

**Advisory Group  
Meeting III  
PAPER 2-A**



Document: AGFSCB 36-032

Draft: **SECOND**

Date: 29 July 2016

Source: AGFSCB Chair

Meeting: Shenzhen, China

**THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING**

**A Public-Private Sector Initiative**

**Third Meeting 2016**

1 August 2016

09:00-10:15

Jinmao Ballroom A, 3<sup>rd</sup> Floor, JW Marriott Hotel Shenzhen  
Shenzhen, Guangdong Province, People's Republic of China

## **Meeting Paper 2-A**

# **Report of the Meeting of the Advisory Group of 25 April 2016, Port Moresby, Papua New Guinea**

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

## Second Meeting 2016

25 April 2016

15:00 – 17:00

Mirigini Room, Ground Floor, International Conference Center  
Port Moresby, Papua New Guinea

## MEETING REPORT

*Draft as of 28 July 2017*

### Welcome and Introduction

The meeting started at 3:00pm. Participants included ABAC members and staffers and representatives from various institutions collaborating with the Advisory Group on various initiatives. Among these were the Sherpas and coordinators of these initiatives.

The Advisory Group Chair, Mr. Hiroyuki Suzuki, presided over the meeting. In his opening remarks, he thanked the Advisory Group participants who have come to attend the meeting. The Chair outlined the agenda for the meeting, which he mentioned will summarize and discuss the outcomes of the APFF Caucus Meeting that took place in the morning; report on the results of the Financial Inclusion Forum, which was hosted by the Asian Development Bank Institute on April 7-8 in Tokyo, Japan; discuss the preparations for various activities; and discuss the work on promoting sound valuation practices.

### Review of the First 2016 Advisory Group Meeting in San Francisco

The Advisory Group Coordinator, Dr. J.C. Parreñas, presented the draft Report of the Advisory Group Meeting of 25 February 2016 held in San Francisco, USA.

*The Advisory Group approved the Meeting Report.*

### Financial Inclusion

Mr. Stephen Taylor of the Foundation for Development Cooperation (FDC) briefed the Advisory Group on the outcomes of the 2016 Asia-Pacific Financial Inclusion Forum.

Mr. Taylor reported that the Forum on Financial Inclusion, which was hosted by ADB Institute on 7-8 April 2016 in Tokyo, Japan, was attended by over 130 experts and stakeholders from the public and private sectors, including financial regulators and policy makers, multilateral institutions, financial institutions and related market players, microfinance institutions, financial inclusion experts, industry organizations and private foundations. He said that a detailed report will be published and circulated in the coming months summarizing the discussions and recommendations for policy makers and regulators.

Mr. Taylor presented the provisional conclusions and recommendations arising from the Forum, as follows:

- **Credit Bureaus and Credit Information Systems:** Participants agreed that governments should collect data as a matter of policy at the data subject level and with the underlying premise that

this data is owned by the data subjects. Within this framework, data subjects must be given access to their data when needed. However, in cases where privacy issues are of concern, at the very least, data generated by data subjects in their transactions with government franchises, utilities, and other services that have a public interest component that can have an impact on an individual's ability to have access to credit and other financial services, should be contributed to registries or bureaus (depending on government policies covering these) as part of their franchise or authority to operate.

Discussions also highlighted the importance of efforts to allow this data (from the point) to be paired with other forms of data that can serve to make it valuable to MSMEs. Authorization by data subjects for data use should be the prime determinant of how data is used as long as there is full disclosure of uses of the data and a time period to the use. Also, revocation of right to use by third parties (which does not include government agencies in the context of policy creation and statistical analysis) should be unilateral.

Assuming alternative data has a lower cost of acquisition, use of alternative data in credit scoring should be considered for loans of smaller value, with government monitoring of success, failures, and difficulties, and from there policy developed in response. However, these loans based on alternative data should be carefully recorded and monitored to protect the borrowers from unscrupulous lenders who will push the borrower into over indebtedness specially for the purpose of acquiring the borrowers' assets.

Micro borrowers are currently borrowing having supplied very little data. In this lending process, risk is measured by an actual knowing of the data subject by the lender (arm's reach lending). However, lenders must be encouraged to convert this goodwill of lending without requiring data into engaging the borrower to submit additional documentation over several renewals of the loan especially with the focus of formalizing the financial footprint of the borrower. The goal being to begin the process of identity and repayment file creation, then applying non-traditional data along with behaviors obtained during the arm's reach lending process as "transitional data" for micro and no file borrowers, with the end goal of applying traditional forms of data over time.

- **Microinsurance:** The discussions highlighted the critical role that proportional regulation needs to play in allowing the market to support a range of insurance products including disaster risk and products developed specifically for MSMEs. In addition, digital delivery of products may entail supervision by several different departments and regulations, highlighting the need for affected government ministries to align departmental policy and work together to provide appropriate and proportional regulation for the microinsurance industry. There is substantial value in public-private dialogue, where policymakers and regulators engage with insurers as partners in developing products and solutions for both responses to and mitigation of disaster risk.

Participants also agreed with the observation that the mobile phone platform is an enabler, but not a complete solution to financial inclusion. Many financial services require a degree of human interaction to meet the needs of customers, including in the insurance market – especially in building trust and the capability of new clients. Policy makers need to understand that while mobile products are gaining traction, models providing human touch also require attention as insurance providers respond to the needs of different market segments.

- **Cross-Border Payments:** Effective financial inclusion entails providing access to and use of a combination of products, with an increasing focus by providers on a holistic approach to meeting the needs of clients through making the right financial products and services accessible, and less on the traditional discrete products offered by individual providers. While the focus of policy has been on reducing the cost of remittances, convenience and trust are the other key factors migrant workers and their families consider in their remittance decisions. To increase transparency and foster competition, governments can facilitate participation of non-bank service providers in the financial services sector, as well as the provision of independent and objective information to remitters on the range of options available, specific to their main corridors.

- **Savings:** Financial service providers employ a range of channels such as the use of agents to reach “last mile” clients. Regulation needs to respond to channel-specific situations, such as clear designation of responsibility between agents and financial services providers. Financial education is essential for financial products, as it provides knowledge to consumers on how savings accounts can be used and provide meaningful benefits to customers. Financial inclusion and financial education should be seen as an ecosystem with government, financial services providers and other specialists working together to develop and implement effective programs.
- **Digital Financial Infrastructure:** Participants agreed that systems interoperability is one of the most important elements of financial infrastructure that government can foster or influence to achieve greater efficiency, innovation, lower costs and convenience for consumers. MSME credit cannot be given in a vacuum and requires supporting services such as financial infrastructure, some of which can be developed and provided by government agencies, some by the private sector, and some through the industry associations, such Japan’s Credit Risk Database.
- **Financial Literacy:** Adopting a domestic financial education program and strategy can better integrate the initiatives of financial service providers, governments and other stakeholders to extend the benefit of financial inclusion from access to usage and impact. Financial education programs that integrate with domestic school curriculums have shown to be effective, especially where tailored for various age groups and appropriate training is provided to educators to ensure its success. E-learning platforms are gaining popularity across a range of educational fields and have proven successful in different markets in a providing greater variety of ways in which to reach more people.

A Financial Health Check platform could be established which would allow individuals to monitor their cash-flow position (surplus or negative) and personal net worth (positive or negative). Such a platform would be particularly useful for individuals considering major purchases or borrowing as a way to be better informed of their financial position prior to making a decision.

Regulators and policy makers should consider ways in which individuals can more easily check their credit scoring. The implementation of an individual credit checking system could serve as a way for individuals to easily access their credit information. Such a platform could also potentially also alert individuals over indebtedness if indicators are shown. Governments should consider providing a one-stop financial portal which can provide useful references on financial products for consumer comparison purposes.

- **Digital Finance and Consumer Protection:** Consumer protection in digital finance presents different challenges to those in conventional finance as the customer is different, agents are an additional dynamic, the interface is technology based, and it is often unclear as to who in the delivery channel is responsible to the client for what. At present, the challenges are manageable, as digital finance represents a relatively small proportion of transactions, with one of the main challenges being reliability of service. As digital finance becomes pervasive through more competition and the introduction of interoperability, suitability of products for clients, privacy and data protection will become more significant challenges for policy makers and regulators.

The behavioral sciences and consumer centricity should be applied, not only to product marketing but also product design, diversification, consumer transparency, protection and regulation/supervision. Supply-side innovations and initiatives to increase access to finance should be influenced by a demand-side focus on how to best serve poor clients. In the same way that ‘FinTech’ is disrupting financial markets, Regulatory technology (Regtech) provides opportunities for technology to ease compliance burdens and enable rapid consumer feedback and early detection of problems, and communication of messages back to consumers. In addition, in the context of APEC, a consumer protection agreement among member economies will be needed since cross border DFSs are increasingly available soon.

- **Insolvency:** Sound insolvency and secured transactions regimes are essential for the effective redeployment of capital and assessment of risk by investors and lenders. Effective management

of insolvency of SMEs is a question of balance: of the rights of creditors and debtors/ investors; between liquidation and reorganization; and need for efficiency and need for legal fairness.

The Coordinator updated the Advisory Group on the preparations for the Financial Inclusion Workshop hosted by the Peruvian Ministry of Economy and Finance on 24-25 May in Trujillo, Peru. He reported that he will be presenting the outcomes of the Asia-Pacific Forum on Financial Inclusion at this workshop. He also noted the involvement of the APFF Co-Sherpa for the Financial Infrastructure Development Network (FIDN), Dr. Patrick Walker of PERC, as another resource person who will share with other participants the most recent development in APFF's work on inclusive finance.

*The Advisory Group welcomed the outcomes of the 2016 Asia-Pacific Forum on Financial Inclusion, and noted the preparations for the financial inclusion workshop in Trujillo, Peru.*

## **Infrastructure**

Mr. Kenneth Waller of the Australian APEC Study Center at RMIT University and ABAC Australia Staffer briefed the Advisory Group on the work of the Asia-Pacific Infrastructure Partnership (APIP).

He reported that the APIP Secretariat is undertaking preparations for an APIP Outreach event in conjunction with the University of Sydney and the John Grill Centre's Annual Infrastructure Dialogue. The outreach event will likely be held on the 14th of September to discuss the ongoing work of APIP, the research paper on 'Success Factors in the Philippines PPP Program', the relationship with the G20 Global Infrastructure Hub and arrangements for APIP Dialogues for 2016. He mentioned that an invitation to APIP members to attend the University of Sydney's Annual Infrastructure Dialogue on 15th September is under consideration. The Dialogue will focus on developments in the infrastructure sector in Australia.

Mr. Waller also reported that discussions are currently underway to hold APIP Dialogues with Vietnam and Thailand in 2016. He noted the likelihood that the dialogue with Thailand will be toward the middle of the year, while the dialogue with Vietnam may be scheduled toward the end of the year, most likely November. He informed participants that the APIP Secretariat will also engage with informal talks with ABAC China with a view to hold an APIP Dialogue in the near future.

Ms. Shamini Sakthinathan, ABAC Malaysia Lead Staffer, briefed the Advisory Group on the preparations for the APFF Workshop on Developing an Islamic Infrastructure Investment Platform (I3P). The Workshop is a collaboration among ABAC Malaysia, ABAC Brunei, Bank Negara Malaysia, Malaysia International Islamic Finance Centre (MIFC) and the Association of Islamic Banking Institutions Malaysia (AIBIM). It is being held on 10 May in conjunction with the 5th Global Islamic Finance Forum (GIFF). All participants of the workshop are also invited to attend the GIFF, which runs from May 10-12, 2016. GIFF is a bi-annual forum that showcases business propositions and shares innovation-driven insights in unlocking and enhancing the potential of Islamic finance. Participants include industry practitioners, business leaders, regulators and Shariah scholars. More than 1,400 participants from some 50 economies attended the GIFF in 2014.

The Coordinator reminded participants that the I3P is one of the ideas discussed between ministers and the private sector during their dialogue at the 2015 APEC Finance Ministers' Meeting hosted by the Philippines in Cebu. He mentioned that following that dialogue, the government of Brunei hosted a workshop in collaboration with the APEC Business Advisory Council (ABAC) Brunei, the Asia-Pacific Infrastructure Partnership (APIP) and the Asia-Pacific Financial Forum (APFF) in October 2015. The Workshop in Kuala Lumpur will be discussing the following:

- ***Expanding the role of Islamic Finance in cross-border funding of Infrastructure:*** Promoting cross-border infrastructure investment by Islamic institutions faces a number of legal, tax and regulatory challenges. This challenge has intensified as more economies establish their own Sharia boards and the number of innovative and sophisticated products with new features being introduced that require interpretation grows. The establishment of global Sharia practices has been proposed by practitioners and commentators, but the detailed discussions and forging of consensus these efforts entail will take much time. Meanwhile, the infrastructure needs of the

region's developing economies continue to grow and opportunities to productively and profitably invest in these long-term real assets are forfeited. While this presents a challenge, it also offers an opportunity for the region's economies to play a leadership role in advancing the development of common practices in the infrastructure investment space, and demonstrate concrete results in the process. Drawing from the perspectives of regulators, scholars, market participants and experts from multilateral institutions, the workshop will discuss the issues that need to be addressed in order to develop common practices for Sharia-compliant infrastructure projects and financial instruments.

- **Key requirements for building dynamic Islamic infrastructure investment markets:** The recent rapid growth of Islamic finance and its resilience in the face of the 2008 Global Financial Crisis demonstrate its significant potential as a major source of funding to meet the region's infrastructure needs. For most emerging markets, however, realizing this potential requires addressing a number of regulatory and market infrastructure-related challenges. These include, generally, the adoption of Sharia accounting and auditing standards formed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as well as the regulatory and supervisory standards and stronger regulatory frameworks developed by the Islamic Financial Services Board (IFSB). More specifically, market participants have identified, among others, developing Islamic hedging instruments; promoting innovative structures to facilitate Islamic pensions and insurance invested in Islamic infrastructure funds; promoting tax policies that do not burden Islamic finance more than conventional finance; and agree on common approaches to facilitating convergence of Islamic finance practices through dedicated Islamic guidelines. In the workshop, panelists will seek to identify concrete measures to move forward on these issues.
- **Developing an Islamic Infrastructure Investment Platform (I3P):** Successful development of common Sharia compliance practices for infrastructure projects and financial structures and efforts to address the most important requirements for building dynamic Islamic infrastructure investment markets require close collaboration among key stakeholders, including regulators, policy makers, market practitioners, experts and scholars from various relevant domestic and international institutions. The workshop will discuss the potential for an Islamic Infrastructure Investment Platform (I3P) to attract these stakeholders to undertake such collaboration, and how this platform can be structured, organized and enabled to be used by APEC economies to pursue the promotion of cross-border Islamic investment infrastructure and to grow the market.

The Coordinator also informed participants that a meeting of the APEC PPP Experts' Advisory Panel on 25 May 2016 in Trujillo, Peru, in conjunction with the APEC Senior Finance Officials' Meeting.

In the ensuing discussions, participants highlighted the importance of incorporating valuation in the work of the PPP Experts' Advisory Panel, the need to focus on enabling Islamic pensions and insurance (takaful) to expand their roles as investors in infrastructure projects, and the need for greater awareness of the impact of regulatory and accounting frameworks on long-term investment in infrastructure.

The Chair emphasized the importance of authorities taking a balanced approach to avoid overregulation.

*The Advisory Group noted the preparations for the above-mentioned activities.*

### **Improving valuation practices in APEC**

Mr. Nicholas Brooke of the International Valuation Standards Council (IVSC) presented two documents that were recently completed: (a) an audit of the valuation landscape in APEC economies, and (b) a template of best practices for valuation.

On the audit of the valuation landscape, Mr. Brooke explained that because valuation is central to informed decision-making within the global economy, it is essential for all economies to agree to the adoption not only of high-quality valuation standards across jurisdictions but also the development of robust, respected and trusted professional valuation organizations. He noted that the optimum type of

valuation landscape for any specific economy depends to some extent on the areas of valuation it requires to be covered given its principal industries and services sectors and the economic and social structures within which it operates. However, valuation and the valuation profession play important roles in the following areas, all of which are common to almost all economies: (a) taxation models; (b) mortgage, secured lending and insurance; (c) mergers and acquisitions including cross border IPO's and distressed asset restructuring; (d) public-private partnerships; (e) financial reporting for public and private companies; (f) dispute resolution; and (g) compulsory purchase or dispossession.

Mr. Brooke stated that in light of the impact of valuation on such a wide range of matters, there is a need to ensure that the valuation profession has the capacity to undertake its work in a professional and credible manner that gives a central role to standards, ethics, independence and objectivity, competence and transparency.

He noted that in order to make recommendations for appropriate introduction or improvement in the structure and conduct of the valuation profession within the APEC economies or its potential alignment with internationally recognized standards adopted elsewhere, it is firstly necessary to understand the structures, systems and capabilities currently in place and secondly to define a future framework within which such valuations might best be conducted. The key components of such a framework include regulation and compliance, organizational structure, access to information and required disclosure, education and training and internationally recognized and respected standards.

He reported that the Audit of the valuation landscape across the APEC economies has been researched and compiled to establish the current situation while the Draft Template is based on observed good practices and approaches from a number of economies which have been successful in establishing and underpinning robust and credible valuation professions capable of delivering internationally respected and trusted valuation work.

On the best practice template for valuation, Mr. Brooke outlined what he believes are the key components of a robust valuation framework, which are: (1) a robust regulatory regime appropriate across all asset classes, (2) adherence to widely accepted valuation and professional practice standards, (3) followed by appropriate and visible enforcement through the presence of strong professional organizations, and (4) availability of education and training and (4) access to reliable information.

He highlighted the following elements of the template:

1. **Regulation and compliance:** The regulatory regime may vary according to the purpose of valuation. For all purposes, however, economies should ensure that valuations are completed in accordance with reliable standards in line with those accepted internationally. All valuations to a greater or lesser extent impact on the public interest and regulations should require valuation reports to be prepared by individuals with suitable professional skills who meet certain qualification requirements, exercise diligence, follow and maintain suitable procedures and documentation and demonstrate a commitment to a high standard of ethical behavior.
2. **Standards:** Convergence toward global standards leads to an equitable system for dealing with individuals and groups, which is a core APEC goal. Just as it is preferable for valuers to follow a commonly agreed set of educational qualifications, it is also important for valuers to adhere to recognized standards of ethics and codes of conduct and for valuations to follow a commonly agreed set of valuation standards. Such standards ensure that investors, other users and the general public have greater confidence in the quality and consistency of valuations.
3. **Organizational framework:** The motive for establishing a valuation professional organization (VPO) may be a governmental initiative to promote a national approach to regulation of the profession, or it may be a group of committed professional valuers who wish to establish a focused identity for their activities. These activities may range from facilitating networking among peers, to providing information and education, to promulgating and enforcing professional technical and ethical standards or establishing a benchmark standard for valuers in an economy. The activities of a new VPO will depend on the resources available. However, the overriding objective of the organisation should be – the development and enhancement of a valuation profession able to provide services of consistently high quality in the public interest.

Communicating this crucial role of working for the public interest should make clear to potential members, the government, and the public at large the importance of a robust VPO in delivering and monitoring common standards and providing oversight of its members.

4. **Education and training:** While the overall consensus on the type or level of education or experience required for the qualification of valuers is still under development, there are some clearly established guidelines from observing practice in international markets. In many jurisdictions there are essentially two basic requirements to qualify as a valuer: passing a relevant examination and undertaking a period of practical experience. Examinations generally follow a specified education program, while experience requirements generally require constant updating after qualification through a program of continuous professional development (CPD) or lifelong learning. In individual economies, examinations tend to be set either by the valuation authorities directly, by VPOs or by recognized academic institutions. Whether the VPO takes an active role in providing courses, or opts to accredit courses run by other institutions such as universities, is less important than the need to ensure a consistent level of educational attainment among valuers.
5. **Access to information and disclosure:** The quality of valuation reports ultimately depends on the quality of inputs. Many developed markets have benefitted greatly in this respect from open access to transaction data and requirements for disclosure both in the public markets and in private transactions. In emerging markets, however, valuations often suffer from a lack of easily accessible comparable data. Sometimes this is due to the lack of a policy for land registries to release transaction-specific data, but even where such data is made available there may be concern about its accuracy. While it is recommended that governments require land registry information to be made available to valuers, stock exchange regulators can also assist. Where there is an active property sector in the local stock market, the stock exchange regulator may require publicly listed companies to disclose transaction prices and details in their reporting. As REITs develop in more markets, the logic of disclosure becomes more evident and has led to greater transparency overall in these markets. The valuation profession must have access to good data in order to produce quality valuations. Valuations lack diligence without it.

Mr. Brooke confirmed that the Audit and Best Practice Template will continue to be refined and updated in the course of future roundtables and dialogues.

He also updated participants on the activities to promote improved valuation practices. He reported that the Working Group has moved ahead to engage at an economy level, with the first roundtable being held in Malaysia in January this year. It was attended by stakeholders from 12 economies, VPOs and valuation practitioners. It included a frank interchange when each economy briefed those present on the state of the profession and the challenges it was facing and there were requests from Japan, Papua New Guinea, the Philippines and Thailand to host roundtables. He informed participants that the Working Group plans to hold roundtables in these economies in the foreseeable future, as well as respond to a request that has been received from Vietnam. Mr. Brooke informed participants that the roundtable with Papua New Guinea is to be held the following day.

In addition, he briefed participants on the ongoing work with the China Appraisal Society and the Chinese Ministry of Finance on the organization of a Symposium in Beijing, where valuation experts and other key stakeholders will share experiences of how robust valuation practices can contribute to economic growth.

*The Advisory Group welcomed the audit of the valuation landscape in APEC economies and the template of best practices for valuation to be made available online and mentioned in this year's Advisory Group Report, and noted the reports on the progress of the initiative.*

## **Financial Innovation**

The Coordinator briefed the participants on the outcomes of the APFF Roundtable on Financial Innovation held on 24 February 2016 at the PayPal Corporate Campus in San Jose, California, USA. Following are the highlights of the Roundtable report:



- Tremendous changes are sweeping today's financial landscape. The growing use of FinTech, which includes mobile money, shared ledger technology (including block chain), big data, artificial intelligence, electronic platforms, advanced analytics and automated processes, among others, is challenging established business models. New players are entering markets long dominated by traditional financial service providers as the latter are now embracing new technologies to help them face the threat of disintermediation.
- Policy makers and regulators have begun to respond to these developments, in compliance with mandates to promote financial stability, protect consumers and privacy and maintain the integrity of financial systems. However, for the APEC Leaders' and Finance Ministers' aspirations to make financial systems more inclusive, efficient and responsive to the region's vast financing needs to be met, a balanced and coherent approach that maximizes the benefits of innovation while adequately addressing emerging risks and concerns will be required.
- The FinTech landscape is a very large and complex one that is affecting financial services across payments, insurance, deposit-taking, lending, capital raising, investment management and financial market infrastructure. It also represents an extensive digital realm where traditional financial institutions, start-ups, e-commerce, ICT companies, market infrastructure players, investors, accelerators, incubators, and consumers intersect with each other.
- The development of FinTech is being driven by front-end technologies (e.g., open application programming interface or API, mobile money), front-end financial services (e.g., peer-to-peer or P2P lending), back-end technologies (e.g., block chain, big data and predictive analytics, artificial intelligence, identity management and advanced fraud and security) and back-end financial services (e.g., faster payments, alternative underwriting). These have created disruptions in various parts of the financial sector.
- The currently predominant FinTech firms are still powered by technologies that have already been around for some time. These include digital platforms and applications, use of wider data sets to customize financial services and products (including locational, personal consumption, payment and income data), and algorithms that enable rapid interpretation of data and more efficient transactions. While newer technologies, such as distributed ledger technology and block chain (the most well-known example of which is Bitcoin, which offers to substitute for fiat currency) and artificial intelligence, are attracting much attention due to the huge potential for disruption, their commercialization is still limited and involves a relatively very low volume of financial transactions.
- There is also very wide variation in levels of penetration of the financial services market by FinTech companies at present. While some firms have become significant players, other companies, particularly in the lending space, still account for very small portions of the market compared to incumbents. The payments area has been where FinTech has had its earliest impact, with the development of e-commerce being the catalyst for start-up firms developing new solutions for online payments. Take-up has been strong in some parts of Asia (e.g., China), where e-commerce underpins many economic activities.
- In terms of growth, however, lending start-ups have received the most investment in recent years, followed by those in payments. Investments in block chain/distributed ledger technology are still much lower, but are growing at a very rapid pace. FinTech is also undergoing rapid evolution, as exemplified by payment platforms now moving toward lending products. For example, PayPal is now offering working capital credit for small businesses and small personal and consumer loans for their customers.
- FinTech presents enormous opportunities to promote financial inclusion. At the same time, the introduction of new technologies into financial services is now raising some questions related to regulatory issues. These include consumer protection, particularly in the case of new service providers; identity management; data management and data protection with respect to the use of big data and algorithms; network and system stability and cyber security and cyber risk. Regulatory approaches across the region are varied and continue to evolve. Nevertheless, regulators are being encouraged to take a light regulatory touch for new FinTech start-ups to support innovation.
- Technologies are emerging that enable financial market players to respond more effectively to regulatory requirements. Participants discussed the incorporation of regulatory requirements into

technology protocols that is promoting the automation of the regulatory process, the evolution of regulatory models and how industry, policy makers and all relevant regulators can collaborate to build a robust and coherent ecosystem for inclusive financial innovation.

- Beyond this is the broader question of how policies and regulations should respond to the rapid development of FinTech. As innovation gives rise to a new ecosystem of financial institutions, services and market infrastructure, policies and regulations will also need to evolve. In addition to striving toward the critical regulatory goals of financial stability, cyber security, data privacy, consumer protection and the fight against crime and terrorism, they will also need to promote a coherent policy and regulatory environment that allows the financial sector to support broader goals, including financial inclusion, continued innovation and the growth of trade and investment across the region.
- As financial services move more rapidly into the digital space and cybercrime evolves from methods like phishing that target human risk factors to complex malware coded to exploit gaps in technology and process, more areas of vulnerability will emerge, from client access applications and communication tools to technology partnerships. Collaboration between regulators and industry is key to increasing awareness of cyber security, reducing financial and reputational damage and serving clients. Firms are currently approaching this on three fronts: (a) through partnerships within the FinTech ecosystem; (b) through technology, controls and training and awareness within the firm to protect the confidentiality, integrity and availability of client data and its information assets; and (c) through providing technical advisory, training and tools to enable customers to better protect themselves.
- The advent of FinTech has also spurred many governments to consider ways of promoting innovations within their jurisdictions to facilitate the development of their financial services sector. Several entities in the region, such as the governments of Hong Kong and Singapore, the Hong Kong Exchanges and Clearing and a number of private firms have undertaken concrete initiatives in this direction.
- The potential of FinTech to drive inclusive growth is huge, but technological innovations can also magnify the potential for damage to the economy and financial systems. This increases the burden on regulators to keep pace with the innovations in the market, which will enable them to make regulations more effective in enhancing stability and enabling innovation and growth, and to strike the right balance between adapting to the local contexts across different markets and developing a regulatory model that can be applicable in many markets and thus able to contain compliance costs and provide seamless scale.
- These factors are driving the need for new models of business partnerships, including between regulators and industry. The challenge in developing regulatory tool sets for these new models is that it is difficult to expect regulators to be able to model and forecast developments and trajectories, while we are still in the early stages of FinTech development and the private sector is still learning what works. The lack of coherent and well thought-out regulatory responses to FinTech may expose financial systems to significant risks. One approach to addressing this issue is the use of “sandboxes,” establishing areas where experimentation can occur and regulators and policy makers can participate or freely observe and better understand new technologies and business models, thus reducing the risks of curtailing innovation through premature regulation.
- In addition, there is the possibility of a few successful players becoming too dominant as finance and technology come together to reach more deeply into all aspects of the economy and society and underpin growth and social development. In this case, we may face a new digital divide, where the gap between those who are able to participate in this market and those who are unable to do so could grow very quickly and which could be more subtle and different in nature from previous dichotomies of haves against have-nots. Preventing this from occurring will need to involve not just updated regulatory frameworks, but also consumer education and protection as well.
- Most importantly, proportional and more flexible regulatory approaches will be needed to enable strong growth and continued innovation. This could take the form of recognizing fundamental areas where benchmark standards for such areas as privacy, security and AML may be required, and regulating these more strictly and aligned across the region, while employing light-touch (e.g., “watch and wait”) regulatory approaches in areas where risks of systemic damage are low,

in order to enable more cross-border trade. Key enabling factors for this would include the valuation of data (including understanding the importance of open data and the potential for self-sovereign data), the need for data categorization; and the fundamental importance of measurements and frameworks for measuring digital trade and FinTech.

- The foregoing discussions underscored the importance of creating a regional platform to bring together stakeholders from the public and private sectors to address in close collaboration with each other key issues arising from the development of FinTech. These stakeholders should include representatives from the industry (FinTech startups and major financial institutions, related service providers, associations and experts), public sector (government and regulatory agencies, relevant APEC fora) and major international organizations. In collaboration with interested partners, ABAC will convene this coming July in Hong Kong another APFF Roundtable on Financial Innovation. Based on the conclusions of the two Roundtables and collaborative discussions with other working groups, ABAC will formulate recommendations to APEC on structures and processes to help member economies harness financial innovation to build bigger, robust and inclusive financial markets.

The Coordinator also updated the Advisory Group on the preparations for the next Roundtable, which will be held on 15 July 2016 in Hong Kong.

*The Advisory Group welcomed the report on the outcomes of the Roundtable in San Jose and noted the preparations for the Hong Kong event.*

### **Asia-Pacific Financial Forum (APFF)**

The Coordinator summarized the outcomes of discussion at the APFF Caucus meeting. He provided a summary of the recently completed and ongoing work as well as future steps for the various APFF work streams. These are as follows:

#### **1. MSME Finance**

Completed and ongoing work:

- 2015 Nov 12, Manila: Launch of APFF Financial Infrastructure Development Network (FIDN)
- 2016 Mar 14-15, Manila: FIDN Conference – to advance Philippines FIDN Pilot Project
- Preparation of FIDN-related events: (a) 2016 May 21-22, Nanjing: China Secured Transactions Conference; (b) 2016 July, Bangkok: Credit information and secured transactions workshop; (c) 2016 2nd Semester, China: SME Credit Reporting Symposium; (d) 2016 2nd Semester, Vietnam: Supply Chain Finance Symposium
- Preparation of APFF trade and supply chain finance workshop (2016 July 8, Singapore)
- Preparatory discussions with governments to start FIDN projects: (a) Brunei Darussalam (secured transactions); (b) Thailand (secured transactions and credit information)
- 2016 April 7-8, Tokyo: 2016 Asia-Pacific Forum on Financial Inclusion

Next steps:

- Holding of APFF and FIDN-related events as described above
- Credit information systems: (a) Baseline analysis of consumer and commercial credit information sharing in 21 APEC economies; (b) Development of 2 APEC templates for data formatting to facilitate regional convergence to support cross-border MSME and migrant worker access to finance (commercial credit reporting and consumer credit reporting)

#### **2. Capital Market Development**

Completed and ongoing work:

- Classic (Title-Transfer) Repo Markets: (a) 2015 Nov 16, Manila: ABAC-ASIFMA-ADB-ISDA Workshop for the Philippines; (b) 2016 Apr 19, Jakarta: ABAC-ASIFMA-ADB-OJK Workshop for Indonesia
- Legal infrastructure for OTC Derivatives Clearing: 2015 Nov 16, Manila: ABAC-ASIFMA-ADB-ISDA Workshop for the Philippines
- Availability of Information for Capital Market Investors: 2015 March, Manila: Pilot Program Workshop with Philippine Securities and Exchange Commission

- Financial Market Infrastructure/Cross-Border Practices:
  - Aim: Regional securities investment ecosystem to facilitate cross-border portfolio investment flows
  - Focus: (a) Regional cooperation to deal with multifarious changes in market access, clearing, settlement and repatriation across member economies and their timelines (including shortening of settlement cycles to T+2); (b) Regional cooperation to deal with impact of KYC/AML rules on cross-border investment flows, focusing on aligning standards for documentation collection and reporting, use of third party industry utilities for centralized KYC/AML electronic depository, minimum standards for data privacy, protection, security and cross-border flows.
- FMI FinTech (under discussion): Topics under consideration: E-payments, impact of KYC rules, cyber-security challenges, impact of data localization, FinTech literacy
- Supporting the successful launch of the Asia Region Funds Passport (ARFP): Completion of APFF Study on Tax Implications of ARFP

Next steps:

- Legal infrastructure for OTC Derivatives Clearing: Discussion with OJK Indonesia on possible workshop in 4Q 2016
- Availability of Information for Capital Market Investors: Ongoing discussions on future programs with Thailand, Vietnam, Indonesia
- Supporting the successful launch of the Asia Region Funds Passport (ARFP): Discussions with Chinese Taipei on possible ARFP workshop
- Develop a Roadmap to Improve the Regional Financial Market Infrastructure: Collaboration with interested APEC finance ministries
- Define work plan for FMI Fintech

### **3. Insurance, Retirement Income and Long-Term Investment, Disaster Risk Financing and Microinsurance**

Completed and ongoing work:

- Retirement Income and Long-Term Investment: (a) 2016 Jan 25-26, Hong Kong: Work stream discussions on 2016 deliverables; (b) 2016 Mar 21-22, Tokyo: OECD-ADBI Roundtable on Capital Market and Financial Reforms in Asia; (c) 2016 Apr 25, Singapore: G20-OECD High-Level Roundtable on Institutional Investors and Long-Term Investment; (d) 2016 Apr 27, Singapore: Work stream discussions on 2016 deliverables; (e) Engagement with accounting (IASB/FASB) and insurance regulatory bodies (IAIS, CIRC, ASEAN insurance regulators, etc.)
- Disaster Risk Financing: 2016 Feb 13-14, Lima: FMP Workshop on DRF and DR Insurance and APEC Regional Working Group on DRF
- Microinsurance: 2016 Apr 7-8, Tokyo: Session discussions at the Asia-Pacific Forum on Financial Inclusion

Next steps:

- Retirement Income and Long-Term Investment: (a) 2016 May 10, Kuala Lumpur: APFF Workshop on Developing an Islamic Infrastructure Investment Platform (I3P); (b) 2016 Jun 6-7, Taipei: Continued work stream discussions on 2016 deliverables; (c) 2016 Jun 22-23, Tokyo: OECD-ADBI Roundtable on Insurance and Retirement Saving; (d) Continuation of engagement with accounting and insurance regulatory bodies
- Disaster Risk Financing: (a) Development of APEC Roadmap for DRF; (b) 2016 Jun 24, Tokyo: OECD-ADBI Seminar on DRF in Asia
- Microinsurance: Development of APEC Roadmap for Microinsurance

Updating the Advisory Group on the activities of the Linkages and Structural Issues Work Stream, Mr. Kenneth Waller reported on the outcomes of the ABAC-ARFP and Regional Financial Market Integration Industry/Regulator Dialogue that was held on 23 March 2016 in Sydney, Australia. He mentioned that the dialogue was organized by the Australian APEC Study Centre at RMIT University, and hosted by the Financial Services Council in Sydney, Australia.

It updated the Australian finance sector on progress made by the APFF and other developments of interest. Australian policy makers, regulators and senior representatives of the finance industry participated, as did members of APFF work streams. Key issues were discussed, including developments on the ARFP, repos, derivatives, hedging tools and cross-border securities investment ecosystem.

Mr. Waller informed the Advisory Group about the key takeaways from the three sessions that focused on different aspects of enhancing regional capital integration.

### ***Session 1: Asia Region Funds Passport***

- Australia, Japan, Korea, New Zealand and Thailand are expected to sign the Memorandum of Agreement in April. The potential scale of the passport was recognised amongst other schemes: convergence with ASEAN CIS, Hong Kong and PRC under CHKMRS. Incorporating the needs of regulators and industry working in Asia were reflected. The long-running success of UCITS and possibilities utilizing FinTech innovation and information exchange arrangements between countries, such as CRS to take the passport further were noted. These could contribute to providing hard and timely information to policy makers and legislators including on tax impacts.
- Regulators are still in negotiations around mechanisms surrounding ARFP. Agreement on structures, remuneration, institutional arrangements and distribution is to come. Arrangements are being developed with a goal of broadening the passport. The value in Indian participation in the future, and linking with RCEP, TTP and regional trade agreements was noted.

### ***Session 2: Risk Management Tool Reform***

- The ability to further integrate capital markets using risk management reform was stressed. Central bank operations and system liquidity is very important which is based on the repo market through open market operations. It was noted that economies in the region have relatively small bond and repo markets and as a consequence there is greater emphasis on managing foreign exchange markets.
- Issues that exist across the region include changes to capital charges and ratios arising from reforms by the Basel Group of Supervisors, repo and derivatives with likely different players across the region and the impact of financial technology.
- It was noted that capital market reforms should avoid the prospect of fragmenting markets. Hedging and netting were stressed to reducing exposure to country and systemic risk. Synchronized standards are important to reduce frictional costs. The possibilities to involve algorithms for tri-party arrangements were stressed for efficiency and cost reduction potential, and the broadening and diversification of the repo market.

### ***Session 3: Standards and Platform Connectivity for Cross-Border Portfolio Investment***

- The benefit of regulatory coordination was discussed, predominantly common reporting standards, transfer pricing rules and information sharing. It was noted that corporate debt markets continue to struggle and generally are underdeveloped. Still requiring action are issues such as bail-in/bail out.
- Community perspectives on tax avoidance have shifted dramatically, governments will need to come together to handle Base Erosion and Profit Shifting (BEPS) and multinational anti-avoidance legislation; the region should cooperate to realize societal benefits of this work. There is a need for a stronger Asian voice in the Financial Stability Board but difficulties in identifying an “Asian” position remains a challenge.
- Business choices often base their strategy on theory and lack data specificity on the impact of its advice on the real economy. Business needs to clearly identify the costs and benefits of reforms that it proposes to government. Businesses must be willing to adapt and start serious dialogue with government.

In the discussions that followed, the Chair observed that the Cebu Roundtable was very successful in attracting participants from key institutions, especially from the financial industry, and commented on the need for a good representation among APFF Sherpas at the upcoming event with APEC Finance Ministers during their annual meeting in Lima. Participants also noted that the work of the Advisory

Group on valuation can provide important inputs to the work of APFF, especially in the area of secured transactions systems, where the valuation of collateral is an issue.

### **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. He mentioned the invitation extended to him by the organizers of the upcoming summit of the Pacific Alliance to address their meeting in Chile and introduce the work being done in the Advisory Group to a wider circle of Latin American business people. He noted that this would be a very good opportunity to get more involvement from the Latin American financial industry.

### **Adjournment**

There being no other matters to discuss, the Chair declared the meeting adjourned at 4:40pm.