



# THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

## **First Meeting 2016**

25 February 2015

3:15 PM – 5:15 PM

Telegraph Hill Room, 4<sup>th</sup> Floor, Intercontinental San Francisco Hotel  
San Francisco, California, USA

## **Meeting Paper 2-A**

# **Report of the Meeting of the Advisory Group of 13 November 2015, Makati City, Philippines**

Office of the Advisory Group Chair

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

# THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

## **Fourth Meeting 2015**

13 November 2015

10:15 AM – 12:15 PM

Ballroom 2, Fairmont Makati

Makati City, Philippines

## **MEETING REPORT**

*Draft as of 22 February 2016*

### **Welcome and Introduction**

The meeting started at 10:40 am. Participants included ABAC members and staffers and representatives from the International Monetary Fund (IMF), International Finance Corporation (IFC), Asia Securities Industry and Financial Markets Association (ASIFMA), Moodys, State Street, Johns Hopkins University, the Political and Economic Research Council (PERC)/Asia-Pacific Credit Coalition (APCC), GE Capital, Deutsche Bank, International Valuation Standards Council (IVSC), Foundation for Development Cooperation (FDC), Australian Centre for Financial Studies (ACFS), Citi, Barnert Global, Nippon Life Insurance, Tokio Marine and JP Morgan Chase.

The Advisory Group Chair, Mr. Hiroyuki Suzuki, presided over the meeting. In his opening remarks, he thanked ABAC Philippine members and staffers for hosting the meeting and the Advisory Group partner institutions for coming. He outlined the agenda for the meeting, which consisted of a review of the outcomes of activities in 2015; a discussion of next year's work on financial inclusion, valuation practices and infrastructure; a summary of the outcomes of the APFF Caucus Meeting; and the prospects for future work on digital finance and FinTech, which several participants and ABAC members suggested to include in the work program.

### **Review of the Third 2015 Advisory Group Meeting in Melbourne**

The Advisory Group Coordinator, Dr. J.C. Parreñas, presented the draft Report of the Advisory Group Meeting of 11 August 2015 held in Melbourne, Australia.

*The Advisory Group approved the Meeting Report.*

### **Review of 2015 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 2015. The Coordinator highlighted the following activities:

- January, Tokyo – Publication of APFF White Paper on ARFP in ClearPath Analysis
- Jan 27, Hong Kong – APFF Roundtable on Financial Regulations
- Mar 3-4, Tagaytay – Asia-Pacific Forum on Financial Inclusion
- Mar 4, Tagaytay – APIP Dialogue with the Philippine Government
- March, Manila – APFF Presentation on self-assessment templates for information on capital markets to Philippine SEC
- Apr 9, Manila – Submitted APFF comments on draft ARFP rules and operational arrangements
- Apr 20, Mexico City – APFF Roundtable on Financing MSMEs
- Apr 29-30, Bacolod City – FMP Seminar on Microinsurance and Disaster Risk Financing

- May 15, Toronto – APFF Roundtable on Long-term Investment in Infrastructure
- May 19, Beijing – Conference on Warehousing and Collateral Management
- May 21, Kuala Lumpur - Workshop on Innovative Financing Mechanisms
- Jul 23-24, Iloilo City – FMP Seminar on Infrastructure and Capital Markets
- Jul 28, Singapore – APFF Conference on Trade and Supply Chain Finance
- Aug 10, Melbourne – APFF Conference on ARFP and Longevity Solutions and APFF Symposium
- Aug 12, Melbourne – Submitted letter to IASB on Conceptual Framework for Financial Reporting and impact on long-term investment
- Aug 13, Melbourne – Finalized ABAC, APFF and Advisory Group Reports to APEC Finance Ministers
- Sep 10-11, Cebu – Financial Sector Roundtable and Dialogue with APEC Finance Ministers
- Sep 22, Iloilo City – APEC SME Finance Forum
- Sep 23-24, Iloilo City – APFF Workshop on Lending Infrastructure Development
- Sep 25, Iloilo City – Dialogue with SME Ministers
- Oct 27, Brunei Darussalam – Workshop on Islamic Infrastructure Investment Platform
- Nov 12, Manila – Conference to Launch Financial Infrastructure Development Network
- Nov 16, Manila – APFF Workshop on Repo and Derivatives Markets

He noted that the Finance Ministers incorporated most of the issues proposed by the Advisory Group in their 10-year Cebu Action Plan and made reference to all of the proposals this year in their Joint Ministerial Statement.

The Coordinator noted in summary that the success of the Advisory Group in contributing to the Finance Ministers' work in 2015 has exceeded the achievements of previous years.

*The Advisory Group noted the report on the successful outcomes of its work in 2015.*

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

Mr. Shawn Hunter of FDC briefed participants on the preparations for the 2016 Financial Inclusion Forum:

- Forum partners: The organizers are ABAC, FDC and the ADB Institute, which will be hosting the event. The Forum is supported by Citi Foundation. Several institutions are collaborating, including the International Finance Corporation (IFC), the Consultative Group to Assist the Poor (CGAP), Japan International Cooperation Agency (JICA), the Policy and Economic Research Council (PERC), the World Savings Bank Institute (WSBI), Barnert Global, Ltd, Citi, GE Capital, the Australian APEC Study Centre, TRPC, GIZ and the Microinsurance Network.
- Key topics to be covered in the Forum include: (a) credit reporting/bureaus, (b) microinsurance, (c) remittances, (d) savings, (e) digital finance and consumer protection, (f) digital financial infrastructure for the digital economy, (g) financial education/literacy, and (h) insolvency.
- Other issues to be discussed include the possible adoption of a formal definition of financial inclusion and framework for financial inclusion strategies in individual economies.

Ms. Amy Auster of the Australian Centre for Financial Studies discussed a draft report being prepared for publication. This report looks back on the past five years of the Asia-Pacific Forum on Financial Inclusion, to evaluate the progress and impact of ABAC's financial inclusion initiative and its objective to influence policy and regulation within APEC member economies in support of greater financial inclusion. The review includes an assessment of the extent to which recommendations produced by the annual Forum have been adopted and implemented within APEC member economies.

The draft report includes the following recommendations:

- Continue to support the Asia-Pacific Forum on Financial Inclusion as the core platform within ABAC to promote knowledge sharing and best practice on financial inclusion across the APEC

member economies. Although there is substantial variation in the degree of financial inclusion across APEC and the forms that it takes, each member economy has identified issues to address and areas for improvement.

- Develop and adopt a standard definition for financial inclusion for APEC as an organization. At the same time, each APEC member economy would retain its own emphasis and approach, taking into account its own circumstances. Any definition should focus both on “pro-growth” initiatives primarily aimed at SMEs and “pro-poor” initiatives primarily aimed at access by the unbanked.
- Develop model code or framework for a domestic financial inclusion strategy to be considered by APEC member economies. This code may be modelled on those drafted by expert organizations, such as the Alliance for Financial Inclusion.
- Increase the focus on digital finance within ABAC’s financial inclusion initiative, including through the addition of identified experts on this emerging industry to the Caucus. Digital finance has emerged as a rapidly increasing channel for delivery of financial services by both traditional and alternative financial service providers. This area of work should focus on sharing experiences and building toward best practice, in addition to addressing cross-border issues such as development of model standards and frameworks.

In the ensuing discussions, participants highlighted the importance of including financial market infrastructure, insurance and cyber security in the work on digital finance.

*The Advisory Group endorsed the concept of the Asia-Pacific Forum on Financial Inclusion and the completion and publication of the report on the Financial Inclusion Initiative.*

#### **Outlook for Ongoing Initiatives: Improving Valuation Practices in APEC**

Mr. Nicholas Brooke, briefed participants regarding the ongoing work on valuation practices. This includes the following:

- Continuation of the stocktaking/audit exercise covering 21 APEC member economies and currently looking for in-economy confirmation and feedback. Similarly, the range of templates is now complete and the models range from frontier to mature economies, and again these will be the subject of in-economy discussions.
- At the economy level, there is solid support from China Ministry of Finance and from the China Appraisal Society (CAS), the relevant VPO; from Vietnam again there is ongoing dialogue with the Ministry of Finance and the Vietnam Valuation Association and, more latterly, following an IVSC Trustee meeting in Paris last week, very keen support from Mexico where the President himself is taking personal interest and sees standards as a way of attracting FDI.
- Engagement with the private sector, starting with the rating agencies and service providers that operate on a cross border basis. In this regard, initial discussions have been held with Moody’s and Duff & Phelps, which are attracted by the opportunity to extend their coverage and leverage via this initiative.
- Exploration of roundtables in China, Vietnam and Mexico in collaboration with ABAC.
- Identification of new members to be invited to join the core group for the initiative.

*The Advisory Group endorsed the way forward as proposed.*

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

The Coordinator reported that the Australian APEC Study Centre at RMIT University (AASC) has been functioning as the Secretariat of APIP supporting the Advisory Group Coordinator in directly managing APIP. In agreement with the Coordinator, AASC is now in a position to assume a more active role in managing the activities of APIP.

Mr. Ken Waller of AASC proposed the following:

- The Australian APEC Study Centre (AASC) at RMIT University, as the existing APIP Secretariat proposes to assume a more active role in the management of APIP.

- A research paper will be commissioned to better understand the institutional governance and operational frameworks that made the PPP Centre in the Philippines and the processes for infrastructure development in Mexico relatively successful, and to draw lessons from those experiences in on-going dialogues with economies.
- APIP should aim to convene at least 3 dialogues in 2016 and in 2017. In 2016, efforts should be made to convene dialogues with Peru, Viet Nam and a third economy which may request to host a dialogue.
- APIP needs to work more closely with the international organizations and the G20 Global Infrastructure Hub in pursuit of the Cebu Action Plan's objectives on infrastructure investment.

*The Advisory Group endorsed the way forward for APIP as proposed.*

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

The Coordinator summarized the key outcomes of the APFF Caucus meeting as follows:

- The structure of the APFF has been evolving in response to both external and internal developments. These include the establishment of the Financial Infrastructure Development Network (FIDN) under the Cebu Action Plan, which absorbed the two subgroups within the APFF Lending Infrastructure Work Stream (credit information and secured transactions) and added the accounts receivables financing work that is being undertaken under the Trade and Supply Chain Finance Work Stream. Various subgroups within the Insurance and Retirement Income Work Stream have also commenced work on retirement income, microinsurance and disaster risk financing, which necessitated the establishment of two parallel working groups within the Work Stream.
- APFF undertook 20 activities in 2015 as of this date. The Cebu Action Plan adopted all the recommendations developed by APFF and proposed by ABAC. This entails a commitment by the various APFF Work Streams to advance their work, as well as by the Finance Ministers to lend their support to the initiatives. The support by Ministers provides an opportunity that APFF could leverage to expand the list of collaborating institutions, including organizations that can provide funding support to APFF activities.
- The work on capital markets is progressing. On repo markets and derivatives, ADB is hosting a workshop in Manila for the Philippines on November 16. Discussions are also ongoing with Indonesia regarding a similar workshop in Jakarta. On information for capital market investors, a workshop has been completed for the Philippines in collaboration with the Securities and Exchange Commission and discussions are under way on the possibility of similar workshops in Indonesia, Thailand and Vietnam. On the Asia Region Funds Passport (ARFP), outreach activities are being planned to Hong Kong and Chinese Taipei, and the substream is discussing work on relevant tax implications across home and host jurisdictions, which some economies have identified as a major issue. The Financial Market Infrastructure Work Stream is working on two areas – KYC and the development of a roadmap, in collaboration with the Korean Ministry of Strategy and Finance, which has indicated its interest in progressing this issue under the Cebu Action Plan.
- The Finance Ministers adopted the APFF's recommendations on credit information and secured transactions, and established the FIDN under the Cebu Action Plan. The FIDN was officially launched in Manila on 12 November. The Philippines has started the pilot project through activities in Iloilo City and Manila, and outreach is currently being undertaken to China and Vietnam. FIDN has also discussed collaboration with the APEC Economic Committee, which is currently undertaking work on credit information and secured transactions under the leadership of Hong Kong, Mexico and the USA. FIDN is also looking at linking its work on securitization of SME loans to the work of the APFF Capital Markets Work Stream.
- On trade and supply chain finance, work is focused on the use of RMB in settlement, electronic commerce and promoting market use of innovative working capital management techniques.

- On insurance and retirement income, the Work Stream Sherpa recently visited IASB to discuss the APFF's views and recommendations. Major work was undertaken on retirement income this year, as well as on ways to promote investment by insurers and pension funds in infrastructure. On disaster risk financing and microinsurance, the focus is on developing experts' networks and roadmaps.
- The Linkages and Structural Issues Work Stream's discussions are focusing on longevity, financial regulation in Asia, Islamic Finance, and trade in services.
- On communications strategy, the APFF adopted three approaches in 2015. The first is a lengthy session over breakfast with selected media people, which was held in August in Manila. The second is issuing a press release to targeted journalists and news agencies. The third is collaboration with a government ministry (in this case, the Philippines' Department of Finance) in organized press conferences. The experience in 2015 showed that all three approaches worked to some extent and resulted in good media coverage. However, this coverage was mostly in the local press and international news coverage was very limited.

During the discussions, participants agreed to actively engage Peru's Ministry of Economy and Finance, as well as the Pacific Alliance and the Inter-American Development Bank, to take advantage of the opportunity of Peru's hosting and chairmanship of APEC in 2016.

*The Advisory Group endorsed the ongoing activities of the APFF and the way forward as discussed.*

### **Harnessing Financial Innovation to Build Bigger, Robust and Inclusive Financial Markets**

The Coordinator reported to participants that plans are being developed to hold a roundtable on financial innovation on 24 February in conjunction with the First ABAC meeting of 2016 in San Francisco, USA. The roundtable will discuss the evolving landscape of FinTech and its policy and regulatory implications.

Ms. Amy Auster of the Australian Centre for Financial Studies discussed ideas on the Advisory Group's work on digital finance and FinTech. She observed that these are important to APEC due to the following factors:

- A borderless digital economy will seek borderless payments and capital.
- Digital finance and FinTech both offer opportunities and threats.
- They offer opportunities for less development markets to leapfrog to a more advanced financial system.
- Access to and usage of data is central to FinTech.
- This involves significant potential damage from cyber breaches in the financial sphere.

Ms. Auster recommended that the Advisory Group:

- Formally recommend that the topics of digital finance and FinTech be managed and coordinated by the ABAC Finance and Economics Working Group.
- Commission an individual or group to scan across ABAC and report back on work underway in other parts of ABAC that may be relevant to this topic. This individual or group may then identify areas of particular interest to the FEWG and make a recommendation as to whether digital finance or FinTech may become a formal work stream, and specific topics or areas of work to address within that stream.
- Note the interest of the Financial Inclusion Forum to pursue areas or topics that are of interest to the Forum participants. The Financial Inclusion Forum caucus may be expanded to incorporate new skills and expertise in this area.
- Note that outcomes of the above may lead to work targeted for outcomes under the Finance Minister's process in 2016.

Ms. Catherine Simmons of Citi noted that digital data and systems are transforming the delivery of financial services today, and proposed that the Advisory Group consider four key components in undertaking work on FinTech, which are as follows:

- understanding the impact of new technologies on financial services and markets;
- developing FinTech ecosystems in individual economies and the region;
- achieving greater financial inclusion via the use of technology; and
- addressing regulatory issues arising from new technologies, platforms and providers.

She proposed that the planned 24 February roundtable include the following topics:

- disrupter technologies, products & services;
- improving financial access via digital technology; and
- data privacy & security issues.

In the discussion, participants noted that FinTech has multiple applications across the broad financial industry, including insurance, banking, securities and financial market infrastructure, and agreed with the idea of establishing a group within the Advisory Group or ABAC to look at these developments from a holistic viewpoint. They also noted that there are current efforts to adapt regulations and financial infrastructure to digital finance, and mentioned as an example the upcoming conference in Xian on credit reporting for the digital economy.

*The Advisory Group agreed to discuss at the 24 February Roundtable and in the San Francisco meetings the way forward for the work on FinTech.*

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

The Chair delivered his closing remarks and expressed his thanks to the sherpas of APFF, APIP, the Financial Inclusion Forum and the work on valuation practices, and the ABAC members, staffers and secretariat who have supported and actively participated in this year's work. The Chair also thanked ABAC Philippines for hosting and all the participants for coming to this meeting. He announced that the next meeting of the Advisory Group will be held in San Francisco in February and participants will be informed of the details when they become available. He also invited everyone to join the Finance and Economics Working Group meeting the next day.

### **Adjournment**

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