

# THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

Document: AGFSCB 34-002  
Draft: **SECOND**  
Source: AGFSCB Chair  
Date: 4 February 2014  
Meeting: Auckland, New Zealand

**First Meeting 2014**  
11 February 2014  
1:00 PM – 3:00 PM  
Great Room III & IV, The Langham Hotel  
Auckland, New Zealand

## Meeting Paper 3-A Report of the Meeting of the Advisory Group of 3 October 2013, Bali, Indonesia

Office of the Advisory Group Chair

<i>PURPOSE</i>	For consideration.
<i>ISSUE</i>	N.A.
<i>BACKGROUND</i>	N.A.
<i>PROPOSAL</i>	N.A.
<i>DECISION POINT</i>	Endorse the meeting report

# THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

## **Fourth Meeting 2013**

3 October 2013

10:55 AM – 12:10 PM

Salon 2 & 3 (Lobby Level), Ayana Resort and Spa  
Bali, Indonesia

## **MEETING REPORT**

*Draft as of 21 January 2014*

### **Welcome and Introduction**

The meeting started at 10:55 am. Participants included ABAC members and staffers and representatives from the ADB Institute (ADBI), International Finance Corporation (IFC), Foundation for Development Cooperation (FDC), Asia Securities Industry and Financial Markets Association (ASIFMA), Deutsche Bank, GE Capital, the International Valuation Standards Council (IVSC), Moodys, Nippon Life, Society for Worldwide Interbank Financial Telecommunication (SWIFT) and the International Swaps and Derivatives Association, Inc (ISDA).

The Advisory Group Chair, Mr. Mark Johnson, presided over the meeting. Mr. Gatot Suwondo of ABAC Indonesia delivered welcome remarks on behalf of the hosts, noting the importance of the work of the Advisory Group, especially on APFF, APIP and financial inclusion, for APEC as well as for Indonesia.

In his opening remarks, the Advisory Group Chair gave an overview of the agenda items for discussion. He acknowledged the presence of Dr. Masahiro Kawai of ADBI, Ms. Kathrin Hamm and Mr. Houn Thy of IFC, Mr. Shawn Hunter of FDC, Mr. Mark Austen and Ms. Rebecca Turner of ASIFMA, Mr. Boon-Hiong Chan of Deutsche Bank, Mr. Thomas Clark of GE Capital, Mr. Nicholas Brooke of IVSC, Mr. Min Ye and Ms. Christina Ellerker of Moodys, Mr. Makoto Okubo of Nippon Life, Ms. Beth Smits of SWIFT, Ms. Cindy Leiw of ISDA and Mr. Nicholas de Boursac.

### **Review of the Third 2013 Advisory Group Meeting in Kyoto**

The Advisory Group Coordinator, Dr. J.C. Parreñas, presented the draft Report of the Advisory Group Meeting of 10 July 2013 held in Kyoto, Japan.

*The Advisory Group approved the Meeting Report.*

## **Review of 2013 Advisory Group Activities and Initiatives**

Reference was made to the paper circulated by the Office of the Advisory Group Chair, which summarized the activities and achievements of the Advisory Group in 2013. Among the achievements, the Coordinator highlighted the launch of the APFF, the launch of the Asia Region Funds Passport, which the Advisory Group has been recommending since 2010, and the creation of a multi-year infrastructure initiative where APIP will play a major role, particularly in the PPP Experts Advisory Panel and Pilot PPP Center under the Finance Ministers Process.

He also pointed to particular portions of the Finance Ministers' Joint Statement, which highlighted the need for enabling environments for innovations in financial services (the focus of the Advisory Group's work on financial inclusion in 2013), likewise acknowledged the work of ABAC on issues being advanced by the Advisory Group, welcomed the continuation of APIP dialogues and endorsed the holding of another financial inclusion forum in 2014.

Contributing to these achievements were several undertakings, including the APIP dialogues with the governments of the Philippines and Thailand, the APFF symposium in Sydney, the Financial Inclusion Forum in Batam, the training program of the Australian APEC Study Center, the Kyoto workshop on legal architecture and active participation of ABAC and Advisory Group partners in 5 APEC workshops - two financial inclusion workshops, two on infrastructure and one on trade finance. These undertakings included significant amount of work on a model secured lending code, a model agreement for informal workouts, angel and venture capital and credit ratings.

The Coordinator noted in summary that 2013 has been another very successful year for the Advisory Group.

*The Advisory Group noted the report on the successful outcomes of its work in 2013.*

## **Outlook for Ongoing Initiatives: Asia-Pacific Financial Forum (APFF)**

The Coordinator updated participants on the APFF, including the outcomes of the APFF Caucus Meeting. Key points are as follows:

- APFF participants identified a number of priority issues, which are now being dealt with in the context of several work streams.
  - The first work stream deals with insurance and retirement income. The focus is on ensuring that insurers and pension funds play their proper role of providing long-term funding and stability. It aims to help identify regulatory and other issues that constrain insurers and pension funds from playing this role.
  - The second work stream is focused on trade finance. It touches on both international and domestic trade finance across the whole value chain of enterprises in the region, particularly SMEs. The work on international trade finance will revolve around regulatory requirements in the context of a region forging new trade agreements with extensive use of diverse currencies and foreign exchange and treasury management. This is designed develop future standards and consistently implement these standards across jurisdictions. The work on domestic trade finance will revolve around the infrastructure facilitating the use of accounts receivable and inventory flowing within domestic value chains and promoting their linkages to global value chains. Possible

- issues being considered include promoting the collateral management industry and electronic platforms linking suppliers, SMEs, buyers and service providers.
- The third work stream deals with lending infrastructure. This aims to help address key obstacles to the wider use of movable assets and consumer credit information. Work will focus on two deliverables. The first is catalyzing the development of credit reporting systems to enable individuals and small business owners to use their reputational collateral to obtain access to loans. The second is promoting reforms in secured transaction systems. This involves helping policy makers identify issues governing secured lending and improve systems (e.g., security interest registration systems, standards around eligible collateral, assignability of claims, enforcement of security rights, among others).
  - The fourth work stream deals with financial market infrastructure. It aims to help address obstacles to cross-border investment flows. It plans to organize its work around two major issues: cross-border investment market practices, access and repatriation; and technical substructure mapping of financial market infrastructure of a group of interested economies. These two sub-streams will also aim to identify potential systemic risks arising from greater regional financial market integration and develop recommendations on risk mitigation mechanisms and crisis management and coordination tools.
  - The fifth work stream seeks to complement ongoing initiatives aimed at promoting capital market development. Its work will focus on classic repo markets, which are critical to the liquidity and development of the region's capital markets. It will focus on helping identify and address issues affecting the development of OTC derivatives markets, including legal infrastructure, regulations and the emergence of multiple central counterparties for clearing OTC derivatives contracts with varying requirements. It will also focus on promoting greater transparency in markets. Also being considered is work on promoting mutual recognition of regulatory regimes among jurisdictions in the region.
  - A group dealing with linkages and structural issues will conduct regular strategic-level discussions to deepen understanding among public sector institutions, business, standard setting bodies, multilateral organizations, academia and other relevant stakeholders of significant policy and regulatory issues and their impact on financial markets.
- Regarding structure and process, the Coordinator emphasized the following:
    - The APFF is a policy initiative under the FMP. ABAC, through the Advisory Group, will manage this process.
    - Participation is open to government officials and experts from the private sector, IFIs, standard setting bodies, and relevant institutions.
    - On logistics and funding, similar to current FMP initiatives, interested economies, institutions and ABAC delegations are welcome to host activities. Sponsorships will be solicited. Participants will be responsible for financial arrangements to cover their own travel and accommodations.
    - The Advisory Group will be the focal point of coordination and reporting among the work streams. Sherpas responsible for each work stream would be responsible for coordinating with the Advisory Group and coordinating with other work streams where necessary. The regular ABAC meetings will be the venue where all the work streams come together and discuss how to proceed in a coordinated way. The Advisory Group will be responsible for reporting progress to and getting feedback from finance ministries.

Mr. Okubo of Nippon Life offered additional updates on the work of the insurance and retirement income work stream. He reported on the first meeting that took place in Hong Kong, where participants discussed the need to develop long-term capital markets in the region and the need to identify potential criteria for insurance companies to consider such investments. They identified specific regulatory requirements which may have potential negative impact on the insurers' ability to play such roles. They also prepared a comment letter to be sent to IASB and FASB regarding recent proposals on insurance contracts from a perspective of supporting long-term investments and funding in retirement income that was submitted for consideration by the ABAC Finance and Economics Working Group.

He reported that participants agreed to recruit more people including regulators and consultants to facilitate the work and achieve wider representation across the region. Also highlighted was the need to coordinate with other work streams, such as the capital market and financial market infrastructure work streams.

Mr. Chan of Deutsche Bank provided additional information on the work of the trade finance work stream. He focused his comments on the work stream's ongoing review of the implications of Basel III on trade finance and treasury management practices in Asia. He highlighted the following:

- Basel III is complex and can directly impact trade finance and related liquidity/treasury management in Asia Pacific. Coming at a time when the region is forging new trade agreements, its requirements can create a need for additional awareness of its potential impacts on participants, who are connected in regional trade flows, to mitigate risks of unforeseen effects.
- Possible areas to consider are Basel III's capital, liquidity and leverage requirements, the Asset Value Correlation (AVC) charge and strategic effects on mid- to long-term trade finance. He also noted the workstream's discussion on enabling balance sheet flexibility for trade finance and the need to build a deeper and more liquid secondary market for trade finance assets through a more diversified pool of participants, the use of standardized documents, processes and improved transparency.
- Hence, private-public sector discussions that bring local-global knowledge to raise awareness and clarity of Basel III's possible effects on trade finance and treasury management can be important to facilitate future trade activities.
- Private-public sector discussions could include exchanges of views among local and regional corporates and banks, and dialogues on the European implementation of Basel III (which provides for a different treatment of some trade finance products under the leverage ratio calculation)

Ms. Smits of SWIFT provided the following additional information on the work plan of the financial markets infrastructure work stream:

- The work stream intends to solicit industry input on the benefits, systemic risks and other related issues of the impact of closer regional financial market integration. The APFF work plan can help drive a thorough analysis of what Asian financial markets need to do in order to attract more cross-border investment and develop a complement of financial services that support trade. It can also establish blueprints that both the private and public sectors can contribute to and follow to achieve specific and congruent goals.
- To provide meaningful, actionable deliverables for such a work plan, work will focus primarily on the cross-border space, with the specific aim of identifying the means by which the scope, volume and integrity of cross-border investment and banking services can be enhanced. A select group of economies will be the subject of analysis.

- Two subgroups will prepare the analyses and recommendations: one on cross-border investment market practices, access and repatriation and another on technical substructure. The latter aims to provide a benchmark or reference model for technical substructure requirements for market participants and financial market infrastructure in the Asia Pacific region. It will look specifically at central securities depositories and real time gross settlement systems. The elements to be considered will include, but will not be limited to, communications networks, messaging, technical standards, database languages and applications.
- Both streams will seek to identify potential risks that arise as a result of a more integrated regional market, such as those associated to interdependency, and would facilitate discussions on risk controls, risk mitigation mechanisms, and related crisis management and coordination tools.

Mr. Austen of ASIFMA elaborated on the work plan of the capital markets work stream related to repo markets. He presented the following considerations:

- A critical element to development of the capital markets for emerging economies in the APEC region is a sound bond repo market. A well-functioning classic repo market supports the primary markets, improves secondary market liquidity, allows for hedging mechanisms including promoting multiple trading strategies and provides a prerequisite for the development of bond futures and OTC derivatives markets. Repos also allow primary dealers to hedge risk with a wider array of hedging strategies. Importantly, because repos are secured transactions, they broaden funding markets and serve as a fundamental link between money markets, bond markets, futures markets and OTC derivatives markets.
- A “classic” repo market refers to a system within which margining of exposures is standard practice and the bond title is actually transferred as part of the agreement. This allows market participants to use the bonds they hold for additional purposes, such as further repos, covering short positions, securities lending or collateral. A pledge repo system does not allow these activities as the title is not actually transferred. The pledge repo system is most common repo system in Asian markets.
- Repo transaction volumes in Asia have steadily grown, but still remained of relatively short duration, with as much as 85 percent being pledged as a security and involving no title transfer, meaning they did not function as true repos. More importantly, many repo markets still suffer from unstable repo rates. This is largely the result of the preference for using quantitative monetary instruments over ‘price’ instruments, which makes it very difficult for market participants to price risk accurately and trade interest-rate swaps based solely on short-term repo fixings.
- The work stream intends to attract a diverse group of stakeholders from industry, academia, lawyers, think tanks, institutional and foreign investors and policy-makers. It plans to develop a high level roadmap and gap analysis of the existing market environment against international best practices for repo market functionality (infrastructure, collateral management, confidentiality, short selling environment, fail policies, price discovery, standardized documentation, building on the Global Master Repurchase Agreement or GMRA), accounting and tax policies and investor protection – including close-out netting and prohibitions on cherry-picking of assets.
- The work stream proposes to select potential economies to pilot a classic repo roadmap, help launch pilot classic repo programs in select APEC economies based on the roadmap, and review market functionality, liquidity and identify any remaining barriers.

Mr. Clark of GE Capital outlined the work plan of the lending infrastructure work stream, which has two components: the institutional infrastructure for secured lending and credit reporting systems, which are both of major importance to SMEs. With respect to secured lending, he noted the following:

- Providing attractive environments for lenders and investors requires well-defined legal systems with effective enforcement mechanisms. Such systems provide a highly predictable environment that reduces non-commercial risks faced by lenders and investors and leads to lower financing costs. An important area where reforms can have a major impact on finance is commercial law, which sets the rules governing various stages of the relationship between lenders and investors, on one hand, and borrowers, on the other.
- This effort will build on work undertaken by the Advisory Group over the past two years to lay out a program for capacity building in the area of improving the predictability of legal regimes for secured lending. Drawing on the research presented at Advisory Group discussions, the APFF symposium in Sydney, and the legal workshop on promoting finance in Kyoto, the work stream will develop concrete and practical and actionable recommendations that can be adopted directly by member economies.
- The work stream will proceed with a two-phase approach to be implemented over the next two years to speed the development of this critical element of financial infrastructure.
  - Phase One will consist of an expert consultation process to produce a gap analysis for member economies. Legal and market experts will identify where given markets have opportunities to improve and harmonize legal infrastructure for secured lending in a way that will increase both predictability and ease of use of such systems (e.g. improving lien registration systems, harmonized standards around eligible collateral, assignability of claims, etc.). Priorities will be recommended based on opportunities for improved access to credit from identified improvements and ease of improvement measures. Significantly, key regulatory stakeholders will be identified, including law and justice ministries and civil code reform bodies, among others, which have not historically been integrated with APEC processes but which are key to implementing reforms within the scope of the initiatives.
  - Phase Two will define a clear list of recommended measures designed for ease of implementation by member economies to assist them both in improving credit availability and market mechanisms for developing a mature secured lending financial framework, as well as to promote harmonization among the APEC region, improving the environment for single market initiatives and regional integration through ease of doing business.

With respect to credit reporting systems, Mr. Clark highlighted the following considerations:

- Credit bureaus play an important role in efficiently allocating credit for consumers and MSMEs. Effective credit information sharing systems can help promote economic growth, safety and soundness and financial access. Fostering them will require effective, stable and legitimate regulatory frameworks; consensus around the practice of data sharing, including guidelines for private sector actors who will provide and use the data; and capacity development of credit reference bureaus.
- Across the Asia-Pacific region, the stage and pace of credit bureau development varies considerably. Different economies also find themselves slowing or stagnant in terms of credit bureau development along some or many dimensions.
- The work stream aims to catalyze credit bureau development by targeting economies that are clustered in terms of the gaps and hurdles they face. In order to successfully operate an

efficient credit information sharing system, the development of credit bureaus within an economy must address a number of issues that fall under two sets: the shared formal and informal frameworks and stakeholder capacity.

- The first includes public awareness and consumer financial education efforts and the regulatory framework around sharing of data, credentialing requirements, the type of data that can be collected and reported on; the permissible purposes for which data can be accessed; ownership of data including how long it may be maintained; use of data by credit bureaus; rights of consumers/data subjects in terms of access, dispute and correction; the relationship between public credit registries and private efforts and the ownership structure of private bureaus
- The second includes regulator capacity (monitoring bureaus, licensing bureaus, monitoring users of credit reports and enforcement abilities and tools); bureau capacity (commercial and capital requirements and technical capacity, including skills) and demand side capacity (lender understanding, engagement with credit reports as inputs into lending and value added products).
- One limitation hampering a faster and more efficient development of credit bureaus is that, while stakeholders and international agencies all stress that there is no one size fits all approach to building a bureau, outreach and capacity building efforts have insufficiently tailored their engagements to address peculiarities. Towards this end, the work stream intends to proceed with a two-phase approach to speed the development of this critical element of financial infrastructure.
  - Phase One will consist of a knowledge gathering exercise designed to conduct a gap analysis for member economies. Using a set of surveys and interviews, the work stream will seek to identify where each economy is in terms of development along the dimensions listed above. This exercise will serve to identify shared gaps and unmet needs and group economies by identified priorities with respect to credit bureau development.
  - Phase Two will define a clear list of deliverables with timeframe and benchmarks to gauge progress in overcoming the gaps. This phase will involve the identification of specific steps to overcome those gaps and assisting economies in overcoming their points of blockage.

Mr. Waller of AASC outlined the topics that will be the focus of the APFF's work on linkages and structure issues:

- What are the likely impacts of contemporary (global and regional) macroeconomic developments on financial market connectivity in the Asia-Pacific?
- Should recent fund outflows from emerging markets be characterized as short term market volatility or the start of a longer-term rebalancing process away from emerging market risk exposures as yields rise in advanced economies? If it is the latter, what impacts will that have on regional financial market development and connectivity?
- What financial market reforms are needed to encourage more intra-regional cross-border capital flows to finance both direct and portfolio investments?
- What are the spillover/contagion risks associated with encouraging more intra-regional financial market connectivity and how can those risks be mitigated and managed?
- What is the appropriate level of regulatory harmonization and financial market connectivity that can be achieved, given regional institutional frameworks and political economy considerations?
- How can the unintended consequences of international regulatory standards be limited and those standards calibrated to meet regional economic development/growth needs?



- Given that regional economies have both large formal and informal financial sectors, are there important but complex linkages between those formal and informal financial sectors? How can those linkages be better understood by regional policymakers, regulators and supervisors? What implications do those linkages have on policy and regulatory issues relating to financial market development and growth, systemic risk and even cross-border contagion/spillover risks?

Mr. Waller noted that members of the work stream had indicated the work they would contribute on the various topics noted above, including contributions by Dr. Kawai of ADBI, Professor Kevin Davis of Melbourne University, Professor Kim Dietrich of the University of Southern California Marshall School of Business, Associate Professor, J.P. Fenech of Monash University, Dean Andrew Sheng of the Fung Global Institute and Mr. Yoshihiro Watanabe of the International Institute of Monetary Affairs. Other specialists have been approached and discussions with them were ongoing. Schedules for the various stages of work had been agreed and Mr. Waller noted the importance of making available papers to other work streams to ensure effective coordination of effort.

Dr. Kawai of ADBI congratulated the Advisory Group for its successful effort in advancing the APFF with the endorsement of the APEC Finance Ministers. He pointed to common goals shared by APFF and ADBI, which supports economic development in Asia, poverty reduction, regional economic integration, connectivity, public-private partnership, regulatory harmonization and structural reforms in the region. He reiterated that ADBI is pleased to collaborate with other institutions in the APFF.

Dr. Kawai emphasized the importance of mobilizing the huge pool of long-term savings in Asia in order to meet the region's needs, especially with respect to infrastructure, and pointed to the significant contribution this would make to global economic rebalancing. He mentioned that ADBI is supporting the development of local currency bond markets in Asia, and sees the expansion of institutional investor activity in these markets as benefiting from greater coordination between the public and private sectors that APFF is seeking to promote.

In the ensuing discussions, participants stressed the importance of coordination among the various APFF work streams, including through such means as the wider circulation of updates on these work streams' activities, for the success of the whole undertaking. They also identified specific issues that could be incorporated in the discussions of various work streams, including health care for the insurance and retirement income work stream and investment activities of insurance firms for the capital markets work stream.

*The Advisory Group agreed to move forward based on the proposed plans presented by the various work streams.*

### **Outlook for Ongoing Initiatives: Asia-Pacific Infrastructure Partnership (APIP)**

The Coordinator updated participants on the progress of APIP. He reported that the APIP was very much involved in advising finance officials, especially the Indonesian Ministry of Finance, through the ministerial and vice ministerial level dialogues with Indonesia, the Philippines and Thailand, as well as through active participation in the two APEC workshops hosted by Indonesia in Makassar and Palembang.

He briefed the participants on the draft annex to the 2013 APEC Economic Leaders' Declaration that has been jointly prepared by the Chairs of the Senior Finance Officials' Meeting

and the Senior Officials' Meeting and is expected to be finalized at the Economic Leaders' Meeting. He reported that the draft annex on a Multi-Year Plan for Infrastructure Development and Investment (MYPIDI) is based on the outcomes of the work undertaken by APEC in 2013, including a Dialogue on Infrastructure Development and Investment, a Symposium on Connectivity, an FMP Workshop on Project Readiness to Increase Infrastructure Investment, and an FMP Workshop on Infrastructure Financing, as well as work undertaken by regional and global fora such as the ASEAN and the G-20.

The Coordinator gave a summary of the draft. The Multi-Year Plan identifies four workstreams that will help guide future APEC work in infrastructure development and investment. In the process, the Multi-Year Plan would create common regional understanding and in turn help stakeholders in making decisions when carrying forward infrastructure projects. The work streams are as follows: (a) a supportive climate, including a strong regulatory framework; (b) integrated planning system mechanisms; (c) development of government capacity to generate a pipeline of bankable infrastructure projects; and (d) development of a financing environment that is supportive to long term investors.

The work will take advantage of regional expertise, experience and funding sources, including from multilateral and regional development banks and the private sector, and will also draw from the work of the APIP. The third work stream on bankable infrastructure projects will focus on the APEC PPP Experts Advisory Panel and Pilot PPP Center. The Coordinator also briefed the Advisory Group on this. He reported that during their meeting in Bali, the Finance Ministers committed to establish this Panel and welcomed the opportunity to support, on a voluntary basis, a pilot PPP centre to assist the Indonesian Ministry of Finance in its ongoing efforts to develop the resources, skills, and capacity of their PPP Centre.

The Panel will be a repository of skills that will bring to life good practices in the APEC region, and help channel technical assistance to developing economies seeking such assistance. Its initial role will be to provide guidance and support to a pilot PPP centre, including through mentoring key staff and providing strategic advice. It will be convened and held in the margins of FMP stream meetings, workshops, APIP meetings or other relevant forums. It will coordinate with ABAC and APIP in soliciting broad private sector policy advice, including through the APIP dialogues with individual governments.

The Panel could comprise, on a voluntary basis, selected experts from APEC economies with developed PPP processes and institutions. Indicative foundation members might include: the current and next chairs of APEC and representatives from across APEC regions; a representative from the ABAC and APIP; and representatives from the World Bank, the ADB and the OECD.

A PPP Centre will be created as a pilot project within Indonesia's Ministry of Finance to identify a pipeline of bankable PPP projects within that economy and overcome problems with domestic coordination on a project by project basis. Its key roles will be to: (a) provide technical expertise to the economy for any stage of the project cycle, covering technical, economic and financial questions; (b) ensure coordination by developing and reviewing project structures, removing bottlenecks, filling gaps and identifying problems in the delivery of particular infrastructure projects; and (c) assist to raise the capacity of relevant entities in the economy to develop PPPs. The pilot PPP Centre will establish more regular links and consultation with private sector specialists from organizations such as ABAC and APIP, and relevant domestic organizations.

*The Advisory Group noted the report and agreed to pursue continued APIP dialogues and involvement of the APIP in the MYPIDI, the APEC PPP Experts Panel and the pilot PPP Center in 2014.*

## **Internationally Recognized and Accepted Valuation Standards**

Mr. Brooke of IVSC referred to the previous discussions on this matter at the meeting of the Advisory Group in Singapore and summarized the key points discussed at that meeting. He highlighted the main purposes of undertaking the work involving IVSC and the adoption of its standards, which are that:

- IV Standards are global, developed by an independent board of valuation standard setters from all over the world;
- IV Standards are technically well founded and subject to transparent and rigorous due process;
- the work of the IVSC standard setting boards are subject to independent oversight and governance;
- the work of the IVSC and the IV Standards have already gained a large measure of professional and regulatory acceptance in the region;
- the IVSC and the IV Standards have gained formal recognition, as evidenced by memoranda of understanding with other standard setters such as the IASB and with IFAC; and
- IV Standards are already widely recognised and applied in the Asia Pacific region.

He noted that the Advisory Group has included the topic of valuation in its ongoing Work Plan, recognizing its importance in financial markets as the basis for investment decisions, measuring performance and disclosure in financial reporting. He proposed that the contribution of valuation to the development and stability of financial systems can be increased by addressing important challenges –a fragmented professional and regulatory landscape, the multiplicity of bodies producing regulations related to valuation and the lack of professional infrastructure and common benchmark for the profession. He suggested that the Advisory Group could examine how the public and private sectors can collaborate in APEC to support the development of high quality valuation, ethical, educational and related quality assurance and disciplinary standards based on global benchmarks.

Mr. Brooke acknowledged the existence of several challenges:

- Although there is plenty of national legislation and regulation around valuation, it tends to be specific to a particular activity and asset type. Thus within a single economy different government departments and agencies have developed fragments of valuation regulation independently with little or no coordination. Addressing this is likely to be very difficult unless there is overarching policy at government level to adopt international valuation standards.
- Historically the organization of the valuation profession has also been fragmented by asset type, geography or both. Many professional institutes have historically set their own standards for their members and are reluctant to pass this responsibility to an international organization.
- There is a lack of capacity in valuation profession within both emerging and developed economies. Although there are a number of strong property valuation bodies in the region, there are fewer bodies dealing with business and intangible asset valuation and an absence of a financial instrument valuation profession. There needs to be a coordinated approach to

building a robust valuation profession. Twinning arrangements and capacity-building projects together may provide a way to strengthen the profession.

To begin the process, he proposed to identify interested parties from among a variety of institutions, agencies, the valuation profession, together with relevant multilateral and standard setting bodies and others and invite them to join a task force, the responsibility of which would be to develop recommendations during 2014. These recommendations could then be considered at a half day workshop to be held on the sidelines of the first or second ABAC meeting and the proposals finalized for endorsement by the Advisory Group and ABAC. In parallel the IVSC could run a symposium to provide a platform for Asia-based stakeholders who may not be party to the ABAC/APEC discussions to share ideas, to foster collaboration, and to identify from their perspective some of the challenges to be anticipated in developing a strong valuation profession in the region based on international standards and these inputs could also be fed into the work of the Task Force.

He also proposed that, to send a strong signal to the rest of the world of APEC's recognition of the importance of valuation and its commitment to adopt international standards to the international community, APEC economies, through their membership of other international bodies such as G20 and FSB, could let it be known that they are supportive of an initiative of this nature in reinforcing financial capacity building in the region.

*The Advisory Group agreed to include the subject of internationally recognized and accepted valuation standards in its 2014 work program.*

## **Outlook for Ongoing Initiatives: Financial Inclusion**

Mr. Hunter of FDC referred to the report of the outcomes of the 2013 Asia-Pacific Financial Inclusion Forum held in Batam Island, which was presented at the previous Advisory Group meeting in Kyoto. He reported that the final version is being finalized and will be made available both in digital and print versions.

Mr. Hunter updated the Advisory Group on the preparations for the 2014 Forum, which will be held in China at the later part of March. He mentioned that unlike the previous Forums, this one will focus on economies rather than themes. Finally, he also proposed to discuss at the next meeting in New Zealand a range of activities related to financial inclusion to complement the Advisory Group's ongoing work on the annual Forum.

Dr. Kawai observed that the Forum is an excellent platform for discussions among regulators and the private sector, in which ADBI is pleased to collaborate with ABAC through the Advisory Group. He noted particularly the importance of the topics discussed in Batam, including proper regulation to enable mobile phone banking, addressing risks, consumer protection and financial literacy. He underscored the importance of coordination among relevant agencies and regulatory bodies and the Forum's contribution to facilitating greater private sector input into this process.

*The Advisory Group noted the report and comment and looked forward to further updates on preparations for the 2014 Forum and a discussion on further developing the Advisory Group's work on financial inclusion at the next meeting in New Zealand.*

## **Outlook for Ongoing Initiatives: Angel and Venture Capital**

Mr. Paul Lee of ABAC Canada referred to the discussions on angel and venture capital at the previous meeting in Bali, and proposed that the Advisory Group take this matter further forward in 2014. He noted that the work being undertaken by the Advisory Group on such issues as APFF and financial inclusion and the collaboration with IFC in various areas is already accelerating improvements in the ecosystem for angel and venture capital, and that the time is ripe for moving to achieve tangible results. He invited further advice from other participants.

*The Advisory Group noted the presentation and agreed to pursue this issue as part of its 2014 work program.*

## **Chair's Closing Remarks**

The Chair delivered his closing remarks and expressed his thanks to all participants from collaborating institutions as well as ABAC members and staffers, particularly for their support that has enabled the successful outcome of efforts to launch the APFF and further advance the Advisory Group's work in other areas. He thanked ABAC Indonesia for their leadership in ABAC and for hosting the Advisory Group meeting.

## **Adjournment**

There being no other matters to discuss, the Chair declared the meeting adjourned at 12:10 pm.