

# THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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## **Third Meeting 2010**

26 August 2010

Ballroom 1, InterContinental Hotel, Bangkok  
Bangkok, Thailand

## **Meeting Paper 2-A**

# **Report of the Meeting of the Advisory Group of 20 May 2010, Taipei, Chinese Taipei** *[First Draft]*

Office of the Advisory Group Chair



# THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

## Second Meeting 2010

20 May 2010

Grand Ballroom II, Level 3, Grand Hyatt Taipei  
Taipei, Chinese Taipei

# MEETING REPORT

*First Draft*

*As of 27 July 2010*

## Welcome and Introduction

The meeting started at 2:00 pm. Participants included members and staffers of the ABAC Finance and Economics Working Group (FEWG) and representatives from the Financial Services Agency of Japan, the Australian APEC Study Centre at RMIT University, the Asia-Pacific Credit Coalition (APCC) and Goldman Sachs.

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 Dr. Naoyuki Yoshino, director of research at Japan's Financial Services Agency and Keio University Professor; Mr. Kenneth Waller, Director of the Australian APEC Study Centre at RMIT University; Mr. Thomas Clark Vice President for Government Relations at GE Money Asia, representing APCC and NCAPEC; Mr. Alex Marshall, Senior Counsel at Goldman Sachs and Mr. James Shipton, Managing Director at Goldman Sachs.

Mr. David P. Sun, Chairman of Cathay Securities Corporation and Executive Vice President of Cathay Financial Holdings, welcomed participants on behalf of ABAC Chinese Taipei.

## Confirmation of new Advisory Group Co-Chair

The Chair introduced the new Advisory Group Co-Chair, Mr. Gary Judd, Chairman of ASB Bank and Member of ABAC New Zealand. He replaces Mr. Steven Ong, whose term as ABAC member ended and has stepped down as Advisory Group Co-Chair.

The Chair also informed the Advisory Group that Dr. Twatchai Yongkittikul's term as a member of ABAC representing Thailand has been extended. Dr. Twatchai will remain as Advisory Group Co-Chair.

*The Advisory Group confirmed Mr. Gary Judd as new Advisory Group Co-Chair and welcomed the continuation of Dr. Twatchai's term as Advisory Group Co-Chair and ABAC member.*

## Review of the First 2010 Advisory Group Meeting in Melbourne

The Advisory Group Coordinator, Dr. J.C. Parreñas, presented the draft Report of the Advisory Group Meeting of 12 February 2010 in Melbourne, Australia.

*The Advisory Group approved the Meeting Report.*

## **Capital Market Development and the 4<sup>th</sup> APEC Public-Private Sector Forum on Bond Market Development**

The Coordinator informed the Advisory Group about the ongoing work with APEC senior finance officials to prepare for the 4<sup>th</sup> bond market forum, which will be hosted by the Japanese Ministry of Finance on May 31 in Sapporo.

- The forum will begin with welcome and opening remarks followed by overview presentations by the Asian Development Bank (ADB) and Fitch Ratings, and a review of key issues from the past three forums to be delivered by the Advisory Group Coordinator.
- The second session will focus on the bond markets of China, Korea and Japan, with presentations by ICBC, the Korean financial regulator, Korea Ratings, the Japan Securities Dealers Association, JP Morgan and Mitsui & Co. On behalf of the Advisory Group, the Coordinator expressed thanks to ABAC members and staffers who have actively helped in enlisting speakers for the forum.
- The third session will explore innovative ideas to help bring bond market development and integration in the region to the next higher level. One of these ideas is the introduction of passport schemes for cross-border recognition of fund management products based on the successful experience of UCITS in Europe. A second is addressing barriers to cross-border settlement as a step toward the creation of a regional clearing and settlement system. A third is promoting cross-border securities collateral management to enhance the liquidity of bond markets. Presentors will include experts from various institutions including State Street, the Bank of Tokyo-Mitsubishi UFJ, GE International, IMF, Japan Securities Depository Center and the Capital Markets Association of Asia. Others, whose confirmations are being sought, include Goldman Sachs and the Japan Credit Rating Agency.

The Chair invited Mr. Alex Marshall to give a presentation on passport schemes for cross-border recognition of fund management products based on the UCITS experience. The experience of Europe offers a way to better understand the workings of a funds passporting scheme. First proposed in 1976, the Undertakings for Collective Investment in Transferable Securities (UCITS) became a reality through the first UCITS Directive (UCITS I) of the European Commission in 1985.

The Directive had two broad objectives. The first was to enable the sale of fund management products among member economies, which came to be called “passporting”. The second is to outline a set of principles by which UCITS funds must manage their assets. The scope of these rules includes risk management, counterparty and concentration limits, eligible assets, disclosure and regulation, among others. Once authorized as UCITS qualified by one participating economy under the harmonized legislative framework, a product can then be sold to retail investors in all participating economies without need for further authorization.

Considered unsatisfactory in the beginning, UCITS has developed in stages. Since 1985, the European Commission has amended the scheme by issuing several directives: a draft UCITS II directive (eventually abandoned during the 1990s), UCITS III (2003) and UCITS IV (2009, for adoption in 2011). With the improvements introduced by UCITS III, UCITS funds achieved tremendous growth and expanded their geographical coverage. From 2001 to 2009, the total number of cross-border funds grew from 3,200 to 7,500. UCITS’ growing global reach has especially benefited Luxembourg and Ireland, which have become leaders in the passporting of UCITS funds across borders owing to regulatory and tax settings that encourage global administration and distribution.

UCITS funds continued to grow in popularity relative to non-UCITS funds, and by the end of 2009 already accounted for 75% of the total European fund market. While UCITS was originally intended to facilitate intra-European distribution of funds, it has become a popular product in other parts of the world, including the Middle East and in Asian economies such as Japan, Hong Kong, Singapore and Chinese Taipei. In 2009, 30% of UCITS sales were already being made outside Europe, with Chinese Taipei becoming the second largest market globally.

Key to the expansion of UCITS were significant improvements made to the original directive by UCITS III. The Product Directive – one of its two major elements – successfully expanded product

coverage, allowing investments other than transferable securities, UCITS funds of funds, greater use of cash deposits, financial derivatives instruments and financial indices. It also clarified the use of permissible money market instruments and rules on counterparty exposure. UCITS III also contained a Management Company Directive, which covered cross-border management companies and the use of simplified prospectus.

UCITS IV is now currently being prepared for implementation in July 2011. It incorporates modifications to the UCITS regime around three major themes. One is fund structuring, which will include a framework for merger of UCITS, “master-feeder” structures and management company passports. A second theme is improved cross-border process, under which a notification process for regulators and a 10-day waiting period will be introduced. Lastly, improved investor information makes up the third theme, with simplified investor information.

Widely recognized as a success story, UCITS provides an example of a scheme that, through a process of continued refinement, has evolved into a sophisticated structure that has also fostered closer regulatory cooperation, expanded product choice, economies of scale, expanded opportunities for economic development and improved standards of investor protection and regulation in participating jurisdictions. It provides an attractive model for consideration in the Asia-Pacific region.

In the ensuing discussions, participants also noted the importance of improving the quality of credit ratings in the region.

*The Advisory Group endorsed the Chairman’s proposal to pursue further work on funds passport schemes with a view to developing concrete proposals, particularly through a discussion at the Sapporo bond market forum, and tasked the Coordinator to report on the results of the discussion in Sapporo at the next Advisory Group meeting.*

#### **Asia-Pacific Infrastructure Partnership (APIP)**

The Coordinator briefed the Advisory Group on the progress of work on APIP. He reported on the following developments:

- At the Public-Private Partnerships Forum held in Melbourne on 9 February 2010, participants, including key APEC officials, Australian officials, representatives of major international institutions, academe and private sector endorsed the idea of an Asia-Pacific Infrastructure Partnership (APIP) and encouraged the Advisory Group and ABAC to develop the institutional infrastructure to promote such a partnership in the region. RMIT University confirmed its offer to provide financial support for the Australian APEC Study Center at RMIT University in playing a coordinating role in the initial period of efforts to bring about the formation of APIP.
- At the APEC Senior Financial Officials’ Meeting (SFOM) in Tokyo on 18-19 February, the Coordinator made a presentation on APIP, which was well-received by participating officials from APEC economies’ finance ministries, central banks and financial regulatory agencies as well as representatives of the ADB, the IMF and the World Bank. The Australian Treasury, which is leading SFOM’s 2010 initiative on infrastructure PPP, expressed support for an initiative that would create a structure for stable and continuous private sector engagement in regional efforts to promote infrastructure PPP.
- The APEC SOM Chair encouraged ABAC and the Advisory Group to develop an initiative for possible endorsement by APEC in 2010.
- During the period starting February 2010, various efforts were undertaken by ABAC Australia and ABAC Japan to discuss the APIP concept with ADB, the World Bank, APEC officials and major private sector firms and organizations involved in infrastructure PPP. In these discussions, the concept was positively received, and the Advisory Group was encouraged to develop concrete proposals regarding the structure and operations of APIP. Institutions and private sector firms and organizations expressed interest and willingness to be involved in promoting the partnership.

- Based on these discussions and previous work by the Advisory Group, a briefing note was prepared by the Advisory Group Coordinator. The development of the initiative is being undertaken in four steps.
  - a. Formation of the private sector component of the tri-partite partnership, provisionally called "Private Sector for Asia-Pacific Infrastructure Partnership" (or PS-APIP) to enable ABAC and the Advisory Group to actively involve business organizations, key firms and experts. The Advisory Group will further flesh out the institutional framework, designing a structure that reflects broad interests of the various stakeholders in the region, based on a concrete proposal that the Australian APEC Study Centre at RMIT University has developed for discussion at the Taipei meeting.
  - b. Initial activity to demonstrate value and get support from public sector. As an initial activity, PS-APIP would start functioning by involving key private sector players in the activities related to the APEC Senior Finance Officials' infrastructure PPP initiative planned to be held in Melbourne in early August 2010.
  - c. Tie-up with multilateral institutions and joint approach to APEC. PS-APIP will discuss with key multilateral institutions the possibility of making a joint proposal to APEC to launch an APEC initiative and a joint invitation to APEC member economies to join APIP on a pathfinder basis.
  - d. APEC endorsement. The proposal could be endorsed by SOM and SFOM and eventually by various APEC ministerial meetings and APEC Economic Leaders, sometime within the next two years, but preferably in 2010.

Mr. Kenneth Waller of the Australian APEC Study Centre discussed a proposal for the development of the institutional framework of the APIP and its structures to reflect the broad interests of the various stakeholders in the region. This proposal takes into account the many discussions in the Advisory Group and the views expressed in the February Melbourne PPP Forum and the subsequent workshop. Mr. Waller noted that, drawing on extensive discussions on this subject in ABAC and the Advisory Group, there is general agreement that the Partnership should embrace the following concepts:

- The objective of a tripartite partnership of public and private sectors, IFIs and academics would be to provide impartial and objective advice to governments and their agencies in the region on the development, implementation, financing and management of PPPs in economic and social infrastructure and on capacity building initiatives to further economic development
- Regarding membership, participants should be individuals who are (a) experts in PPPs from relevant public policy agencies in the region; (b) private sector experts with deep experience in the development, implementation, management and financing of PPPs; (c) senior representatives of IFIs with strong commitments to PPPs; and (d) academics with a depth of experience as advisors to governments and/or private sector groups involved in PPPs in the region and globally.
- Obligations of members would be (a) to provide advice in their personal capacity and not to seek to represent specific interests in their work in the Partnership and (b) to be engaged in the Partnership for a minimum of three years.
- Regarding structure and governance, the chair of the Advisory Group on APEC Financial System Capacity Building would ordinarily be the chair of the Partnership. Smaller expert groups may be formed from the Partnership to respond to specific requests for advice/assistance from regional economies. The Partnership would meet at least once a year in conjunction with the second or third ABAC meeting and in the location of that ABAC meeting and at other times as determined by a consensus of members at that meeting, with other meetings being convened in concert with an ABAC meeting. Secretariat support would be provided by the Australian APEC Study Centre for the period up to and during the inaugural meeting of the Partnership, provided this is convened before mid-year 2011. Thereafter members would determine the location of the Secretariat.

- On funding, an estimate of the cost of a modest Secretariat function would be \$US125,000 annually. The assumptions are that there would be one or two meetings annually in the Asia Pacific region and that members would pay their own fares and accommodation in attending meetings. The Secretariat would organize the program and domestic sponsorship to cover the hosting of social events associated with a meeting. It would organize the preparation of papers and documents for meetings and provide secretarial support at meetings. The cost of preparing papers would be borne by those members who are invited to submit papers. The Secretariat would develop and maintain a web-site to support the Partnership. The Secretariat function could grow over time and the funding would need to be adjusted to reflect any additional services that members agreed to be appropriate. In an initial phase e.g., over the first three years following establishment of the Partnership, a levy of US\$6,500 annually be charged to the organizations whose experts are involved in the Partnership. The Secretariat would be required to submit audited accounts to the Partnership on an annual basis to show funds received and expenditures.

Mr. Waller also briefed the Advisory Group on the preparations for private sector involvement in infrastructure PPP activities under the APEC Finance Ministers' Process being convened by the Australian Treasury in Melbourne in early August.

*Development of an agenda.* There will be a need for a collaborative agenda determined in consultation with APEC officials who have responsibility for the meeting. At the time of preparing this note, it is understood that the Australian Treasury envisages a two-part agenda, with the first part focusing on the concept of political ownership of PPPs and the reforms that are needed to encourage PPPs, and the second part dealing with what APEC can do to promote reforms in the PPP space. In this context, it may be recalled that the APEC Finance Ministers agreed to pursue measures leading to a commonality of approach across the economies of the region, on:

- harmonization of the foundations of PPP projects (based on consistent approaches to prequalification, short-listing, detailed project information and selection of preferred bidder);
- harmonization of project development (selection of most viable projects as a component of the pre-qualification phase, the short-listing potential bidders, the management of detailed proposals and the evaluation of submissions at each stage of the process, the use and value of external advisors); and
- harmonization of the procurement process (the outline of a business case; determination of the needs and project objectives; commitments to stakeholders; market capability and appetite; risk analysis and management; financial analysis and project time-table and resources).

Mr. Waller mentioned that he will update the Advisory Group on any further developments.

*Private sector participation.* Mr. Waller noted that a meeting with Finance Ministers of interested economies later this year could provide an opportunity for the private sector to promote the concept of APIP, by drawing on the following points:

- A public-private sector tripartite partnership for the region has been proposed by ABAC.
- Its ultimate objectives are to involve private and public sector experts and IFIs and academics in a partnership to provide unbiased, objective advice to regional governments and agencies on PPPs and help them build institutional capacities to fulfill their roles in promoting PPP in economic and social infrastructure.
- It would provide valuable links with officials and IFIs and private sector experts and would complement and support centers of excellence as these are established in the region.

The first phase of building the Partnership requires that the Advisory Group and ABAC, working in cooperation with the Australian APEC Study Center, would undertake the following actions:

- Ensure active high-level business participation.
- Provide potential private sector participants, IFIs and academics with a convincing case for joining the Partnership and the basis of membership. (The APIP would be open to interested

parties to voluntarily associate). A proposal would set out the objectives and purposes of the APIP and governance arrangements.

- Seek the support and endorsement of APEC Ministers and Leaders for the establishment of APIP to promote PPPs in the region as a formal component of an APEC PPP Pathfinder Initiative and which would involve interested public sector agencies, expert private sector representatives, IFIs and academics

With an expectation that an APEC endorsement would be forthcoming this year or in 2011, private sector participants at this meeting would value Ministers' and others' responses to the proposal. This intervention could be followed by short comments by World Bank and ADB representatives and then by a ministerial response. Assuming the proposal gains the support of Ministers and senior officials present, appropriate acknowledgement of the proposal and endorsement would be included in the Finance Ministers' Joint Statement and included in other official statements issued at the conclusion of the APEC Leaders' meeting in November.

*Involvement of senior business representatives at the August Melbourne meeting.* Based on experiences in involving ABAC in the Ministerial meeting on Structural Reform (also in Melbourne) in August 2007, intensive preparatory work will be required in developing a meaningful agenda to engage Ministers and others and in encouraging strong private sector involvement. As noted, the chair of the Advisory Group, supported by ASCC, would work with the Australian Treasury in developing the agenda and in agreeing key private sector discussants/participants.

To ensure high-level business participation, ABAC and the Advisory Group should determine those people they would wish to involve in the meeting and who would make a strong contribution to its success. Business representatives with strong experience and understanding of PPP development, management and the financing of PPPs should be primarily involved. Ideally the business group should be representative of the APEC region as a whole. They may or may not have current or past association with ABAC. They should be invited on a personal basis by the Chair of the Meeting, likely to be the Australian Treasurer, on the advice of ABAC/the Advisory Group.

A list of possible senior business representatives who meet these criteria will be available for consideration at the meeting. It is proposed that Mr. Mark Johnson, Australian ABAC member and Chairman of the APEC Advisory Group be the lead discussant for the private sector group at the meeting.

*The Advisory Group, upon the suggestion of the Chair, noted that the paper presented by Mr. Waller provided a constructive basis for stakeholders to endorse in developing the concept of APIP and useful guidance for the engagement of the private sector in discussions with finance ministers on PPPs. The Advisory Group also endorsed the role of the Australian APEC Study Centre as broadly outlined in this paper in supporting the development of APIP. The Advisory Group also noted the circulated final reports of the February 9 PPP Forum and the February 10 workshop on institutional framework for regional PPP, both of which were held in Melbourne in conjunction with the First 2010 ABAC Meeting.*

#### **APEC Financial Inclusion Forum and APEC Financial Inclusion Initiative**

The Coordinator referred participants to a paper containing the program for the upcoming 31 May APEC Financial Inclusion Forum in Sapporo, to be held in conjunction with the 4<sup>th</sup> APEC Public-Private Sector Forum on Bond Market Development and the June 1 SOM-SFOM Dialogue. Panelists include a number of Advisory Group participants who have been involved in the work on financial inclusion, as well as the Japan International Cooperation Agency (JICA).

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 ABAC-SOM Dialogue held in Melbourne, the APEC SOM Chair mentioned that APEC will incorporate the issue of financial inclusion through microfinance in its 2010 agenda.

- At the APEC Senior Financial Officials' Meeting (SFOM) in Tokyo on 18-19 February, the Coordinator made a presentation on financial inclusion, which was well-received by participating officials from APEC economies' finance ministries, central banks and financial regulatory agencies as well as representatives of the ADB, the IMF and the World Bank. The US Treasury announced that it proposes to sponsor an APEC financial inclusion initiative as a new policy initiative under the APEC Finance Ministers' Process.
- The Coordinator and ABAC Japan undertook a conference call with the US Treasury on 10 March at the request of the US Treasury to discuss the Advisory Group's proposals on the content and management of an APEC financial inclusion initiative. The US Treasury APEC senior finance official confirmed their intention to lead an initiative with initial activities either in late 2010 or in early 2011.
- At the APEC Senior Officials' Meeting in Hiroshima on 22-23 February, a senior official indicated that his economy will prepare a proposal to APEC for an initial activity on financial inclusion. The proposal, which envisions a one-day policy dialogue that builds on the recommendations in the 2009 reports of ABAC and the Advisory Group to be held in conjunction with one of the forthcoming APEC Senior Officials' Meetings in Japan, is being finalized for submission to the SOM Chair and for discussion at SOM-2 in Sapporo.
- Preparations are also currently under way for the APEC Financial Inclusion Forum that will be held on 31 May in Sapporo.
- The SFOM Chair invited ABAC to make a presentation of the results of the 31 May Forum during lunchtime at the SOM-SFOM Dialogue, which will be held on 1 June in Sapporo.

Referring to the Advisory Group's agreement in Melbourne to accept the offer of ADB Institute to publish the report of the 2009 Tokyo financial inclusion workshop and the edited version of the full report that was circulated and endorsed at the Danang meeting in August 2009, the Coordinator reported that the publication is scheduled to come out sometime after the middle of July. He suggested that the Advisory Group request 300 copies of the report for use in providing more information to officials and to assist them in implementing the proposals on financial inclusion.

Mr. Clark referred participants to a paper prepared and submitted by PERC on behalf of the APCC, which summarized various points discussed previously by the Advisory Group on how to improve credit reporting systems in the region. The paper also discussed the issue of financial identity, and how this can be progressed under an APEC financial inclusion initiative. Key points are as follows:

- Financial identity is a policy area where there is substantial room for reforms and where APEC could play an important role in facilitating the creation and use of financial identities in the region. It is a key issue, as inability to establish a financial identity limits the reach of the financial system, by keeping many financial institutions from the market due to the high costs of assessing risks and by limiting access to financial services for large segments of the population.
- A variety of factors accounts for the lack of financial identities in many economies. These include the absence of an economy-wide identification card system, unreliable or inconsistent birth registration system, haphazard or partial registrations for marriages, municipal services and other public services, and the lack of a reliable address system. Even in economies where systems are in place, there may be uneven coverage for lower-income and rural segments of the population.
- The KYC recommendations of the FATF currently specify that institutions should undertake customer due diligence measures when establishing business relations and carrying out occasional transactions that are above applicable designated thresholds or wire transfers. Customer due diligence measures are defined as involving "identifying the customer and verifying that customer's identity using reliable, independent source documents, data or information." This latter requirement can be constraining if interpreted in a narrow sense as limited to official identification cards, passports and other government-issued identity documents.

- Flexible approaches are needed to address the challenges to promoting financial identity. These would require allowing access to broader data sets in establishing an individual's identity. These data sets could include, aside from traditional official documents (e.g., passports, drivers' licenses, voter identity cards), a wider range of identifiers such as utility accounts tied to an address as defined by the utility provider, biometric identifiers, digital photos, welfare basket allotment cards and account information from non-financial service providers such as mobile phone numbers. Credit bureaus and other information service firms can be harnessed to build solutions to establishing an identity based on the information topography of a society.
- This approach would require two policy issues to be addressed. First, guidelines need to be developed to allow credit bureaus access to a wider set of information sources for establishing identities. Second, a data protection framework that guards individuals' data by limiting its uses and access, based on OECD Fair Information Practices guidelines, would need to be adopted. In addition, policymakers and practitioners can benefit from the development of a body of case studies on how different economies are dealing with technical and regulatory issues in establishing individual identities for credit reports, which will be helpful in designing expanded information sharing systems.

*The Advisory Group welcomed the progress of work on the proposed financial inclusion initiative. It endorsed the proposal to request 300 copies of the 2009 Tokyo financial inclusion workshop report, which will be published by the ADB Institute. The Chair requested the Coordinator to present a report on the results of the APEC Financial Inclusion Forum and update the Advisory Group on further developments at the next meeting.*

### **Facilitating SME Finance**

Professor Yoshino gave a presentation on the development of an SME credit information database to promote SME lending. The presentation highlighted the important role that SMEs play in Asian economies.

- In Japan, SMEs contribute around 51% to sales and 70% to employment, and represent 99.7% of all companies.
- In Thailand, SMEs account for 38% of GDP, 76% of employment and 99.6% of all enterprises.
- In China, SMEs are responsible for 56% of GDP, 62% of exports, 75% of employment in urban areas, 43% of tax revenues and 99% of companies.

In Japan, while large corporations can count on both banks and capital markets for funding, SMEs rely mainly on banks and microcredit. Domestically licensed banks are the main source of lending to SMEs, accounting for 71% of total lending at the end of 2007, with credit associations coming in second at 16%. Government-affiliated financial institutions supplied only 9% of total lending to SMEs.

However, according to surveys, government-affiliated financial institutions are considered by SMEs as crucial sources of funding during times of emergencies, during the start-up and early stages of operations and for revitalizing stagnant business. Credit guarantees play an important role in bank lending to SMEs. Among SMEs, smaller companies tend to be more dependent on borrowing for fundraising, while the share of capital in the fundraising structure increases with size of the enterprise.

A credit information system for the SME sector is important to help address the challenge of information asymmetry and access to finance. It addresses a major issue, which is lack of data for SMEs. Japan provides a good example of how such a system can be put in place. As of end-2009, participation in Japan's credit risk database (CRD) included 202 institutions encompassing 136 private financial institutions, 52 credit guarantee corporations, 6 credit rating agencies, 3 government financial institutions and 5 other institutions. CRD data have been collected since 1995 and covers 1,785 corporations and 803 individually-owned companies (as of March 2009), including default data for 209 corporations and 90 individually-owned companies.

Participants in the CRD provide financial and non-financial data as well as default information to the CRD Data Center in accordance with the Basic Law on Small and Medium Enterprises. The CRD Data Center stores the data from members in anonymous form and consolidates the data for use by members in credit risk scoring, data sampling and statistical information.

Based on the Japanese experience, key elements of a regional credit information sharing mechanism can be identified as follows:

- Legal and regulatory frameworks for credit reporting (anticipated as the most challenging element)
- Technology platform
- Providers and users of data
- Quantity and quality of data to be collected/distributed
- Advocacy of credit reporting discipline, education and bookkeeping by SMEs
- Institutional arrangements to govern the collection and use of credit information across borders
- Policy guidelines for the use of regional credit information for benchmarking purposes.

In Japan, credit guarantee corporations play an important role in the credit information sharing mechanism, as they collect SME data nationwide. Developing a sustainable credit guarantee system involves arrangements to avoid moral hazard (e.g. use of partial rather than full guarantees to avoid moral hazard) as well as an open and competitive banking environment, a dynamic and expanding business sector, government policies that do not crowd-out market-driven initiatives, monetary and regulatory environment that is conducive to lending to SMEs, an enterprise-centered business framework, supportive agencies that champion enabling environment for SMEs, and a credit bureau that provides effective and efficient access to credit information.

Professor Yoshino outlined a number of policy considerations that could help promote the development of credit information sharing mechanisms in the region:

- It is important to incorporate in the design incentives for SMEs to disclose accurate information. In Japan, this is made possible through the credit guarantee corporations, which provide guarantees that are often required by banks when lending to SMEs.
- An institution that is mandated to collect SME data while ensuring the confidentiality and trustworthiness of the data needs to be established.
- While initial government support would be needed in setting up such an institution, it must be designed to have its own revenue source. The example of Japan's CRD, which collects fees from financial institutions by selling data and providing the computation of default risks, as well as data analysis, may be considered.
- The SME database should collect both financial and non-financial data on SMEs. In Japan, for example, data collected include sales, operating profits, ordinary profits, investment in plant and equipment, increase in inventories, fixed assets, deferred assets, total assets, liquid liabilities, fixed liabilities, net assets, interest expense and personnel expenses.
- The institution should undertake statistical analysis to compute the default risk ratio of SMEs, which could be provided to member institutions.
- Collection of SME data across the region would enable cross-border comparison, providing an accurate data base that can facilitate securitization of SME loans and strengthen SMEs' ability to raise funds from the capital market. The information contained in the SME database can help reduce the risks of SME bonds, while pooled SME bonds can be used by investors for diversification.
- Continuous efforts to improve the data collected in the region's various economies will be needed to provide an accurate picture of the situation of SMEs. This would facilitate the development of credit risk models and a regional SME bond market.

Mr. Clark discussed proposals for improvements to the legal infrastructure to promote SME finance. He noted that 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. The absence of clear legal frameworks 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.

Mr. Clark outlined a number of issues related to the legal infrastructure for secured lending:

- Absence of exclusive security interest registry, giving rise to the “hidden lien” problem
- Voidable conversion/preference
- Unclear perfection rules for certain types of collateral, such as movables, receivables and goodwill
- Absence of blocked account security precedence
- Untested debtor-in-possession process
- Treatment of floating charges or absence of such concepts
- Lack of broad licensing authority for commercial lending.

Mr. Clark suggested that 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. Such an initiative could focus on the following activities:

- A survey of key enablers of financing availability
- Developing model elements of an APEC or region-wide code of security interest creation, perfection and enforcement, which could include clear perfection rules, broad coverage of collateral types, exclusivity to eliminate the “hidden lien” problem, and provisions for debtor-in-possession financing.
- A model treatment of floating charges/accounts receivable financing
- Establishment of a public-private dialogue to validate improvements
- An APEC checklist for statutory/regulatory implementation
- Promoting broad licensing authority for commercial finance, such as non-bank financial company charters.

*The Advisory Group noted the progress of work in developing an SME finance initiative. The Chair asked the Coordinator to discuss a good way of moving these proposals forward with the ABAC Capacity-Building and Action Plan Working Group.*

**Capacity Building for Regulatory Reforms in the Region’s Developing Economies and the 6<sup>th</sup> SEACEN-ABAC-ABA-PECC Public-Private Dialogue for the Asia-Pacific Region, Manila, 15-16 June 2010.**

The Coordinator briefed the Advisory Group on the preparations for the 6<sup>th</sup> dialogue with financial regulators and central bankers. He referred participants to a paper containing the updated program for the dialogue, which will be hosted by the Philippine central bank in Manila on 15-16 June. He noted that the dialogue focuses on the parallel processes of financial regulatory reforms being undertaken, one at the global level (through the G-20, Financial Stability Board, Basel Committee, IMF and global standard setting agencies), and the other at the regional level (through the Chiang Mai Initiative Multilateralization, the Asian Bond Market Initiative, ASEAN, ASEAN+3 and ADB). The main subject of discussion is how to promote synergy and address potential conflicts between these parallel efforts to promote financial market development and regional financial integration.

Mr. Waller updated the Advisory Group on the capacity-building initiatives to strengthen financial systems being undertaken by the Australian APEC Study Centre (AASC). He referred to the endorsement by the Advisory Group in Melbourne of the initiative by AASC and the APEC Finance and Development Center (Shanghai) to train APEC policy makers and financial system regulators under the program “Implementing Financial System Regulatory Reforms in the Region following the Global Financial Crisis”. He reported that funding through the APEC Support Fund and the Melbourne APEC Finance Centre has since been approved and that arrangements are now being implemented to convene the training course in Shanghai on 7-11 June. Invitations to participate in the

course have been issued to the following economies: Chile, China, Indonesia, Malaysia, Mexico, Peru, PNG, Philippines, Russia, Thailand and Vietnam.

He noted the timeliness of the course in light of the major reforms being proposed to banking systems. The course will examine those reforms and their implementation, as they are seen to be relevant to APEC regional economies. A copy of the draft program, objectives and course structure was circulated to participants for information. He mentioned that a final program and a report of outcomes will be presented to the Advisory Group later in the year. Mr. Waller thanked the Group for their support and expressed his gratitude to members of the Group who had agreed to participate in the program.

*The Chair asked the Advisory Group Coordinator to present a report on the results of the Manila dialogue at the next meeting. The Advisory Group welcomed the report on the capacity-building work of the AASC.*

### **Chair's Closing Remarks**

The Chair delivered his closing remarks and announced that the next meeting will take place in Thailand during the ABAC meeting in August, 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 4:15 pm.