

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 23 August 2011, Lima, Peru *[Second Draft]*

Office of the Advisory Group Chair

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Third Meeting 2011

23 August 2011

Mediterraneo A, Los Delfines Hotel & Casino
Lima, Peru

MEETING REPORT

Second Draft

As of 31 October 2011

Welcome and Introduction

The meeting started at 8:00 am. Participants included ABAC members and staffers and representatives from the Chilean Ministry of Finance, the International Monetary Fund, the Inter-American Development Bank (IADB), the Australian APEC Study Center (AASC) at RMIT University, and the Latin American Association of Development Financing Institutions (ALIDE).

The Advisory Group Chair, Mr. Mark Johnson, presided over the meeting. In his opening remarks, he welcomed the participants and gave an overview of the agenda items for discussion. He acknowledged the presence of Mr. Alfie Ulloa of the Chilean Ministry of Finance; Mr. Rishi Goyal of the IMF; Messrs. Jean-Marc Aboussouan, Olver Luis Bernal, Fidel Jaramillo and Fernando Montenegro and Ms. Cristina Pailhe of the IADB; Mr. Kenneth Waller from the AASC and Messrs. Rommel Acevedo and Ricardo Palma Valderrama of ALIDE.

Review of the Second 2011 Advisory Group Meeting in Seoul

The Advisory Group Coordinator, Dr. J.C. Parreñas, presented the draft Report of the Advisory Group Meeting of 26 April in Seoul.

The Advisory Group approved the Meeting Report.

Regional Financial Cooperation and Integration

The Chair opened the discussions by referring to a discussion paper on regional financial architecture that has been previously circulated. The key points of the paper are as follows:

- ♦ Robust and deep financial systems will allow businesses, small and large, to trade and invest more efficiently across the region. The APEC framework, built on trade and investment facilitation, can now provide further stimulus to regional economic growth through improving the regional financial system – the lifeblood of trade and investment.
- ♦ APEC is an entirely appropriate, if under-used, framework for financial system development and reform. Efficient financial systems are a precursor to efficient trade and investment and enhanced economic growth. APEC's voluntary and consensual processes, its established co-operative assistance approach, and its focus on capacity building make it ideally suited to achieving incremental but significant gains. High financial policy is the province of G20 and the IFIs, but making its benefits tangible is a proper, sensible and timely role for APEC.

- ♦ APEC should endorse and implement a comprehensive multi-year initiative, aimed at enhancing the efficiency and resilience of the financial systems of individual APEC economies and the financial structure and institutions which link those economies. This initiative is in pursuit of the APEC Leaders 2010 Yokohama Vision endorsing stronger and deeper regional economic integration.

The Advisory Group Coordinator reported on the outcomes of the dialogue with Asian financial regulators convened jointly with SEACEN, PECC and ABA in Colombo, Sri Lanka on 5-6 July 2011. The dialogue was attended by around 80 participants from central banks, international institutions and the private sector. Key highlights from the dialogue were as follows:

- ♦ The discussions on the economic environment reflected various concerns about the growing risks in the global economy and financial markets. Fundamentals are clearly pointed to a new downtrend, with declining industrial production particularly in developed economies and rising commodity and consumer prices, against a backdrop of increasingly limited fiscal and monetary policy options.
- ♦ Asian central bankers stressed the importance of going back to first principles, including the priority that should be given to promoting confidence in the system, avoiding short-term measures that can be destabilizing and focus on strengthening one's own economy first as a necessary building block for international cooperation.
- ♦ There was a prevailing sentiment that the G20's efforts to reform global financial systems have focused too much on the needs of developed economies, with reforms being seen as not taking enough consideration of the situation of emerging markets. Asia's needs should also be addressed by global regulatory reforms, in the sense of promoting inclusive growth.
- ♦ Most banks in emerging Asian markets do not see themselves negatively affected by Basel II and Basel III, as most of their regulatory capital requirements are more stringent than Basel and the positions of banks even more so. For example, a survey by ABA showed that 86% of Asian banks had a CAR exceeding 12% and Tier 1 capital exceeding 8%. Asian banks view Basel III positively according to the survey, but there are concerns that it may not suit smaller banks with simpler business models, discourage lending to SMEs and may be inadequate for monitoring behavioral and contractual maturity mismatches.
- ♦ From an Asian central banker's perspective, Basel III stands to induce a sharper analysis of financial risks and a more holistic view of financial markets, brings liquidity risk finally to the forefront and brings needed focus to market infrastructure risk and risk channels. However, it is seen to also bring a lot of challenges to emerging market supervisors, because Basel III must go hand in hand with other reforms, including accounting, governance and market infrastructure reforms, if it is to bring about greater financial stability. Thus, the task of undertaking all these will require a great deal of capacity on the part of supervisors.
- ♦ On financial integration, the challenge for Asia is great due to its diversity. Integration requires a lot of cooperation and coordination among financial regulators and financial institutions. For banking supervisors and banks, it would require home-host agreements. For securities markets, it would require cross-border legal frameworks for investments and development of clearing and settlement systems. Critical auxiliary arrangements for financial literacy, consumer protection and redress mechanisms are needed. A viable infrastructure is a minimum necessary condition of regionally integrated financial markets. In the end, reaping benefits from integration rests on the ability to contain risk, and so integration would require substantial cooperation among regulators in the region.

Mr. Goyal of the IMF presented a summary of key points from the latest IMF's July 2011 spillover reports, which explore the external effects of policies in systemically important economies. Following are the key points from the IMF's summary document.

For the USA:

- ♦ *Concerns:* Foreign officials appreciated the boost to world growth from U.S. stimulus but were concerned over unintended consequences. Loose U.S. monetary policies could fuel unsustainable capital flows and commodity prices; high U.S. government deficits create tail risks of a generalized bond shock; and laws and rule changes passed ahead of Basel III could foster financial sector arbitrage.
- ♦ Short-term U.S. spillovers on growth abroad are uniquely large, mainly reflecting the pivotal role of U.S. markets in global asset price discovery. While U.S. trade is important, outside of close neighbors it is the global bellwether nature of U.S. bond and equity markets that generates the majority of spillovers.
- ♦ U.S. macroeconomic stimulus likely supported foreign activity more in 2009 than in 2010. Facing global turmoil, 2009 initiatives calmed markets. In the less fraught 2010 environment similar policies produced a less favorable response.
- ♦ With QE2 having limited spillovers, its fully anticipated ending will have even less effects. The main monetary exit risk is that expectations of monetary tightening would reverse earlier capital flows to other economies.
- ♦ Spillovers from credible and gradual fiscal consolidation are limited and ambiguously signed, while those from the tail risk of a potential loss of confidence in U.S. debt sustainability are universally large and negative.
- ♦ Robust supervision of U.S.-based (not necessarily U.S.-owned) investment banks can reduce risks of negative global spillovers via dollar funding markets.
- ♦ Overall, U.S. and foreign goals may be better aligned for fiscal and financial policies, given a common interest in limiting globally important tail risks, than for monetary policies, where low interest rates facilitate financial risk-taking.

For the Euro Area:

- ♦ *Concerns:* Partners appreciated policy efforts to address the sovereign debt crisis, but were concerned over potential spillovers in case debt difficulties in the EA were to deepen, as highlighted by the bouts of heightened co-movement over the past year between stresses in EA program economies and global financial markets.
- ♦ An intensification of the EA debt crisis, especially if stress were to spread to the core EA, could have major global consequences. This is supported by financial market signals, analysis of a model of global bank interconnectedness, and results from a broader macro-modeling approach. Thus, decisive further policy actions to contain the crisis are critical not only for the EA itself, but also from a global perspective.
- ♦ Projected fiscal consolidation efforts in the EA should have modest global demand effects that could be more than offset by credibility gains. Monetary tightening in the area that proceeds at a slightly faster pace than markets presently anticipate would have limited spillovers, but reversal of extraordinary measures would need to be timed with improvements in banking sector health and dissipation of market tensions in EA program economies to help prevent potentially large effects on other economies.

- ◆ Envisaged reforms to strengthen banking system resilience, labor and product market reforms to enhance growth potential, and further trade liberalization under the Doha round would have positive, though modest, spillovers.
- ◆ *Authorities' reactions.* The EA authorities agreed that any spread of the crisis would have global repercussions, but were confident that policy measures enacted to date and those that were in prospect should help contain the crisis. They also broadly agreed with staff's findings on macroeconomic and structural spillovers, although they were more sanguine on the direct contractionary effects of fiscal tightening, and emphasized that, given the area's high degree of openness to international trade and finance, it was a net recipient of spillovers from the rest of the world during normal times.

For China:

- ◆ *Concerns:* Partners saw benefits from its growth, especially during the crisis, but were also concerned to varying degrees about spillovers from (1) a potential disruption to China's so far steady growth; (2) the slow pace of currency adjustment; and (3) a further build up in foreign exchange reserves, already the largest in the world, and the closed capital account.
- ◆ China's capacity to both transmit and originate real shocks is rising, implying an important stake for the world in its stability. Insofar as its export-oriented growth model is a source of stresses, economic rebalancing is crucial.
- ◆ Currency appreciation is important to that process but alone yields only limited spillovers. Significant positive effects on others' output and trade require a comprehensive transformation that reduces China's household and corporate savings rates and raises depressed factor prices. The latter could also alleviate concerns that China's competitiveness is built on a distorted cost structure, thus easing trade tensions—itsself a risk to the world economy.
- ◆ Conversely, failure to rebalance the growth model would imply unprecedented increases in export market share, potential overhang in capacity, and adverse spillovers from resulting stresses on corporate and bank balance sheets.
- ◆ China's policies can affect global capital flows, although that role is secondary to fundamentals such as emerging market growth and advanced economy liquidity conditions. While China's large purchases of reserve currency assets reduce their yields and push capital to emerging markets, it is unclear what the net effect of its closed capital account is, and what opening it up would do.

For Japan:

- ◆ *Concerns:* These relate primarily to the dynamics of public debt, and the potential effects of delayed fiscal consolidation. More recently, interest centered on the impact of the March 2011 earthquake; particularly in light of Japan's unique role in the global production chain.
- ◆ Although the recent earthquake has underscored Japan's role as a supplier of sophisticated technological products, neither fiscal nor monetary policies appear to have led to significant global spillovers in recent years. However, Japan remains an important source of demand in Asia, and the lack of policy space and rising public debt levels in other advanced economies suggests that developments in Japan may have a larger impact than in the past.
- ◆ While fiscal consolidation in Japan may result in short-run costs for some Asian economies, the long-run effect on all regions would be positive. Speedy implementation of Japan's growth strategy would mitigate any negative short-term spillovers. By contrast, monetary policy spillovers are found to be limited.

- ♦ Financial spillovers from Japan were found to be smaller than those from other systemic economies, reflecting a financial sector largely focused on the domestic economy. Nevertheless, a delay in fiscal consolidation could lead to strains in JGB markets and losses on bank balance sheets, both of which could affect Japan's trading partners. In particular, a rise in JGB yields could lead to higher interest rates elsewhere, especially in economies where government debt is already high.
- ♦ The authorities agreed with the key findings of the report, but cautioned that a robust methodology for gauging financial sector spillovers effects was yet to be developed, particularly concerning cross-border confidence effects. They acknowledged that a failure to consolidate fiscal policy could lead to spillover effects, but suggested that Japanese banks would not have a large role in transmitting a shock abroad.

For the UK:

- ♦ *Concerns:* These mainly relate to (i) the extent to which the financial sector might be a source or conduit of shocks to the rest of the world, (ii) the impact of U.K. supervision and regulatory policies on efforts to strengthen global financial stability.
- ♦ The size and interconnectedness of the U.K. financial sector make it a powerful originator, transmitter, and potential dampener of global shocks. The U.K. agglomerates core international financial functions making it a key node in "funding" liquidity and balance sheet hedging, providing buoyancy to global markets and acting as a key channel transmitting shocks or stabilizing measures.
- ♦ The stability and efficiency of the U.K. financial sector is therefore a global public good, requiring the highest quality supervision and regulation. Significant efforts to strengthen supervision will help contain the risks to global stability posed by the sector's size and complexity. Stronger liquidity, capital and leverage rules should dampen credit cycles and lower systemic risk, as can the U.K.'s macroprudential policies.
- ♦ International co-operation is critical if the U.K. is to fulfill its potential to support global stability. U.K. financial stability will be weakened (with adverse spillovers) if EU rules constrain U.K. financial regulations at insufficiently ambitious levels or if they limit the ability to use macro-prudential instruments to address emerging risks. Cooperation (both within and outside the EU) would help limit regulatory arbitrage, while development of cross-border resolution frameworks can limit shock propagation through the U.K. if tail risks materialize. Effective home-host co-ordination would also reduce the risk of fragmented pools of liquidity hampering parent banks' ability to support branches/subsidiaries in periods of stress.
- ♦ The U.K. authorities can make a significant contribution to the surveillance of global systemic risks. The size and role of the U.K. financial sector puts them at an informational advantage, although data gaps and resources pose challenges.

Discussions on the IMF presentation focused on the US and China. A key concern for the US was the risk of loss of confidence and its impact on the rest of the world. The main issue at present is not the sustainability of the US debt; rather it is the risk of inaction on fiscal policy, which could significantly impact markets. The rest of the world could respond to this risk by preparing safety nets to limit impact, for example, through the CMIM, and by working toward rebalancing of growth in emerging markets. China is a key economy that can play a key role in global rebalancing, and faces the challenge of shifting from investment- and export-led growth toward more consumption through financial reforms and the expansion of social safety nets.

Discussions on the regional financial architecture focused on its geographical coverage and institutional aspects. It was suggested that efforts focus initially on Asia, where fragmentation of

markets require much-needed action, but that these efforts be pursued within an APEC context. Its institutionalization faces some challenges, as there are several existing bodies that address its various aspects, including EMEAP, SEACEN, APEC and ASEAN Finance Ministers, the ASEAN+3 Finance Ministers and Central Bank Governors and the APEC Policy Support Unit. How to involve the FSB, which plays a lead role in current regulatory reform efforts, is another issue. Business needs to help create structures to address weaknesses and prevent future crises, given that it has a direct interest in financial stability and efficient financial markets.

The Advisory Group noted the summaries of the Colombo dialogue and the IMF spillover reports, and agreed to endorse to ABAC the proposal to undertake future work on regional financial integration and cooperation.

Infrastructure Public-Private Partnership

The Chair briefed the Advisory Group on the progress of work on infrastructure PPP. The Coordinator updated the participants on the preparation for the dialogues with the governments of Mexico, Peru and the Philippines, as well as the proposed Honolulu forum being discussed with the US Treasury.

Mr. Jean-Marc Aboussouan of the IDB briefed the Advisory Group on the work of IDB in the field of infrastructure PPP, particularly in helping develop PPP frameworks and PPP centers in Latin American economies and in addressing issues related to legal frameworks, long-term financing of projects and development of local capital markets. He also discussed the IDB's collaboration with the Economist Intelligence Unit to develop the Infrascopes, which is an innovative learning tool for evaluating the capacity of economies for PPPs.

The Chair thanked the Bank of Tokyo-Mitsubishi UFJ for sponsoring the lunch for the APIP private sector panel's preparatory meeting that will precede the dialogue with Mexico and Peru.

The Advisory Group noted the preparations for the dialogues in Lima and Manila and the forum in Honolulu. The Group also endorsed the appointment of Mr. Kamran Khan of the World Bank as a technical advisor to ABAC on infrastructure PPP.

Financial Inclusion

Mr. Kenneth Waller of the AASC summarized the outcomes of the symposium "Financial Inclusion – Regulations to Support MSME Financing Availability," which was jointly organized by AASC and the Association of Development Finance Institutions in Asia and the Pacific (ADFIAP) on 27-28 June in Manila, with the support of AusAID. The two-day symposium was the first component of a two-phased initiative. The second component will be a capacity building training program for senior regulators to be convened in Melbourne in the first quarter of 2012.

The primary focus of the symposium was to develop best practice proposals for regulatory and supervisory approaches based on participant expert experiences, international standards, and identified challenges that would give banks and financial institutions as well as capital market players a higher level of comfort in financing MSMEs while also addressing the challenges facing MSMEs in accessing finance. Around 70 participants and speakers attended including representatives from Australia, Indonesia, New Zealand, Peru, Philippines, Thailand and Vietnam and from India. Central banks, securities and insurance agencies, development banks, commercial banks, academics, NGOs, the IMF, IFC and ABAC participated in a highly interactive event.

Economy experiences discussed at the symposium highlighted the specific challenges and regulatory responses in the Philippines, Indonesia, Peru, Vietnam, Thailand and India. The full report of the symposium will outline developments and challenges /responses of those participating economies; it is hoped that this will provide useful guidance to APEC economies generally.

Overarching themes of the symposium were as follows:

- ♦ MSMEs are a key driver for economic growth.
- ♦ Access to finance is a major constraint to the development of MSMEs in emerging economies.
- ♦ Sound regulatory policies and laws could go a long way to alleviating that constraint.
- ♦ Much can be learned from the policies and regulatory responses of the participating emerging economies including importantly in the use of new technologies and intermediaries for the provision of financial services.
- ♦ The use of third party intermediaries by financial institutions is critically important for financial inclusion and should be supported by regulatory agencies.
- ♦ Non-bank credit institutions, their role and the scope of their permitted activities should be clearly defined by regulation; the use of third parties and agents to accept deposits is to be encouraged.
- ♦ Organisations financing MSMEs have diverse funding sources and diverse funding products such as leasing and factoring are to be encouraged, as well as credit and capital markets in servicing the needs of MSMEs; venture capital as a funding mechanism could be developed if banks held equity in MSMEs.
- ♦ Second board listings are unlikely to be attractive to MSMEs, given the complexity of listing rules.
- ♦ Mutual funds could be encouraged as a source of funding.
- ♦ New technologies in servicing MSMEs will require a light touch regulatory approach – space is needed to avoid the stifling of innovation and financial system regulators should keep abreast of innovation in the payments system and in new forms of delivery of financial services.

Among sound regulatory approaches that were recommended to promote the development of MSMEs were the following:

- ♦ Institutions providing similar financial services to MSMEs should be regulated in the same way.
- ♦ Financial inclusion requires judicious, supportive and proportionate regulation which encourages innovation, market based solutions and competition.
- ♦ Interventions by governments should avoid market distortions.
- ♦ There are arguments for liberalizing entry by allowing microfinance institutions to transform into banking institutions.
- ♦ The trend is to be more flexible in regulatory standards for microfinance – but with an understanding of what differentiates microfinance from other financial services.
- ♦ The detail of regulatory policy must always be specific to the economy context.
- ♦ Regulation should not stifle innovation.
- ♦ The first priority of microfinance regulatory policy should be good governance and regulation of intermediaries.
- ♦ The second priority should be to support credit bureaus, collateral registers and a regulatory environment that supports information sharing between financial intermediaries; a third priority is financial literacy.
- ♦ Microfinance institutions should not be deposit-taking institutions in their own right but should be agents for high quality, prudentially regulated banks so that MSMEs have the full ambit of regulatory protection.

Mr. Waller informed the Advisory Group that the final report will propose 23 best practice objectives and principles that could be considered by the Advisory Group as a contribution by ABAC to APEC Leaders' call to improve MSME access to finance. The report will be a basic document for the proposed training program to be convened in early 2012. It is intended that regulators and policy makers from the region, international agencies, standard setting bodies,

development banks and commercial banks and ABAC will be invited to participate in that program.

The objective will be to assess the veracity of the proposals and to develop further, the way in which regulators are interpreting proportionate regulatory responses with a view to proposing recommendations to APEC Ministers and Leaders that will help enhance the regulatory environment in promote financial inclusion across the region.

The Advisory Group Coordinator briefed the participants on the preparations for the Asia-Pacific Financial Inclusion Forum, with the theme “Expanding Financial Access through Regional Public-Private Cooperation” that will be held on 6-8 September in Tokyo. The forum, which is coordinated by the Advisory Group, is co-organized by ABAC and the Asian Development Bank Institute (ADBI), in collaboration with the Asia-Pacific Credit Coalition (APCC)/PERC, the Asia-Pacific Finance and Development Center (AFDC), the Banking with the Poor Network (BWTP), the Foundation for Development Cooperation (FDC), the Institute for International Monetary Affairs (IIMA) and the Organisation for Economic Co-operation and Development (OECD), and sponsored by the Citi Foundation.

He informed the Group that the first day will focus on expanding new channels for financial inclusion through regional cooperation in micro-lending, micro-savings and microfinance-linked remittances, while the second and third days will focus on delivering knowledge to build the capacity of regulators to promote SMME finance through development of properly structured credit information systems and improvement of legal frameworks for secured lending.

Mr. Gary Judd briefed the Group on the financial inclusion roundtable held on 12-14 July in Urumqi. The roundtable had five sessions, which focused on the current state of financial inclusion in developing Asia, rural finance in China, key regulatory issues in promoting financial inclusion, the evolution of MFIs and Islamic microfinance.

Mr. Olver Luis Bernal discussed the IDB’s work on financial inclusion, particularly the Multilateral Investment Fund (MIF), which has helped leading microfinance networks expand and promoted many innovations that have been key to the development of many MFIs. Current focus of efforts is helping the microfinance industry reach underserved areas, expand into frontier markets and achieve more transparency in its operations.

Mr. Rommel Acevedo and Mr. Ricardo Palma Valderrama introduced the work of ALIDE to the Advisory Group. The Latin American Association of Development Financing Institutions (ALIDE) is the international organization that represents Latin American and Caribbean development banking. It was created in 1968 and, at the invitation of the Government of Peru, established its permanent headquarters in Lima. ALIDE is the Latin American counterpart of the Association of Development Financing Institutions in the Asia-Pacific (ADFIAP), one of the collaborating institutions in the Advisory Group.

ALIDE has developed a variety of operations and services to fulfill its goals and functions, which are carried out through institutional, national and international programs, projects and activities. These include institutional and capacity building, exchange of personnel and expertise, identification of business opportunities, studies and research, investments and project promotion, technical meetings, seminars and courses, project preparation and management, information and documentation, networking, publications, technical assistance, web pages, advisory services, electronic operations and exchanges, and teaching.

Mr. Acevedo mentioned that in addition, ALIDE can establish and strengthen contacts with representatives of the leading institutions involved in financing Latin American and Caribbean development; take part in research and studies promoted by it; participate in technical meetings, seminars and technical forums; provide technical assistance and specialized advisory programs; be involved in different fields of work within the main sectors of development banking; and

serve as the leading force in the area of development banking, finance and investments in Latin America and the Caribbean, strengthening contacts and links with governments, multilateral financing institutions and other national and international organizations, both in the region and in other parts of the world.

The Advisory Group noted the summary of the Manila Symposium and the Urumqi Roundtable and the preparations for the Asia-Pacific Financial Inclusion Forum. The Group also welcomed ALIDE as a collaborating institution.

Small, Micro- and Medium Enterprise (SMME) Finance

The Coordinator briefed the Advisory Group on the discussions at the APEC Senior Finance Officials Meeting (SFOM) in Washington DC on proposals to facilitate SMME finance. He referred to the paper submitted to SFOM that contained key points from ABAC's previous recommendations. Two of these came from previous reports adopted by ABAC – the proposals on credit reporting and legal frameworks for secured lending. The other two came from recent letters sent out by ABAC to standard setting bodies dealing with accounting standards (improved accounting rules for treatment of lease financing) and Basel III (appropriate treatment of trade finance).

Mr. Paul Lee of ABAC Canada made a presentation on venture capital for SMMEs. The presentation covered the following points:

- ♦ SMMEs need equity financing as they face difficulties in securing debt financing. These difficulties stem from limited collateral, limited operating history, limited financial marketing and presentation skills, insufficient size to secure debt offering and need for assistance, expertise and connections in addition to capital.
- ♦ Venture capital is a form of equity financing. Financiers' and investors' returns are based on the investee company's success and not on a fixed rate of interest. Unlimited upside allows for more risk and a portfolio approach. There is incentive for providing capital, expertise and connections because the fruits of success are shared.
- ♦ Venture capital plays an important role in technological innovation.
- ♦ Governments play an important seed role in every major venture capital market.
- ♦ SMME venture capital policies in Canada have delivered positive results.

Among the ways by which governments could promote SMME entrepreneurial activity are the following:

- ♦ Ensuring creative ideas move easily from universities and government laboratories to new or existing businesses.
- ♦ Ensuring that tax policy supports SMME activity.
- ♦ Allowing firms to enter into needed contracts.
- ♦ Ensuring business and technology students are exposed to entrepreneurship classes.
- ♦ Creating training opportunities in entrepreneurship for midcareer professionals.
- ♦ Ensuring international investors find the jurisdiction an attractive one in which to invest,
- ♦ Ensuring a strong venture capital community to help allocate capital, resources and people to the most promising companies.

The Advisory Group noted the report on the discussions at the APEC Senior Finance Officials' Meeting and endorsed the undertaking of future work on venture capital for SMMEs.

Regional Funds Passport

The Chair briefed the Advisory Group on the progress of efforts to promote the funds passport initiative in APEC, where the Advisory Group and ABAC proposed a pathfinder initiative. Several activities have been held to advance this project, with Australia, Hong Kong and Singapore as possible pathfinders. A meeting of Asian finance officials was held in Hong Kong

last March, where the Advisory Group was represented by Ms. Catherine Simmons of State Street. The Advisory Group also held a briefing for Japanese officials and regulators in Tokyo and a similar briefing for Korean government advisers in Seoul. The Coordinator reported that it is still unclear whether a sufficient number of economies can agree to join the pathfinder at present, and suggested that efforts focus on encouraging continued efforts toward a pathfinder launch in 2012.

The Advisory Group agreed to continue promoting the regional funds passport initiative with a view to the launch of an APEC pathfinder in 2012.

2011 Advisory Group Report on Capacity-Building Measures to Strengthen and Develop Financial Systems

The Coordinator presented the draft 2011 report of the Advisory Group, with the following recommendations:

- ♦ APEC member economies, relevant institutions and the private sector to closely coordinate their activities under the APEC Financial Inclusion Initiative, and to discuss how APEC can provide a robust regional platform to help expand the availability of credit to micro-enterprises and low-income consumers on a sound and sustainable basis, more widely mobilize grassroots savings, and more effectively harness remittances within the region to facilitate financial inclusion.
- ♦ APEC to intensify and broaden capacity building activities to assist key officials and regulators in undertaking legal, policy and regulatory reforms to develop properly structured credit information sharing systems and improve the legal architecture for secured lending, including rules for filing and perfecting security interests in collateral, ease of diligence and completeness of lien registries, as well as rules governing licensing and market access that will facilitate the flow of credit to small enterprises.
- ♦ APEC to undertake a policy dialogue involving relevant government agencies, international institutions and the private sector to examine best practices in facilitating the development of venture capital, including the use of public resources and tax policy to effectively mobilize private investment in venture capital funds and the promotion of an environment that is conducive to innovation.
- ♦ APEC to support the Asia-Pacific Infrastructure Partnership (APIP) Dialogues and encourage member economies and the private sector to continue and further expand these dialogues in 2012 onward.
- ♦ APEC to develop a benchmarking index to assess the capacity of Asian member economies to carry out sustainable infrastructure PPPs, building on the Infrascopes index developed for Latin American economies by the Economist Intelligence Unit with the support of the Inter-American Development Bank.
- ♦ APEC to support continuing capacity building initiatives to strengthen financial systems and to initiate discussions to establish a regional financial forum that will include all relevant financial market regulators and institutions playing key roles in financial policy in member economies. The task of such a forum would be to redesign the oversight of financial markets, for the purpose of enabling member economies to more effectively capture the benefits of growing financial integration and rapid economic growth in the region.
- ♦ APEC economies to join together to advance the work of the APEC Finance Ministers' Process on this issue through a pathfinder initiative. This initiative should be pursued in conjunction with capacity building programs on cross-border recognition of equivalent regulatory regimes for issuing and trading financial products and services for developing

APEC member economies, with a view to these economies joining the pathfinder initiative once they are ready to do so.

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

Chair's Closing Remarks

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

Adjournment

There being no other matters to discuss, the Chair declared the meeting adjourned at 10:00 am.