Update on the Asia-Pacific Infrastructure Partnership (APIP) and Report on Discussions with APEC Deputy Finance Ministers on the Islamic Infrastructure Investment Platform (I3P) and next activities
Updates

**APIP**

- **July 31, Taipei, Chinese Taipei**: PPP Seminar and APIP Dialogue with Chinese Taipei
  - Hosted by Chinese Taipei Ministry of Finance
- To be scheduled: APIP Dialogues on PPPs in Waste Management
  - Indonesia
  - Philippines
  - Vietnam

**I3P**

- **March 13, Port Moresby**: Presentation on I3P at the Seminar on Accelerating Infrastructure Development and Financing / FCBDM Finance and Central Bank Deputies’ Meeting
- **Under discussion – October 3-4, Kuala Lumpur**: I3P workshop in conjunction with the Global Islamic Finance Forum (GIFF) 2018
Highlights of I3P Presentation
at the
Seminar on Accelerating Infrastructure Development and Financing / FCBDM Finance and Central Bank Deputies’ Meeting
13 March 2018
Port Moresby, Papua New Guinea
The growth of Islamic Finance

1% small share of global financial assets, but strong growth

15% annual growth rate over the last 2 decades
Opportunities for financing infrastructure in APEC economies

Breakdown of Islamic finance services industry by region (US$ Billion), 2016*

*Data for sukuk outstanding and Islamic funds is for full year 2016; data for Islamic banking is for 1H2016; data for takaful is for end-2015.
Source: Islamic Financial Services Board (IFSB) Secretariat
Key challenges for cross-border investment

• Lack of standards for Islamic finance contracts
  • *E.g., varying definitions of sharia-compliance of projects and financial instruments across jurisdictions*

• Tax treatment

• Risk mitigation instruments

• Legal and regulatory barriers to financial innovation

• Capacity for project preparation
I3P’s proposed work streams to address challenges:
1 – Harmonizing investment requirements and rules

• Establishment of minimum benchmarks to harmonize Islamic finance contracts (e.g., mudaraba, musharaka, ijara), sharia-compliant infrastructure projects and concession agreements
  • Can be used in designing any infrastructure project to attract funding from Islamic financial institutions

• Capacity building for interested member economies
I3P’s proposed work streams to address challenges: 2 – Addressing tax policy issues

• Establish minimum benchmarks for tax neutrality between Islamic and conventional finance, including:
  • Tax treatment of profits (e.g., tax deduction for interest payments)
  • Tax treatment of multiple transactions between company and SPV – disposal, sale, leaseback
  • Stamp, withholding, VAT, real property gains tax vs, capital gains tax
  • Tax neutrality committees to grant specific approvals (while waiting for legislative reforms)
  • Approaches (e.g., product-by-product, case-by-case or blanket legislation, white list of transactions qualifying as tax neutral, coordination between regulator and supervisor)
  • Tax incentives to facilitate transactions

• Regional minimum benchmarks for sharia auditing and sharia advisers
I3P’s proposed work streams to address challenges:
3 – Risk mitigation instruments

• Legal reform to facilitate use of derivatives (where needed)
  • Certainty and enforceability of derivatives transactions
  • Clarity of insolvency and enforceability of netting provisions
  • Clarity of treatment of collateral
  • Role of courts and arbitration tribunals
  • Treatment of foreign law-governed contracts and foreign-based counterparties
  • Set-off rights, financial collateral arrangements, guarantees, letters of credit, insurance, credit derivatives

• Adoption of standardized documentation (e.g., ISDA, IIFM TMA)

• Regional minimum benchmarks for legislation governing derivatives

• Best practices in enabling policies for new Islamic derivatives for equity risk management
I3P’s proposed work streams to address challenges: 4 – Enabling financial innovation

- Addressing key legal and regulatory barriers to hybrid/blended financial instruments
  - E.g., musharaka with ijara embedded, combining sukuk with different characteristics such as those for construction and leasing

- May cover regulations on:
  - Equity or corporate bond investment
  - Pension fund, insurance company and asset manager investments
  - Investment in unlisted infrastructure companies
  - Direct investment in projects
  - Infrastructure funds or investments
  - Alternative investments
  - Minimum ratings for bonds
  - Foreign exposure
  - Hedging of transactions involving multiple currencies
I3P’s proposed work streams to address challenges:

5 – Developing project preparation capacity/pilot projects

• Best practices in embedding sharia compliance into design of projects seeking wider investor base

• Improved capacity of relevant officials to use project preparation tools (GIH InfraCompass, GIH Risk Allocation Matrices, GIH Project Pipeline, SIF Source)

• Starting benchmark/pilot projects with support mechanisms
I3P’s proposed work streams to address challenges:
6 – Establishing the I3P Secretariat

• Terms of reference for the Secretariat
• Network directory

• Online Resource Center - Database of:
  • Sharia compliant infrastructure projects
  • Sharia compliant infrastructure funds
  • Case studies
  • Experts in Islamic finance in the areas of financial products, law, valuation, tax, audit, ratings, insurance, pension funds, asset management

• Common definitions
Islamic Infrastructure Investment Platform (I3P): Participants in Ongoing Discussions

- Asian Development Bank
- Bank Islam Brunei Darussalam
- Bank Negara Malaysia
- Bank of Thailand
- Credit Guarantee and Investment Facility (CGIF)
- Global Infrastructure Hub (GIH)
- Islamic Corporation for the Development of the Private Sector (ICD)
- Islamic Development Bank
- Malaysia International Islamic Financial Centre
- Ministry of Finance, Brunei Darussalam
- Ministry of Finance, Indonesia
- Ministry of Finance, Malaysia
- Ministry of Finance, Thailand
- Ministry of International Trade and Industry, Malaysia
- National Economic and Social Development Board, Thailand
- Securities Commission Malaysia
- Sustainable Infrastructure Foundation (SIF)
- World Bank
- Alpha Pacific Group
- Amanie
- AmBank Group
- APEC Business Advisory Council
- Ashurst ADTLaw LLC
- Banco de Chile
- Bangkok Bank Public Company Limited
- Bank of Tokyo-Mitsubishi UFJ
- Berwin Leighton Paisner
- Brunei Accenture Group Networks
- BSN Provincial Takaful
- CIMB
- Fajr Capital
- Gamuda
- Goldman Sachs
- Harvard Law School
- International Centre for Education in Islamic Finance
- Institute of Strategic and International Studies Malaysia
- International Swaps and Derivatives Association (ISDA)
- Islamic Bank of Thailand
- Lee & Ko
- Maybank Islamic
- Maybank Kim Eng Securities
- Mizuho Bank
- Morgan Stanley Asia
- Nippon Life Insurance
- Nomura Islamic Asset Management Sdn Bhd
- Nomura Research Institute
- Prudential BSN Takaful Berhad
- Prudential Corporation Asia
- PwC
- State Street
- Thai Bankers’ Association
- Tokio Marine Middle East Ltd.
- Trowers & Hamlins
- UOB Malaysia
- University of Toronto
- ZICO Law