

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Meeting Paper 2-A Review of the Second 2013 Advisory Group Meeting

Office of the Advisory Group Chair

<i>PURPOSE</i>	For consideration.
<i>ISSUE</i>	Report of the second 2013 meeting of the Advisory Group held on 4 April 2013 in Singapore.
<i>BACKGROUND</i>	N.A.
<i>PROPOSAL</i>	N.A.
<i>DECISION POINT</i>	Endorsement of the meeting report

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

Second Meeting 2013

4 April 2013

10:45 AM – 12:45 PM

Simpor 4812-13 & 4912-13, Level 4

Marina Bay Sands Convention Centre, Singapore

MEETING REPORT

First Draft

As of 5 July 2013

Welcome and Introduction

The meeting started at 11:05 am. Participants included ABAC members and staffers and representatives from the World Bank (WB), Asian Development Bank (ADB), the APEC Policy Support Unit (PSU), CGAP, the Japan International Cooperation Agency (JICA), Cradle Fund, the Australian APEC Study Centre at RMIT University (AASC), GE Capital, Nomura Securities, Foundation for Development Cooperation (FDC), the International Valuation Standards Council (IVSC), Moodys, the Institute for International Monetary Affairs (IIMA), the Pacific Economic Cooperation Council (PECC), SWIFT and the Asia Securities Industry & Financial Markets Association (ASIFMA).

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. Mr. Jackson Yap of ABAC Singapore welcomed the participants. The Chair acknowledged the presence of Mr. Kamran Khan of the WB, Mr. Jason Lee of ADB, Mr. Denis Hew of the APEC PSU, Mr. Eric Duflos of CGAP, Mr. Kazuto Tsuji of JICA, Mr. Nazrin Hassan and Mr. Johnathan Lee of Cradle Fund, Mr. Kenneth Waller of AASC, Mr. Thomas Clark of GE Capital, Dr. Shinjiro Takagi of Nomura Securities, Mr. Shawn Hunter of FDC, Mr. Nicholas Brooke of IVSC, Mr. Michael Ye of Moodys, Mr. Koji Sakuma of IIMA, Mr. Eduardo Pedrosa of PECC, Ms. Beth Smits of SWIFT, Ms. Rebecca Turner of ASIFMA and Mr. Nicholas de Boursac.

Review of the First 2013 Advisory Group Meeting in Honolulu

The Advisory Group Coordinator, Dr. J.C. Parreñas, presented the draft Report of the Advisory Group Meeting of 22 January 2013 in Manila.

The Advisory Group approved the Meeting Report.

Asia-Pacific Financial Forum

The Chair opened the discussions by giving a summary of the deliberations at the previous evening's informal preparatory meeting on the APFF, focusing on the issues and structure and

the preparations for the Asia-Pacific Financial Market Development Symposium in Sydney on 10-11 April, where participants will aim to agree on the major outlines of the APFF work program and its structure.

The Coordinator presented the background on the APFF and proposals on its initial structure.

Mr. Waller of AASC gave a description of the agenda and participants for the Sydney Symposium

Mr. Jason Lee of ADB expressed support for the concept of the APFF, as a meaningful initiative that would gather regulators and the private sector together to address important issues, especially regulatory and market practices, affecting the region's financial markets. He also expressed support for the proposed structure and the APFF's aim to promote synergy with the various ongoing initiatives such as the ABMI, ABMF and the ASEAN Capital Market Forum. He also noted the importance of addressing issues such as SMEs' access to finance, infrastructure finance, green finance and financial education in promoting balanced, inclusive and sustainable growth.

Ms. Turner of ASIFMA underscored the importance of addressing issues related to financial market regulations, especially in the development of capital markets.

Mr. Brooke of the IVSC explained the importance of international valuation standards for financial stability and noted that this issue needs to be addressed.

Mr. Ye of Moodys supported the program of the Sydney Symposium and noted its comprehensive agenda.

Mr. Hew of APEC PSU likewise expressed support for the initiative, and highlighted the importance of addressing issues relating to financial inclusion. He also supported the APFF's emphasis on avoiding duplication with existing initiatives and noted the usefulness of undertaking scoping and mapping work to provide an overall view of international initiatives currently being undertaken, as well as the gaps that APFF might be able to fill.

Mr. Clark of GE Capital mentioned some of the important issues that are not yet being addressed adequately by existing initiatives, especially legal secured lending frameworks and credit reporting systems that are important in promoting financial inclusion.

Mr. de Boursac also voiced his support for the APFF concept. He suggested that consideration be given to focusing on low-hanging fruits that can be successfully accomplished early to encourage more participation as the APFF begins its activities.

Mr. Khan of the WB noted that the Sydney Symposium has a very good agenda. He offered two comments on how the APFF work program might be carried out. First, he noted that in order to avoid the mistakes of other similar forums that have not succeeded, the APFF would need to define clearly up front its nature and what it aims to accomplish. Second, he suggested that the APFF avoid having too many items on its work program and focus on the few most important issues and that the work program of APFF be demand-driven to be useful to the member economies, especially the developing ones.

In the ensuing discussions, participants agreed to aim to identify a few (3-5, as some participants suggested) key issues to include in its work program. An initiative focused on market practices

was suggested as one low-hanging fruit that can be carried out without need to enter deeply into very complicated regulatory issues. Nevertheless, it was also agreed that the APFF should be a comprehensive forum that can address the broad range of regulatory and market infrastructure issues that are relevant to the development of the region's financial markets.

The Chair concluded the discussions by noting that the Sydney Symposium will also discuss how the region could ensure that financial regulations are compatible with its overall development agenda and that regulations to be adopted, many of which are currently being formulated to address issues in the North Atlantic, are appropriate for the Asia-Pacific markets, given their state and that of their market infrastructure. He proposed that an important question that the Symposium will need to answer is whether there is a real role for the APFF to play that does not duplicate what is already ongoing and that will significantly help the region's financial markets to develop.

The Chair noted the need for APFF to focus on a few important issues and to have tangible and sensible outputs reflecting the region's priorities that can be presented to the Finance Ministers. In this connection, he mentioned as an example the issue of trade finance, which will involve regulatory issues. Other examples of key issues are financial inclusion, pension funds and the efficient channeling of the region's savings to investments that the region needs.

Mr. Brooke of IVSC spoke on the importance of international valuation standards. He described the work of the the International Valuation Standards Council, a membership body that includes the professional valuation institutes from 15 of the 21 APEC economies. The IVSC's objective is to build confidence and public trust in the valuation process by creating a framework for the delivery of credible valuation opinions by suitably trained valuation professionals acting in an ethical manner. Key points from his presentations were the following:

- Valuation has historically been an activity of the financial system that has been taken for granted or even overlooked. This is in spite of valuation being used as the basis for many significant investment decisions, for measuring performance and increasingly as a measurement basis or required disclosure in financial reporting.
- Pressure is building for change as valuation becomes recognized as an important element of the financial markets and that proper standards and effective regulation are necessary for improved financial stability.
- In 2011 twelve new International Valuation Standards were published covering a range of asset types – intangibles, real estate, business interests and financial instruments. The overriding objective of the new standards is to increase the confidence of users of valuation services in valuations on which they rely.
- Benefits of IVS and advantages of global valuation standards include: (a) reduced effects of systemic risks emanating from inconsistent valuation practice and terminology; (b) contribution to rigorous and consistent implementation of International Financial Reporting Standards, which requires good and consistent valuation; (c) benefits for developing economies that are looking to establish a robust framework of standards and regulatory arrangements; (d) support for global accounting standards by ensuring that fair value measurements are produced consistently thus increasing cross border comparability and reducing risk of investors being misled by unfamiliar practices or terminology; and (e) enabling better regulation by promoting coordination among domestic and supranational agencies.
- The lack of recognition of the importance of valuation has resulted in a fragmented professional and regulatory landscape when viewed from a global perspective.

- There is no single valuation voice. As a result, various bodies all produce regulations that include some references to valuation but each use different language – see earlier in paper.
- With no recognized common benchmark for becoming a professional valuer, individuals or firms with no formal training or credentials can describe themselves as such. A lack of any professional infrastructure—whether self-regulated or based on statutory requirements—creates a significant risk for those who rely on valuations for financial decisions, with consequences for wider financial stability.
- Some of the barriers to a greater adoption of the IVS include: (a) lack of regulatory backing or focus; (b) tendency of domestic legislation and regulation around valuation to be specific to a particular activity and asset type, with different agencies developing fragments of valuation regulation independently with little or no coordination; (c) existence of laws that require valuations for certain asset types to be undertaken in accordance with different standards set by each economy; and (d) fragmented organization of the valuation profession by asset type, geography or both, with many setting their own standards for their members and reluctant to pass this responsibility to an international organization.
- A strong signal from APEC of the need to support the development of high quality valuation, ethical, educational and related quality assurance and disciplinary standards based on global benchmarks would be very welcome.

The Advisory Group noted the preparations for the Sydney Symposium and the various suggestions on the way forward for the APFF, and agreed to consider the issue of international valuation standards for its future work.

Asia-Pacific Infrastructure Partnership

Mr. Waller of AASC reported on the outcomes of the APIP follow up dialogue with the Philippine Government held on 23 January in Manila. Among the key points were the following:

- Impressive improvements in policies and processes to facilitate infrastructure development were noted and discussed.
- PPP developments in the road sector were as follows:
 - Productivity and efficiency of the Philippines economy is adversely affected by under investment in roads. Investment in 2011 had been delayed because of the focus on reforms to government processes. In 2012 PPP contracts had been entered into and there was an impressive rise in activity of around 31% over 2011
 - Work on project processes for infrastructure contracts in 2013 had started in October 2012 and around 7% of the 2013 infrastructure budget had been awarded – important investments in and around Manila and regional areas and in particular in Mindanao were planned.
 - Full feasibility studies would be undertaken on road projects and a solid business case developed before projects are taken to the market.
- Ramping up investment in the water sector is occurring; approval for a Philippine plan is anticipated. Flood management projects would be the subject of ODA but work would be open for international competitive bidding. Changes had been effected to overcome regulatory issues relating to the sector.
- Contemporary challenges resolved or yet to be resolved are as follows:
 - Right of way issues. Processes are sometimes delayed, caused by executive and judicial tensions and legislation might be needed to improve right of way processes.

- Assisting local contractors enhance their capacities; small package projects may not attract investor interest and as a consequence larger project packages are under consideration to incentivise investors.
- Guarantees. Guarantees on future income streams to the private sector will cease and be replaced by other policies.
- Solicited bids preferred over unsolicited bids. Where projects are taken to the market, and it is determined that there is a “viability gap” in funding, the government will arrange a capital expenditure subsidy up front rather than enter into a long-term risk guarantee involving the prospect of significant future payments.
- Bid selection. In determining between tender applications in the road sector, the government will judge bids in favour of proposals that require the lowest government subsidy.
- Foreign participation. There are no restrictions on foreign participation in infrastructure projects.
- Commercial risk. The government will not assume commercial risk.
- Policies and administration of PPPs. Rules and regulations have been implemented in relation to the decrees on BOT and alternative dispute resolution clauses, and a review on processes had been presented to Congress.
- Amendments to Executive Orders now provided for the PPP Centre’s Governing Body to be the central policy organ; work is progressing on guidelines for project selection.
- While key performance indicators have been developed, the administration requires an enhanced capacity to monitor projects.
- A Policy Development Monitoring Facility (PDMF) of consulting firms had been established supported by technical assistance.
- The Master Plan is being updated; the PPP Centre holds planning sessions with implementing agencies and arrangements are in place where “viability gap funding” is embedded in the budgets of implementing agencies. A fund is being established to provide for contingencies.
- In the disaster and emergency relief spheres of activity, 2 projects have been awarded and 8 projects successfully rolled out last year.
- Development of a robust pipeline of projects. Presently, the PPP Centre is working on around 22 projects including one relating to the computerisation of the health system. A challenge, inter-agency coordination, now been resolved, resulting in major achievements in efficiencies in PPPs. The establishment of the PPP Council Board and the development of policy briefs for agencies has been particularly beneficial.
- Notwithstanding the fact that project financing is not well developed in the banking sector, recent financing deals have been successfully closed. Some regulatory rules, for example, single lender limits, do sometimes impact on bank funding.
- On specific issues relevant to business, the panel observed that:
 - Bidding processes remain highly prescriptive and there are concerns that the government’s focus is on price rather than quality. From a bidder/investor viewpoint, bid requirements ought to focus on the bidders’ technical capacities and on financial and probity considerations. Private sector bidders should have the opportunity to outline their approach to other aspects of a project.
 - While appreciating reluctance to move from determinations based on price alone, it would be important to move to “value for money” determinations; delays in doing that could impact on perceptions of the credibility of good projects
 - Probity checks by outside agencies could be useful in ameliorating any public concerns of political credibility.

- There is value in keeping things simple and that when projects are presented to the market they should be well thought through. In the water sector, the government ought to determine an affordable price and encourage bidders to frame their bids with that price in mind; the process would point to what the government might be required to provide to support from viability gap funding.
- Inclusive growth is a feature evident in some programs under consideration.
 - Private sector is more likely to be involved in IT and communications systems relating to the delivery of government services, for example in health, if the government adopts a whole of government approach. (Inter-agency cooperation is on-going and new programs will provide guidelines to coordinate IT platforms and agency coordination in respect of government services).
 - Projects involving only government agencies would generally not involve conflict of interest since the government would normally determine how a project would be administered. However, in projects involving the private sector and where the government is both an operator and regulator, there should be an expectation that the government would separate out its operating and regulatory functions, perhaps by split into two projects. Importantly, where there is a possible conflict of interest issue, the matter ought to be resolved in the design stage of a PPP and not in the contractual stage.
- A World Bank report on global practices in respect of viability gap funding could be made available to assist consideration of this aspect of project funding.

Mr. Waller called attention to the paper tax incentives for PPP, which was submitted for circulation. This is the last of the research papers authorized by ABAC in regard to issues generated during APIP dialogues. This report outlines a wide range of infrastructure incentives found in Australia, Indonesia, Korea, Malaysia, the Philippines, Singapore, Thailand and Vietnam. It is designed to be used as a catalyst to stimulate discussion in economies using, or contemplating the use of Public-Private Partnerships for infrastructure development. The research was undertaken by Michael Curran, RMIT School of Accounting and Research. Funds for this were approved by ABAC last year. Mr. Waller requested the Advisory Group to endorse the paper with a recommendation to ABAC to release the funds to pay the researcher for this work.

The Coordinator reported on the dialogue with the Government of Thailand, which was held on 22 February in Bangkok. The key points were as follows:

- The new PPP law (the Private Investment in State Undertaking or PISU Bill) which was in the process of being finalized at the time of the dialogue, once enacted, will replace the existing law (Act on Private Participation in State Undertaking or PPSU), which was enacted in 1992. The PISU bill represents a significant improvement over the PPSU Act in that it will provide clearer directions, a more robust institutional structure, streamlined procedures, a clearer time frame and stronger public sector support for projects. Key features are:
 - PPP Master Plan: This is a 5-year plan is intended to identify, prioritize, synchronize and coordinate medium-term projects from all relevant ministries to help avoid overspending and strengthen coordination.
 - PPP Policy Committee and Secretariat: The committee is a body to be chaired by the Prime Minister is intended to promote consistency and comprehensiveness in setting the direction and priorities for PPP and Thailand's developments.
 - Streamlined procedures: A project needs to be submitted to the cabinet in only one stage (instead of two as in the previous law).

- Clear time frame. It will explicitly stipulate time limit in considering projects.
- Standard Contract Terms and Guidelines on Post-Contact management of projects
- Provision for Project Valuation,
- Project Development Fund: This will be a revolving financial facility to support the creation of the PPP Master Plan and assist project agencies.
- The power sector in Thailand has been successful in developing PPP projects and is a model case for other emerging economies. Key features include the strong and clear government commitment enacted into law, the creditworthiness of the government power company (EGAT) and the currency composition of the tariff.
- Viability gap financing (VGF) could be considered to improve bankability of projects and promote stronger private sector participation. The new law is neutral with respect to this, but the government is open to the possibility of introducing VGF and multilateral agencies are willing to work with the government in this area.
- Risk allocation is a central issue for the private sector. A deeper understanding of what risks the private sector is able and not able to bear will help government in developing attractive projects. The government could consider different risk allocation for different stages of market development, where it takes certain risks, e.g., demand risk, during the early stages to attract private sector participation and reduce its role as the market develops and the private sector feels more comfortable in assuming these risks.
- Capacity building is important in two areas:
 - Developing capacity for long-term planning in infrastructure is important to promote private sector participation, given the long-term horizon of infrastructure investment. A key issue is the capacity of government planners to deal with complexity.
 - Developing capacity to do transactions may be better undertaken through on-the-job training to complement seminars on key issues such as risk allocation between public and private sectors.
- Due to Thailand's geographical position, cross-border infrastructure is an important issue, especially in the context of regional economic integration being pursued by ASEAN. One of the key developments is the Dawei Special Economic Zone in Myanmar, which the Thai Government considers as having a very important future impact on the Thai economy and infrastructure development.
- To promote expanded private participation in cross-border infrastructure, governments in the region are encouraged to (a) develop mechanisms for stronger coordination and promote convergence toward common standards; (b) undertake the necessary legislation to provide more comfort to lenders and investors (including multilateral institutions) in view of difficulties they face in assuming the risk of multiple economies; and (c) developing capacity for long-term planning in participating economies.

The Coordinator also alerted participants to the upcoming APEC workshop on infrastructure that will be hosted by the Indonesian Ministry of Finance in Makassar on 22-23 April, and where a number of APIP panel members will participate.

Mr. Khan of the WB reported that the World Bank has heard very positive comments from governments on the dialogues that they have held with APIP. He also noted the important role that APIP and ABAC can play in bringing the relevant agencies involved in infrastructure development together, which is not an easy task for APEC, given the continued fragmentation of its structure into the mainstream SOM process and the finance ministers' process.

In the discussions that ensued, it was mentioned that the Philippine Government picked up the importance of IT during the dialogue and has started to address this issue, and needed private sector involvement. It was also mentioned that the Malaysian Government is considering to host

an APIP dialogue and will discuss this matter with the Advisory Group as soon as a decision has been made. Other participants echoed the comment made by Mr. Khan that the APIP can play an important role in promoting greater coordination across government agencies.

The Advisory Group noted the reports of the Manila and Bangkok APIP dialogues and welcomed the involvement of APIP in the APEC workshop on infrastructure in Makassar. The Advisory Group also agreed to endorse the paper on tax incentives to ABAC.

Legal Architecture to Facilitate Finance

The Coordinator briefed the Advisory Group on the agenda for the Kyoto workshop on legal architecture reforms.

Dr. Takagi of Nomura Securities briefed the Advisory Group on the preparations for the updating and promotion of informal workout guidelines and a model agreement to promote company restructuring by informal workout. The guidelines and model agreement have been almost finalized and are ready to be presented for endorsement at the Kyoto workshop.

Dr. Takagi enumerated the proposed amendments to the existing guidelines and model agreement, which were as follows:

- Financial Creditors, who are interested parties of informal workout, may include various types of creditors such as financial institutions and banks, etc. A technical term of “Financial Institution Creditor” should be replaced by “Financial Creditor” to make the point clearer that not only financial institutions but also any type of financial creditor is able to join and participate in the informal workout under the guidelines and the Rules.
- According to the guidelines and the model agreement, only a financial institutional creditor with large exposure is able to commence an informal workout process. A “Debtor Company” itself should be qualified as an applicant of the workout under the guidelines and the model agreement in addition to the “Eligible Financial (Institution) Creditor” with large exposure to the Debtor Company to avoid possible conflict of interests of financial creditors.

Mr. Clark of GE Capital reported to the Advisory Group that discussions are being undertaken in preparation for formulating elements of a model code for secured financing that will also be discussed at the Kyoto workshop.

The Advisory Group endorsed the workshop agenda and took note of the preparations of documents for endorsement at the workshop.

Financial Inclusion

Mr. Hunter of FDC presented the program of the Financial Inclusion Forum that will be held on 11-12 June in Batam, Indonesia. The Forum will focus on the following topics:

- Experiences and perspectives of the public and private sector across the region with the legal, policy and regulatory environment for innovation in delivery of financial services (including mobile and branchless banking, enabling branchless banking through digital data, intersection of know-your-customer rules and new delivery technologies), including analysis of successful cases as well as those in which unintended consequences of policies and

regulations have inhibited the development of these services

- Innovations in retail payment systems (including electronic payments; interconnectivity and inter-operability based on common standards; optimal environment for regulation, consumer protection, fraud prevention and risk management in payment systems)
- Innovations in the development of financial identity and data for more inclusive credit decisions and strengthening of credit information data bases for use as a tool for risk management and prevention of over-indebtedness, as well as their legal, policy and regulatory implications (including new models of information sharing, access and analytics of data and the promotion of full-file credit bureau systems around new technologies and new technology-enabled data such as digital pre-pay and top-ups, among others, ongoing initiatives to develop non-financial data centered on digital services, experiences in promoting consumer protection in the context of digital data)
- Ramifications for the regulation of data flows, including the need to facilitate as appropriate cross-border data flows as part of the promotion of regional economic integration and talent and capital mobility
- Improvements in legal frameworks for lending both to the consumer and MSME segments, including, on the consumer side, a regulatory approach that affords consumer protection while allowing the flexibility to bring innovative and inclusive products to market, and on the MSME side, the frameworks for secured and structured lending products that will be responsive to their needs for liquidity to promote economic growth and employment.
- New requirements for financial education and innovative approaches (including the incorporation in financial education of government-to-person payments, remittance collections/disbursements and branchless and mobile banking; and the development of financial education models, including for use in elementary and secondary education, that not only align with credit, but also reflect other modes of access like correspondent banking, remittances, cash transfers, mobile money, basic savings, insurance, and bundles of these products).
- Facilitating the adoption of innovations to lower costs and increase efficiency of remittances and promote cross-border financial inclusion.
- Innovative approaches and products that are being tried and scaled up for deepening financial inclusion, in particular with the purpose of reaching agriculture-dependent households and enterprises located in remote rural areas and the informal economy.

Mr. Tsuji of JICA touched on four items. First is the relationship between inclusion and stability, can both involve trade-offs and also be mutually enhancing. Achieving synergy is an important issue that needs to be addressed. Second, innovation is useful only to low-income households if it is supported by innovations in legal and institutional frameworks. A holistic approach is therefore needed. Third, financial services need to contribute to human development, including addressing the needs of the majority of poor people who are engaged in agriculture and informal micro-businesses. Innovative and inclusive financial services need to be based on understanding of these needs. Fourth, it is important to discuss the way forward with major stakeholders after the Forum hand in hand with capacity building.

Mr. Waller of AASC reported on the outcomes of a training program organized by AASC, ADBI and ADFIAP in Melbourne, on 20-22 March 2013 and funded by AusAID and ADBI and supported by CGAP and IFC. This was the second part of two-part program to enhance the capacities of policy and regulatory agencies in the region to encourage financial inclusion, with a

particular emphasis on proportionate regulation. The key focus was on regulatory approaches to encourage the use of technology and innovation in the delivery of financial services, compliance with KYC and FATF requirements and consumer protection.

23 officials from APEC member economies participated as did officials from Bangladesh, Bhutan, Cambodia, Fiji, Lao PDR and Pakistan. Business, official and academic presentations provided for an interactive program involving case studies and work on selected policy issues by small working groups.

Following are the key findings:

- To broaden financial services more emphasis on recognizing women (and households) as account holders is needed, particularly in Asian economies
- Remittance flows between urban and rural centers in countries in the region are extremely important drivers and more work is needed to provide secure remittance services
- Financial system regulators are generally taking a light touch to the oversight of electronic services and this is to be commended as it allows space for technology applications to develop and for innovations in services delivery.
- Telecom regulators should provide fair and equitable access to financial service providers
- A collaborative framework is needed in economies to ensure technology platforms provide interconnectedness between different service providers
- Tensions between banks which wish to provide mobile network services and Mobile Network Operators who can and do, through pricing, keep banks out of the delivery system limits the reach of technology to the under-served. This tension presents a serious challenge to governments wishing to implement financial inclusion policies.
- An increasingly important aspect of public policy should be to require finance system regulators and telecom regulators to cooperate in encouraging the use of technology in the delivery of financial services – a whole of government approach is required.
- Requirements to handle AML and FATF are generally in place and the main focus now ought to be on concerns on data privacy and competition practices; a key concern for consumers is data collection and the use of data by people who collect it.

A comprehensive report of the outcomes of the training program is being prepared, and will be available for the Third Advisory Group meeting and as a contribution to the 2013 Asia Pacific Financial Inclusion Forum in Indonesia, 11-12 June 2013.

Mr. Clark of GE Capital observed that it is important to involve the right stakeholders in initiatives, particularly those who are in a position to formulate and implement policies, such as justice and law ministries in the case of legal framework issues.

Mr. Duflos of CGAP noted the importance of financial inclusion to expand access to 77 percent of poor people in the world and 55 percent of these in the Asia-Pacific who remain unbanked. He emphasized the important role of innovation and the private sector in meeting this objective and the need for regulators to enter into dialogue with the private sector to deepen their understanding of the issues and capitalize on this to improve regulatory frameworks. Innovative financial services involve a larger number of market players and regulators who should also be included in these discussions.

He observed that within the region, there are significant varieties in the level of development of financial sectors and regulatory frameworks, and APEC provides an opportunity for policy

makers and regulators to learn from each other's experiences. He cited the example of the Philippines as an economy that can share the experience of successful regulatory initiatives in encouraging innovation by the private sector.

The Advisory Group endorsed the agenda of the 2013 Asia-Pacific Financial Inclusion Forum.

Credit Rating Agencies

Mr. Sakuma of IIMA made a presentation on promoting strong credit rating agencies in the region. He summarized the outcomes of research done by IIMA in collaboration with two other institutions on region-wide rating systems in Asia, with a view to making recommendations on the role of credit rating systems in promoting cross border bond investments in Asia.

The proposals from the study undertaken by IIMA include the following:

- To help DCRA's across the region develop rating methodologies and criteria that will make their ratings more comparable, it is proposed that a project be undertaken to develop a guidebook on common basic rating methodologies and basic rating criteria that a large number of Asian DCRA's can voluntarily adopt.
- It is also proposed to convene a forum for regulators to look at best practices and develop a set of minimum standards in the region for the accreditation of CRA's, which can be adopted by member economies on a voluntary basis.
- Comparability of credit ratings across markets will be promoted by undertaking measures such as the convergence of financial reporting standards and disclosure rules across the region, in conjunction with the promotion of a high level of transparency and information flows from governments and firms, as well as relevant legal and regulatory regimes and legal frameworks for investor protection.
- Create a common credit information website where every market participant, either regional or international, will be able to access reliable and updated credit information of leading issuers of the region in order to visualize a regional credit universe and promote cross-border transactions within the region.

The Advisory Group agreed to consider the outcomes of the research for possible recommendations in the 2013 Report.

Angel and Venture Capital

Mr. Paul Lee of ABAC Canada delivered a presentation on "Canada's Venture Capital Action Plan: Creating a Sustainable Private Sector Venture Capital Industry in Canada," with the purpose of developing recommendations for an APEC oriented Fund of Funds to be established within APEC to act as a catalyst in the development of a sustainable venture capital ecosystem. He made the following points in his presentation:

- In 2012, ABAC recommended that APEC collaborate with ABAC and the Advisory Group on APEC Financial System Capacity Building under the APEC Open Innovation Initiative to develop public-private partnership mechanisms that can help governments catalyze angel and venture capital through effective support programs, provide enabling environments for financing business activities across various stages of innovation, and ensure the fundamental conditions for entrepreneurship and innovation, particularly at the incubation stage.

- In 2013, ABAC Canada proposes that ABAC focus its efforts on exploring and developing a proposal for specific public-private partnership mechanisms to can help governments seed and nurture a meaningful and sustainable venture capital industry. Specifically, ABAC Canada proposes the development of recommendations for an APEC oriented Fund of Funds to be established within APEC to act as a catalyst in the development of a sustainable venture capital ecosystem.
- The experience in the United States, Israel and Canada suggest that government intervention is necessary to encourage the growth of a sustainable venture capital ecosystem. As a starting point for discussion, ABAC Canada refers to the example of Canada's Venture Capital Action Plan which represents direct investments by the Canadian government, banks and institutional investments. After a year of studying alternatives, the Canadian government has put up some money and leveraged it with banks and institutional funds to allow venture funds to be seeded and funded. The Action Plan includes: (a) \$250 million support two new large-scale, private sector led national funds of funds; (b)\$100 million to top-up existing provincial fund of funds; (c) \$50 million to top-up VC funds that have recently raised money or to help VC funds that are near their fund raising targets; (d) Additional activities to support the entrepreneurial ecosystem.
- Through this intervention the Government of Canada will: (a) Act as a catalyst in the development of a sustainable venture capital ecosystem led by private sector investments that includes: participation by domestic and international institutional investors, and, large-scale venture capital funds managed by the private sector; (b) Increase the number of successful Canadian companies by encouraging private sector investments in early-stage risk capital and helping to ensure high-potential innovative firms have access to financing; and,(c) Contribute to the development of a deeper pool of experienced fund managers in Canada, including by attracting foreign expertise and capital to Canada's venture capital market.

Mr. Lee proposed to further explore this issue and develop recommendations for an APEC oriented Fund of Funds to be established within APEC to act as a catalyst in the development of a sustainable venture capital ecosystem. Recommendations to be considered include: (a) government funding, along with multilateral development banks; (b) incentives developed to encourage private enterprise, institutions, and banks to participate, including tax incentives, first in-last out by government for downside protection, and potential buyout of government at pre-established rates of return to leverage upside.

Mr. Nazrin of Cradle Funds shared information on Malaysia's efforts and initiatives to increase the growth of Malaysian angel investors to complement the government's initiatives to assist early stage financing in new ventures. The presentation showcased Cradle Fund Sdn Bhd's 10 years journey from a humble beginnings of funding innovative ideas to it becoming an ecosystem builder and full-fledged funding agency. Items covered included Cradle's funding products, the value-added services, success stories, angel investment and policy making.

The major points of his presentation include the following:

- Access to finance is critical for sustainable economic growth and social development. SMMEs are able to seize entrepreneurial opportunities when financial products and services, designed according to their needs, are available to them.
- Angel investors who provide capital to start-ups with the potential for fast growth are an increasingly important source of capital to early stage companies. The successful growth of a seed/angel capital industry requires the existence of a dynamic entrepreneurship ecosystem and a continuous financing chain to avoid the emergence of an equity gap. When compared

to developed markets, ecosystems for dynamic entrepreneurship in the region are still underdeveloped and need further promotion.

- Governments and private sector should develop ideas to catalyze angel and venture capital through effective support programs which in turn would help accelerate the growth of SMMEs. The experience of Cradle Fund provides a good case that can help governments develop these ideas.

The Advisory Group agreed to the proposal of ABAC Canada to develop further a recommendation on this matter to be submitted and discussed at the next meeting.

Other matters

The Chair informed the Advisory Group that the Coordinator will be available to attend the upcoming Senior Finance Officials' Meeting in Manado on May 22-23 and to ask the Advisory Group to endorse his attendance to update finance officials on our various initiatives on behalf of the Advisory Group and of ABAC.

The Advisory Group endorsed the Coordinator's attendance of the SFOM on its behalf.

Chair's Closing Remarks

The Chair delivered his closing remarks and thanked ABAC Singapore for hosting the meeting. He announced that the next meeting will take place in Kyoto during the ABAC meeting in July, 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 1:15pm.