68 during this period. Debt makes up more than 80% of microfinance portfolio composition.

- Institutional investors, including private institutions and commercial investors such as pension funds and banks, and public institutions make up more than 70% of the MIV investor base. Individuals compose about 20% and fund of funds a little under 8%. Public institutions, particularly development finance institutions, play a significant role in establishing new microfinance banks and microfinance holding companies. In addition to providing equity and loan capital to MFIs, they also provide technical assistance to microfinance holding companies that can be replicated in various underserved markets.

- Returning steady cumulative returns across the board, MIVs have performed consistently and attracted investors. Examples are the BlueOrchard Microfinance Securities I (US$87 million CLO, 7-year notes, USD senior tranche) with 6.33% p.a.; Microfinance Securities XXEB (US$60 million CLO, 5-year notes, USD senior tranche) with 6.12% p.a.; and Azerbaijan's Access Bank (US$25 million bond, 5-year notes, USD) with 8.5% p.a. Credit quality is high due to the low credit risk of the underlying business, where credit officers know their customers well, who are typically low-income people (with women comprising the majority) who value the opportunity to access credit, resulting in high repayment rates (default rates for microloans are typically under 2%, although these differ across regions).

- MIVs attract investors by offering strong diversification opportunities. Using the example of DWM, its Benchmark Fund offers credit diversification by providing exposure to 82 MFIs in 32 economies. DWM offers geographic diversification by setting exposure limits on most of its MIVs spread across 38 economies, based on country risk analysis covering political stability, economic climate, regulatory environment and enforceability of contracts. These limits include 35% maximum regional exposure, 15-20% maximum exposure to an economy depending on credit ratings, 10% maximum single MFI exposure, 30% maximum exposure to eligible enterprises that are less than 3 years old, 50% maximum total local currency exposure and 10-15% maximum exposure in any one local currency depending on credit ratings. DWM also offers local currency diversification; foreign exchange exposure of its Flagship Fund outside the US dollar and the Euro (which make up 76% of the total) include exposure to 12 other emerging market currencies.

- Most MIVs are currently unregulated. MicroRate and the Consultative Group for Assisting the Poor (CGAP) conduct annual MIV surveys to increase transparency. Registered investment funds are open to retail investors, usually regulated by local market authorities and regularly publish information on net asset value (NAV). Unregistered investment funds, which are usually unregulated, include private investment funds (private companies open to qualified and accredited investors seeking a return but not to retail investors), structured investments such as collateralized obligations that offer investors two or more classes of investment, and not-for-profit investment funds (typically non-profit organizations like NGOs and cooperatives that reinvest most or all returns and are usually exempt from regulation).

- DWM plans to launch an Asia-Focused Debt MIV in the third quarter of 2010. Features include a structured approach comprising junior, mezzanine and senior tranches to attract a broad range of investors, public-partnership and technical assistance components, focused on Tier 2 and 3 MFIs, aim to reach Asian economies not yet served by MIVs and loans in local currencies. It has a target of US$100 million to fund loans to between 30 and 50 MFIs in at least 10 Asian economies serving over 10 million clients.

Commenting on behalf of the APCC, Mr. Karmelich of D&B updated the Advisory Group on the APCC's work on promoting improvements in credit reporting systems. Current efforts in Australia have resulted in significant progress, as the Australian government recently announced its intention to move toward a positive credit reporting system. Although it is still limited compared to the US, the move represents a significant shift.

Three key issues exerted profound influence on the public debate. The first was the impact of positive credit reporting on the sustainability of lending. The second was its contribution to financial inclusion, as it empowers people to access credit by addressing the lack of financial identity. The third was the impact on small business lending, as personal credit details of individuals are important not just for consumer lending but also for lending to small businesses. The open debate on the issue allowed industry players to view among themselves what the outcome of the reform might look like and facilitated deeper understanding by stakeholders and the government.

The experience of promoting reforms in Australia provides important lessons for an APEC initiative. The first is the importance of quantifiable research and data. The second is the need to have a broad agreement to develop a best practice standard for the region to enable people to better understand the impact of reforms. An APEC initiative could take the form of 3 or 4 workshops to help develop that standard. These workshops could focus on (a) identity verification (which is important for economies where there is no unique identifier); (b) how to promote the sharing of credit data among credit providers, which the research has demonstrated to lead to the overall growth of the market, by discussing rules and how they can be made to work; and (c) consumer rights and consumer access (with the aim of developing a consensus on the model to facilitate government action).

Dr. Hannig briefed the Advisory Group on the latest developments in AFI and its activities. Since AFI's launch in 2009, over 80 economies have joined, represented by central banks, ministries of finance and various supervisory bodies. AFI's management unit was established in Bangkok, where it is now fully operational. Several APEC economies play an active role in AFI's activities and governance. Central banks from Thailand, the Philippines, Indonesia and Mexico are active, with the Philippines playing a leading role in developing regulatory frameworks for mobile phone services and Indonesia actively promoting efforts related to the issue of financial identity.

Dr. Hannig reported that AFI is very much involved in the work of the G-20 on financial inclusion, providing the technical secretariat for its work on promoting access through innovation. He welcomed the Advisory Group's and ABAC's proposal to launch an APEC Financial Inclusion Initiative and signaled AFI's interest to be involved in specific activities under this initiative.

Mr. Lythgoe of IFC provided an update on efforts being undertaken in setting standards for credit reporting. He reported that, under the leadership of the World Bank, a recent meeting in Mexico has generated draft standards for credit reporting that goes beyond lending, to support greater financial inclusion with the provision of a whole range of services.

Mr. Lythgoe expressed support for greater access of microfinance to capital markets through MIVs, while underscoring the importance of ensuring sustainability, given the phenomenal pace of development of this market compared to the slower pace of development of regulatory and market infrastructure, including tools to effectively rate financial instruments.

Mr. Conroy also raised the importance of savings mobilization among financially excluded households, which helps develop financial intermediation and financial deepening in emerging markets, as well as providing a service of fundamental importance to the excluded. In this context, he underscored the need to ensure that increased access of MFIs to capital markets does not inhibit savings mobilization, such as through reduced incentives for regulated institutions to do so or for non-regulated MFIs to upgrade to deposit-taking status. He also stressed the need to consider whether pressure to meet performance benchmarks set by investors that could come from increased access to capital might result in switching the focus of MFIs toward activities that contribute little to financial inclusion (a phenomenon known as "mission drift").

Mr. Craig Wilson of FDC noted the key leadership role played by ABAC in promoting financial inclusion in APEC, and the very encouraging interest in this subject showed by the Japanese Government as APEC Chair. Referring to previous comments on microfinance's growing access to capital markets and the role of MIVs, he underscored its importance and that this needs to be seen as part of a broader solution that includes other components addressing the need to promote domestic savings. He also encouraged the Australian Treasury to proactively support a financial inclusion strategy in APEC. Touching on FDC's previous experience with launching the Banking with the Poor Network and the Microfinance Pasifika Network, he stressed the importance of moving swiftly with the proposed APEC Financial Inclusion Initiative, and signaled FDC's readiness to play a lead role in this initiative, if asked to do so.

In response to the comments on MIVs, Mr. Peter Johnson expressed his agreement with the need to ensure sustainability of microfinance and avoiding mission drift. He emphasized that well-structured MIVs can contribute significantly and broadly to financial inclusion.

In closing the discussions on this agenda item, the Chair noted the existence of a strong coalition around the proposed APEC Financial Inclusion Initiative.

The Advisory Group endorsed the holding of the APEC Financial Inclusion Forum in Sapporo on 31 May, in collaboration with the Japan Ministry of Finance and the APEC Senior Finance Officials, as *well as the proposal to let ADB Institute publish the full report of the 2009 Tokyo Financial Inclusion Workshop, as requested by the Advisory Group Chair and Coordinator.*

Promoting Capital Market Development

The Advisory Group Coordinator referred participants to a paper circulated by the Office of the Advisory Group Chair containing the draft program of the 4th APEC Public-Private Sector Forum on Bond Market Development.

He referred to Paragraph 23 of the 2009 Joint Statement of the APEC Finance Ministers, which stated that they “noted the successful outcomes of the 3rd Public-Private Sector Forum on bond market development, and…welcomed ABAC’s proposal to organize the fourth installment of the forum in Japan in 2010.” He reported that the Japan Ministry of Finance, as host of the Forum, has completed its internal discussions and communicated its suggestions on the program, which are now incorporated in the draft being considered. Key elements in the draft program are as follows:

- The program incorporates the forum on financial inclusion as a separate part to be held in the afternoon. The bond market part will comprise the morning sessions.
- As in previous forums, the bond market forum will be composed of an overview session, a session focusing on bond markets of specific economies (China, Korea and Japan) and a session on capacity-building.
- The capacity-building session is structured to respond to an earlier suggestion by Japanese officials to develop new ideas for bringing capital market development in the region to the next higher level. Ideas being considered for discussion include a pathfinder initiative to adopt passport-type arrangements for funds similar to the successful Undertakings for Collective Investment in Transferable Securities (UCITS) in Europe and a clearing and settlement system for the Asian time zone.

The Chair informed the Advisory Group that updates will be circulated and the program will be further discussed at the Taipei meeting. He also encouraged Advisory Group participants to attend the Forum.

The Advisory Group noted the progress of preparations for the Forum.

Capacity-Building for Regulatory Reforms in the Region’s Developing Economies

The Advisory Group Coordinator referred participants to the draft program of the 6th SEACEN-ABAC-ABA-PECC Public-Private Dialogue for the Asia-Pacific Region, which will be hosted by the Bangko Sentral ng Pilipinas (Philippine central bank) in Manila on 15-16 June. He explained that the focus of the dialogue will be on global regulatory reforms and their impact on the region’s emerging markets and implications on capacity-building, including regional integration and cooperation.

The Coordinator also reported that the Asian Bankers’ Association, one of the co-organizers of the annual dialogue, has offered to publish the report of the 2009 dialogue in Bangkok, which was summarized and discussed at the Advisory Group meeting in Danang last August.

Mr. Kenneth Waller made a presentation on a project of the Australian APEC Study Centre at RMIT University on the implementation of financial system regulatory reforms in the region following the global financial crisis. Key points of his presentation are as follows:

- The Centre is submitting this joint proposal with the Asia-Pacific Finance and Development Center (AFDC) in China for a training course to be funded in part by the APEC Support Fund. The purpose of the program is to inform senior and mid-level officials from the region’s banking regulatory and policy agencies on major proposals and reforms to financial system regulatory and supervisory approaches now under consideration and their impact and application to regional banks. It will focus on improving risk management and governance arrangements in banking. By influencing financial system supervision, the reforms aim to promote financial system stability, improve the security of investments for savers and to reduce vulnerability of institutions and communities to financial instability.

- The draft proposal is being proposed to APEC by the Ministry of Finance in China and is co-sponsored by the Ministry of Economy and Finance in Peru, Bank Indonesia, Ministry of Finance of Vietnam and Papua New Guinea Treasury.

- The course would be developed in consultation with regional and international standard setting bodies as well as being tailored to the needs of APEC developing economies. It would involve a five day intensive training program in Beijing or Shanghai, delivered by specialists from regulatory and policy agencies, industry experts, professional specialists and academics. Participants from non-travel eligible economies will be welcome on a self-paying basis. The course will have a direct bearing on strengthening financial systems and thereby better securing furthering development goals and reducing community risk in savings and investment products.

- Sessions of the course will discuss the following topics:
    - Review of major recent developments in the global finance; failures and causes, and dealing with systemic risk, liquidity risk and strains on capital adequacy in banking systems
    - Broad responses to the stresses and challenges of the crisis by international standard setting bodies; including key recommendations from the Financial Stability Board, the Basel Group of Banking Supervisors – drawing out proposed reforms to Basel I and Basel II
    - Regional bank regulators response to emerging reforms proposed by the standard setting bodies – by the China Banking Regulatory Commission and the Australian Prudential Regulatory Authority, FSA Japan and US Fed Reserve
    - Evaluation of proposed reforms on regional banking systems
    - Assessment of proposed banking system reforms by a representative of the Institute for International Finance
    - Regional bankers' perspectives on the impact of the implementation of proposed reforms to banking supervision
    - Benefits and disadvantages of proposed reforms
    - Review of the impact of reforms on credit risk management – an academic and supervisory perspective
    - Assessment of the implications of proposed reforms on bank capital adequacy and the economic impact of higher capital charges on the region's economies
    - Objectives, constraints and benefits of macro-prudential management
    - Evaluation of key component parts of the concept of macro-prudential management
    - Lessons learned from the preceding two sessions dealing with macro-prudential management
    - Stress testing as a major tool in regulatory supervision; objectives, relevance, skills and data requirements; managing results and expectations
    - Benefits and constraints of stress testing from regulatory and banking industry perspectives
    - Factors determining a bank's risk appetite; the impact on capital adequacy and capital charges of emerging regulatory reforms from academic, supervisory and banking industry perspectives
    - Key aspects that a supervisor should consider in assessing a bank's capital model and in evaluating the utility of capital models from supervisor and banking industry perspectives
    - Impact of the crisis on Pillar 3 of Basel II; emerging responses and reforms as they impact on bank disclosure; understanding the role of credit ratings in the post crisis era

Mr. Waller requested the Advisory Group's endorsement of the proposal as relevant to the objective of promoting capacity building initiatives to strengthen the region's financial systems and that this endorsement may be made available to the APEC Secretariat PMU in support of the Centre's proposal.

Dr. Akira Ariyoshi of the IMF referred participants to a presentation material on recent international initiatives to promote stability and growth prepared on behalf of the IMF for the Advisory Group's consideration. Key messages are as follows:

- The current framework for global financial regulatory reforms involves three stages. First, design is being carried out by international standard setting bodies under the oversight of the Financial Stability Board (FSB). Second, implementation is carried out by domestic authorities in their respective jurisdictions with technical assistance from IFIs as provided for in the G-20 Pittsburgh Leaders' Statement, and international cooperation in crisis management, supervisory colleges and other areas is undertaken. Third, assessment is undertaken through the FSB peer review, the IMF-WB Financial Sector Assessment Program (FSAP) and Reports on the Observance of Standards and Codes (ROSC). Results of assessment are fed back to help improve implementation.

- With respect to the direction of regulatory reforms, the key challenge is to strengthen the financial stability framework without compromising efficiency and market innovation. Key areas of reform are: (a) reforming regulatory frameworks (including those governing capital, liquidity, transparency and accounting), which would involve compensation issues and structures, risk management systems and disclosure and accounting frameworks and practices; (b) handling systemic risks, which would involve identification of systemically important institutions, markets and instruments (SIMI) and extending the perimeter of regulation; (c) improving crisis management; and (d) filling information gaps.

- Key work in progress includes the following:
  - Capital adequacy and liquidity (BCBS consultative papers released in January 2010)
  - Accounting (IFRS 9 governing fair value accounting; exposure draft for provisions and reserves)
  - Systemically important institutions and markets (IMF-BIS-FSB Report released in November 2009 with a follow-up on June 2010 and US proposal to limit size of banks)
  - Assessment (FSAP for US, China, Indonesia currently being undertaken and start of second round of FSAPs for other economies; FSB thematic peer review on compensation)
  - Perimeter of regulation (Joint Forum review of differentiated nature and scope of financial regulation providing recommendations; US proposal to limit banks' activities)
  - Hedge funds and credit rating agencies (implementation by domestic authorities of IOSCO principles)
  - Financial sector taxation (preparation by IMF of a report on options to be presented to the G-20 in April 2010; some measures being introduced by individual economies)
  - Non-cooperative jurisdictions (preparations for the OECD Global Forum peer review that will start in 2010)
  - Information gaps (FSB-IMF report with recommendations on improving data and information released in October 2009).

- With respect to macro-financial policies, the focus has been on early warning exercises and the promotion of the G-20 Framework for Strong, Sustainable and Balanced Growth, wherein the G-20 will conduct mutual assessment of members' medium-term policy frameworks, the IMF will assist in analyzing the consistency of individual economies' policies with the medium-term growth objectives, and a series of interactions and discussions will be held leading to the November G-20 summit.

- Reforms to the governance of the global architectures are being undertaken. These involve wider membership of the FSB compared to its predecessor (FSF), the expansion of membership of the Basel Committee on Banking Supervision (BCBS) from 13 to 27 and the establishment of a Monitoring Board of securities regulators for the International Accounting Standards Committee Foundation (IASCF). There is also a revision of IMF quotas that will conclude by January 2011, which will give emerging markets larger quota shares and influence.

- Finally, discussions are being undertaken with a view to possible changes in the international monetary system. Issues include a possible expansion of the IMF toolkit to provide a lender-of-last-resort type of facility and a rethink of the role of dollar and possible role of the SDR as a global reserve currency.

Dr. Ariyoshi noted that reactions in Asia center on concerns about a huge regulatory tsunami and about the relevance of regulatory changes being undertaken to Asian economies and financial institutions. He outlined possible ways of how the private sector through ABAC and the Advisory Group might be able to contribute to addressing these concerns. First, given the huge number of regulatory reform initiatives and their combined impact on the financial industry, the private sector as the party that can best recognize unintended consequences arising from such initiatives could provide important inputs in dialogues with policymakers and regulators. Second, good advice is needed in the development and implementation of financial regulatory frameworks to strengthen banking systems in emerging markets, as current global frameworks such as rules on capital adequacy have been primarily developed with internationally active banks in mind, and the private sector would be an important source of advice on this matter. Third, dialogue between public and private sectors is important in promoting reform measures in areas identified through FSAPs.

Finally, Dr. Ariyoshi said that the IMF supports efforts such as the Public-Private Dialogue and the proposed APEC Study Center training program as very useful initiatives in upgrading financial regulatory infrastructure in the region, and the IMF is prepared to work together with the Advisory Group.

The Advisory Group approved the Chair's motion to endorse the holding of the 6th SEACEN-ABAC-ABA-PECC Public-Private Dialogue for the Asia-Pacific Region in Manila on 15-16 June, the publication of the report of the previous Dialogue held in Bangkok in July 2009, and the proposal by the Australian APEC Study Center for a training program for regulators and officials.

Facilitating SME Finance

The Coordinator referred participants to a paper discussing a framework proposed for analyzing factors that affect the availability of credit to SMEs. Key messages are as follows:

- The framework shows how policies affect the availability of credit to SMEs, through their impact on first, lending infrastructure and second, the structure of the financial industry, and how these two factors determine the feasibility and profitability with which different lending technologies are deployed. Financial industry structure refers to the market presence of different types of institutions. This includes factors like size, ownership and market competition.
- The lending infrastructure refers to the rules and conditions affecting the ability of these institutions to lend. These include (a) the information environment, such as the quality of accounting standards and accounting firms; (b) the legal, judicial and bankruptcy environment, such as commercial laws and their enforcement; (c) the social environment, such as the social norms, religion and culture; and (d) the tax and regulatory environment, including capital regulation and bank supervision.
- Lending technologies refer to the combination of primary information source, screening and underwriting policies and procedures, loan contract structure and monitoring mechanisms. They play a key role, in that they are the conduit through which government policies and financial structures affect the availability of credit to SMEs. Lending technologies can be divided into transactions lending technologies, which are based on hard data, and relationship lending, which is based on soft data. A third category, trade credit, involves both hard data and soft information.
- Lending technologies are affected by lending infrastructure and financial industry structure. Some examples:
- The accounting infrastructure, including accounting standards and independent accounting firms, are important for financial statement lending, as well as for covenants that are based on financial status.
- The sharing of information, especially those that credit bureaus provide, is needed for credit scoring. Credit scoring is normally associated with loans that are relatively smaller and riskier.

Personal consumer data from consumer credit bureaus are combined with data on SMEs collected by financial institutions, often from commercial credit bureaus to produce hard information on small firms and their owners. These data are also used in factoring.

- Commercial laws affecting property rights, and how well they are enforced determines the confidence of market participants in financial contracts, and so affects the ability of banks to deploy contracting elements such as covenants, maturity, collateral and personal commitments.
- Commercial laws on security interests, including collateral, are important for asset-based lending and fixed asset lending. It is often the case that in countries where there are weak laws or weak enforcement, there is greater use of factoring and leasing, because in these cases the ownership of the underlying assets rests with the lender rather than the borrower.
- Taxes are very important. For example, stamp taxes on factored invoices and value-added taxes have a negative impact on the development of factoring.
- Capital regulations can affect preferences for one lending technology over another. For instance, if they result in more favorable capital requirements for managing SME loans as part of a pool, banks will be encouraged to shift from relationship lending to the use of transactions-based technologies.
- The financial industry structure can also affect lending technologies and SME lending. For example, the size of a financial institution can influence the preferences for lending technologies. Large institutions have an advantage in transactions lending because processing hard information benefits from economies of scale. Smaller institutions tend to be good in relationship lending, because maintaining relationships with small business owners through individual loan officers are easier with fewer layers of management. As a consequence, in economies where large financial institutions dominate, the infrastructure for hard data tends to have greater importance for lending to SMEs.
- These considerations suggest that improvement of lending infrastructure can improve the availability of SME credit by facilitating the use of various lending technologies. Financial statement lending can be facilitated by better accounting standards; asset-based and fixed-asset lending by better commercial laws on security interests; and credit scoring by better credit reporting systems.

The Advisory Group coordinator concluded his presentation by mentioning that by using the framework, the Advisory Group can help identify key lending infrastructure most needed in APEC that can be improved, such as credit reporting systems and commercial laws on security interests.

Mr. Thomas Clark of NCAPEC presented ideas on how APEC can help improve legal infrastructure to promote SME finance. His presentation touched on the following key ideas:

- In general, security enforcement regimes in most APEC jurisdictions are intended to encourage provision of credit to commercial borrowers by recognizing and protecting the expectations of senior-secured lenders and providing legal certainty in the event of borrower insolvency.
- However, a number of important gaps remain. Absence of a clear legal framework to enforce rights of secured lenders is an impediment to credit availability, disproportionately affecting SMEs and other businesses that have historically had difficulty accessing bank credit.
- An APEC initiative to improve and harmonize standards for perfection and enforcement of security interests in collateral, as part of a system for developing a robust commercial finance market, would promote innovative financial products, enhance overall liquidity for the SME sector, and advance the goal of financial sector inclusion and sustainable growth.
- In addition to facilitating financing for SMEs, a harmonized approach would promote regional investment and trade in financial services in the APEC region.

Mr. Clark referred to ABAC's recommendation in the 2009 ABAC Report to Economic Leaders, which urged APEC to "undertake initiatives to promote a more predictable legal architecture for secured lending, including an exclusively available system for registering and perfecting security interests in both movables and receivables as collateral, efficient judicial procedures for enforcement of security interests, and clear regulations around asset-based lending requirements to further enable both lenders and borrowers to assess risk and enhance sound credit and lending activities."

He enumerated some issues in secured lending legal infrastructure that need to be addressed in the region: (a) absence of exclusive security interest registry and the associated problem of "hidden liens;" (b) voidable conversion and preference; (c) unclear perfection rules for certain types of collateral, including movables, receivables and goodwill; (d) absence of blocked account security precedence; (e) untested debtor-in-possession (DIP) process; and (f) treatment of floating charges.

To address these issues, Mr. Clark described a set of capacity-building measures that could be undertaken as part of an APEC SME Financing Initiative. These include (a) undertaking a survey of global best practices on secured lending regimes and link to financing availability; (b) developing model elements of an APEC code of security interest creation, perfection and enforcement to promote clear perfection rules, broad coverage of collateral types and exclusivity to eliminate hidden liens; (c) developing model treatment of floating charges and accounts receivable financing; (d) holding of a public-private dialogue to validate improvements; and (e) developing an APEC checklist for statutory and regulatory implementation, aimed at addressing the gaps identified above.

In the ensuing discussions, participants agreed on the need to promote capacity-building and regional harmonization to promote SME finance, and underscored the importance of updating legal frameworks to support mechanisms such as the development of collateral registries being undertaken by the IFC and the World Bank.

The Advisory Group agreed to pursue further work based on the foregoing discussions to develop concrete proposals to promote SME finance for its 2010 report.

Chair's Closing Remarks

The Chair delivered his closing remarks and announced that the next meeting will take place in Taipei during the ABAC meeting in May, 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 wished the participants an enjoyable stay in Melbourne and a safe trip back to their respective home cities, and declared the meeting adjourned at 12:35 pm.

ANNEX A

Advisory Group on APEC Financial System Capacity-Building
2010 WORK PROGRAM

Final version

BACKGROUND

The Advisory Group on APEC Financial System Capacity-Building was established at the time of the APEC Finance Ministers' Meeting in Phuket, Thailand in 2003, at a meeting jointly organized by the APEC Business Advisory Council (ABAC) and the Pacific Economic Cooperation Council (PECC). The Advisory Group was created with three major goals in mind: (a) to harness expertise in international public and private sector institutions in collaborating with the APEC Finance Ministers to develop capacity-building programs for the region's financial systems; (b) to promote public-private sector collaboration in capacity-building efforts; and (c) to ensure greater synergy among ongoing capacity-building activities and facilitate identification of capacity-building gaps through exchange of information.

OBJECTIVES OF THE 2010 WORK PROGRAM

Following are the objectives of the 2010 Work Program of the Advisory Group:

- To develop specific proposals on capacity-building that can be endorsed to the APEC Finance Ministers, particularly in areas where public-private partnership would be helpful.
- To undertake public-private sector dialogues in key areas of the Advisory Group's work.
- To identify possibilities of collaboration among participating organizations and between public and private sectors.
- To exchange information and updates on current initiatives by participating organizations and promote greater synergy among them.

ACTIVITIES IN 2010

A. PROJECTS

1. Public-Private Partnership Forum, Melbourne, 9 February 2010

The Advisory Group is coordinating this workshop with the Australian APEC Study Centre at RMIT University, ABAC FEWG, and the Department of Innovation, Industry and Regional Development (DIIRD) of the State Government of Victoria. The workshop is hosted by Corrs Chambers Westgarth on 9 February. The workshop is being convened to promote and further work within APEC on PPP. There are three major components to the agenda, which are: (a) discussion of contemporary market conditions as they relate to the promotion and development of PPP projects and to consider measures that might usefully reduce or remove impediments to PPPs; (b) consideration of the current work of regional and global financial institutions on measures to address impediments to PPP at this time, in particular facilitating risk bearing and financing; and (c) consideration of the support and interest in developing an institutional framework for promoting sustained regional dialogue on infrastructure PPP among private and public sectors and relevant multilateral bodies, and an offer to host activities for this purpose in Melbourne thorugh 2010.

2. 4th APEC Public-Private Sector Forum on Bond Market Development, Sapporo, 31 May 2010

At their meeting in Hanoi on 7 September 2006, APEC Finance Ministers welcomed a proposal submitted by ABAC that the Advisory Group facilitate in-depth discussions with individual economies on how the public and private sectors can collaborate to develop their respective bond markets (with special attention to corporate bond markets).

The central objective will be a dialogue among interested economies, private sector market players and experts from international public and private sector organizations, aimed at identifying aspects in the policy and regulatory areas which could be addressed by authorities to enhance the environment for bond market development, and in particular, corporate bond issuance. The dialogues would also aim to identify capacity building initiatives, which might include public/private partnerships to build the environment conducive to bond market development.

The Australian Treasury hosted the first Forum on 8 May 2007 in Melbourne, back-to-back with the 2nd Senior Finance Officials Meeting (SFOM2), focusing on the bond markets of Indonesia, the Philippines and Vietnam. The Peruvian Ministry of Economy and Finance hosted the 2nd Forum on 9 July 2008 in Cusco, as part of the 4th APEC Senior Finance Officials' Meeting (SFOM4), focusing on the bond markets of Peru, Mexico and Chile, as well as on international and regional capacity-building efforts and public-private sector collaboration. The Ministry of Finance of Singapore and the Singapore Monetary Authority hosted the 3rd Forum in Singapore on 16 July 2009 at the time of the 6th APEC Senior Finance Officials' Meeting (SFOM6), focusing on the bond markets of Malaysia and Thailand, and on broadening the institutional investor base.

The Ministry of Finance of Japan will host the 4th Forum in Sapporo on 31 May at the time of the APEC officials' meeting in Sapporo. This forum will discuss the bond markets of developing APEC economies (discussions are currently being held with China and Korea as possible focus economies), developments in the Japanese bond markets, and capacity-building for capital market development after the global financial crisis.

3. A session on financial inclusion with APEC Senior Finance Officials, Sapporo, 31 May 2010

The Advisory Group, together with ABAC FEWG, is collaborating with the Ministry of Finance of Japan in holding a session on inclusive finance with APEC Senior Finance Officials. This session, which is being organized upon the invitation of the Japanese Government and the Ministry of Finance, is intended to contribute to APEC officials' discussions on the broader theme of inclusive growth. It will be held in conjunction with the 4th Public-Private Sector Forum on Bond Market Development in Sapporo on 31 May at the time of the APEC officials' meeting in Sapporo.

4. The 6th ABAC/ABA/PECC/SEACEN regional public-private dialogue on strengthening financial systems, Manila, 14-15 June 2010

The Advisory Group, together with ABAC, PECC, ABA and SEACEN, has supported this dialogue over the past five years by providing suggestions on the program and speakers from within its network. Participants in this dialogue will include senior representatives from SEACEN member central banks and banking supervisory bodies, key regulatory bodies in the wider Asia-Pacific, international and regional financial institutions, the IMF, the Asian financial industry and experts from academe, research and consultancy.

This year's dialogue, which will be hosted by the Philippine central bank, will touch on the role of Asian emerging markets in building a stronger global financial system. It will discuss the following: (a) the impact of major markets' macroeconomic and monetary policies on the global economy, financial markets and Asian emerging economies; (b) the implications to developing economies in the region of the G-20 financial regulatory reform agenda and the changing global financial architecture; (c) implications to the region of the ongoing efforts to reform Basel II; (d) global and Asian perspectives on the reform and convergence of accounting standards; (e) strengthening the global and regional frameworks for regulatory cooperation; (f) lessons from the crisis on strengthening governance of financial institutions; (g) the role of financial regulation in promoting inclusive growth; and (h) The role of collaboration among central banks, development agencies, governments and the private sector in promoting strong and balanced growth.

5. Promoting an APEC Financial Inclusion Initiative.

The Advisory Group will continue discussions with APEC officials and other stakeholders and interested institutions with a view to launching an APEC Financial Inclusion Initiative in 2010. Efforts will focus on the six policy solutions endorsed by the Advisory Group and ABAC in 2008 and 2009: (a) mobile phone banking; (b) agent banking; (c) promoting the diversity of microfinance service providers; (d) governance and management of state-owned banks involved in microfinance; (e) consumer protection; and (f) financial identity, including the development of a regional framework for robust credit reporting systems.

6. Promoting an Asia-Pacific Infrastructure Partnership.

The Advisory Group will continue discussions with APEC officials and other stakeholders and interested institutions with a view to launching an Asia-Pacific Infrastructure Partnership (APIP) in 2010 under the APEC umbrella.

7. Facilitating SME Finance.

The Advisory Group will discuss possible ways to promote SME finance in APEC, in collaboration with interested institutions.

B. 2010 REPORT ON FINANCIAL SYSTEM CAPACITY-BUILDING

This report, which will be finalized in August 2010, will incorporate the results of the above-mentioned projects as well as of discussions during the meetings of the Advisory Group and present recommendations to APEC Finance Ministers on how to accelerate progress in the following areas: (a) infrastructure public-private partnership; (b) financial inclusion; (c) promoting capital market development; (d) capacity-building for regulatory reforms in the region's developing economies; and (e) SME finance.

MEETINGS IN 2010

The Advisory Group will have its regular meetings on the following dates and venues:

- **Regular meeting (First): February 11, 2010, Melbourne, Australia**

To finalize the work program; discuss the results of the PPP workshop and the preparations for the bond market forum, the financial inclusion session and the public-private dialogue on financial systems; undertake initial discussions of key issues under the work program and identify steps to develop work on these issues until the next regular meeting.

- **Regular meeting (Second): During the period May 18-21, Taipei, Chinese Taipei** (*exact date yet to be announced*)

To discuss preparations for the bond market forum, the financial inclusion session and the public-private dialogue on financial systems and discuss proposals on capacity-building.

- **Regular meeting (Third): During the period August 24-27, Bangkok, Thailand** (*exact date yet to be announced*)

To discuss the results of the bond market forum, the financial inclusion session and the public-private dialogue on financial systems; to finalize the report on completed activities and to finalize proposals on capacity-building to be forwarded to the APEC Finance Ministers.

- **Regular meeting (Fourth): During the November ABAC meeting in Yokohama** (*exact date yet to be announced*)

To discuss the future agenda and arrangements for the Advisory Group.

DELIVERABLES AND TIMETABLES

The above activities are geared toward the following deliverables:

1. Successful completion of (a) the Melbourne Public-Private Partnership Workshop (b) the 4th APEC Public-Private Sector Forum on Bond Market Development; (c) the session on financial

inclusion with APEC Senior Finance Officials; and (d) the 6th Asia-Pacific public-private dialogue on strengthening financial systems.

2. A complete report on the conclusions of these activities (*to be forwarded to the APEC Finance Ministers before their 2010 meeting – through ABAC as well as any other relevant channel*).

3. The launch of an APEC Financial Inclusion Initiative.

4. The launch of the Asia-Pacific Infrastructure Partnership (APIP)

5. 2010 Report on Financial System Capacity-Building in APEC (*to be submitted to the APEC Finance Ministers before their 2010 meeting – through ABAC as well as any other relevant channel*).