

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

Third Meeting 2015

1 August 2016

09:00 AM – 10:15 PM

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

MEETING REPORT

Draft as of 7 November 2016

Welcome and introduction

The meeting started at 9:00 am. Participants included ABAC members and staffers, APFF work stream sherpas, APIP collaborators and other partners of the Advisory Group.

The Advisory Group Chair, Mr. Hiroyuki Suzuki, opened the meeting. He welcomed participants and advised them on key documents for endorsement during the meeting. These include the 2016 Advisory Group Report which includes infrastructure, financial inclusion, financial innovation and valuation practices as well as contents of the 2016 APFF Progress Report, which focuses on SME and trade/supply chain finance, capital markets, financial innovation and insurance and pensions.

The Chair observed that a lot of work has gone into these items over the past several months. He noted that this huge amount of work is reflected in the very high quality of the proposals, which will be discussed at the meeting for endorsement to ABAC for inclusion in ABAC's report to Ministers and Leaders.

Review of the Second 2016 Advisory Group Meeting in Port Moresby

The Advisory Group Coordinator, Dr. J.C. Parreñas, presented the draft Report of the Advisory Group Meeting of 25 April held in Port Moresby, Papua New Guinea.

The Advisory Group approved the Meeting Report.

Financial inclusion

In his introductory remarks, the Chair noted the following:

- The Financial Inclusion Forum is one of the three Finance Ministers' policy initiatives that are being managed by ABAC through the Advisory Group. This year the Forum was held in Tokyo.
- Every year a report is published and disseminated to relevant stakeholders including leaders, finance ministries and central banks. This has been possible through a project funded by the Citi Foundation and managed by the Foundation for Development Cooperation. He thanked Citi Foundation for this support and FDC, especially Shawn Hunter, for the good work they have been doing in preparing the Forum and for drafting the report.
- At the last meeting, Mr. Stephen Taylor of FDC presented the outcomes of the Forum, which focused on financial inclusion in the digital age. The Advisory Group and ABAC welcomed the report and agreed to incorporate its recommendations in their reports to Finance Ministers.
- The Central Bank of Vietnam has expressed its willingness to host next year's Forum.

Mr. Shawn Hunter of FDC reported that the report of the 2016 Asia-Pacific Forum on Financial Inclusion has been published and is being disseminated to various key public and private sector stakeholders across the region, including APEC officials. Following are the highlights of the report:

- The 2016 Asia-Pacific Forum on Financial Inclusion was organized by the APEC Business Advisory Council (ABAC), the Foundation for Development Cooperation (FDC) and the Asian Development Bank Institute (ADBI) in partnership with Citi Foundation. Additional support for the Forum was provided by several organizations 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), TRPC, The Australian APEC Study Centre, the Australian Centre for Financial Studies and the World Savings and Retail Banking Institute (WSBI). Through the collaboration of each of these partners the Forum contents were designed with the aim to facilitate discussion on financial inclusion that would result in action by stakeholders to address key issues.
- The Forum consisted of eight sessions that addressed: (i) credit bureaus and credit information systems, (ii) microinsurance, (iii) cross-border payment systems, (iv) savings, (v) digital finance infrastructure, (vi) financial literacy, (vii) digital finance and consumer protection and (viii) insolvency. It was attended by 135 participants of which 30 were government representatives. The other 105 participants included representatives of the private sector, academic institutions and civic organizations.
- The Forum was officially opened with remarks from Dr. Naoyuki Yoshino, Dean of the Asian Development Bank Institute (ADBI), Mr. Hiroyuki Suzuki, Chair of the ABAC Finance and Economics Working Group and Director and Board Member of Nomura Holdings Inc., Mr. Anthony P. Della Pietra, Jr., Representative Director, President and CEO of Citibank Japan Ltd. and President and CEO of Citigroup Japan Holdings, and Mr. Daikichi Monma, Director-General of the International Bureau at the Ministry of Finance of Japan.
- The Forum provided an opportunity for stakeholders to review the current trends, recent achievements, ongoing challenges and opportunities within the region relative to financial inclusion in the digital age and discuss how these developments are impacting different markets. Through these discussions the Forum has produced several specific recommendations for APEC policy makers and regulators to support their financial inclusion efforts. The recommendations have been reported at the previous meeting in Port Moresby and endorsed by the Advisory Group.

Mr. Hunter also briefed the Advisory Group on the preparations for next year's Forum. He reported that the State Bank of Vietnam has offered to host the event in Vietnam sometime in July 2017. Topics currently being considered include definition of financial inclusion, microinsurance, financial education, micropensions, blockchain technology and digital currencies among others.

Several participants expressed interest in including digital finance issues, including digital identity.

The Advisory Group welcomed and noted the reports and preparation for the 2017 Forum.

Infrastructure

In his introductory comments, the Chair noted that a lot of work has been done by APIP and APFF on this issue over the years, and various recommendations have been adopted by Finance Ministers and incorporated in the Cebu Action Plan. These include the establishment of the APEC PPP Experts Advisory Panel, the APEC PPP Centers Network, several dialogues, and the collaboration with the Global Infrastructure Hub and International Infrastructure Support System, among others. The APIP has two forthcoming activities – the dialogue with the Government of Thailand and an outreach event in Sydney in September. Also, given that there are now several initiatives going on, he underscored the need to think how to promote synergy and coordination, so that stakeholders can maximize resources and achieve better efficiency.

The Coordinator reported on the 5th meeting of the APEC PPP Experts' Advisory Panel, which took place on 25 May 2016 in Trujillo, Peru. The Coordinator referred to the report of the SFOM Chair, the highlights of which included the following key conclusions:

- Members of the 5th PPP Experts' Advisory Panel highlighted the importance of consistency and transparency for project development. Preparing a robust pipeline of bankable projects is a challenging task that requires expertise, especially in the public sector.
- Currently, the development of PPP projects is not limited by the amount of private funds but by the lack of viable PPP projects. The difference between a project 'wish list' and a structured and prioritized pipeline is adequate project preparation. In that regard, the Asian Development Bank (ADB) suggests PPP centers to have adequate and comprehensive project preparation capacity and resources.
- Multilateral Development Banks (MDB) like the ADB and the World Bank, as well as initiatives like the Global Infrastructure Hub and the International Infrastructure Support System (IISS), are well positioned to provide assistance to PPP Centers in the Asia Pacific region in establishing information sharing and project preparation support mechanisms, with the support of the private sector.

Mr. Kenneth Waller of the Australian APEC Study Center at RMIT University updated the Advisory Group on the activities of APIP. He reported that in accordance with the APIP 2016 work plan endorsed during the Advisory Group's 4th meeting in Manila in 2016, the APIP Secretariat is organizing three activities for the second half of 2016, the outcomes of which will be reported at the next meeting in Lima. He encouraged ABAC members and APIP collaborators to attend these meetings.

Following are the three activities:

- APIP Dialogue with Thailand to be held on 5 September at the Bangkok Club, Bangkok. The meeting will be Chaired by the Vice Minister for Finance and will be attended by senior management and officers from the Ministry of Finance, Ministry of Transportation, National Economic and Social Development Board, and the Bank of Thailand together with APIP members.
- APIP Outreach Event, Sydney, to be held on 14 September. To be followed by the John Grill's Centre Annual Infrastructure Dialogue on 15 September, this meeting will explore: (a) Infrastructure developments in Australia; (b) The developing role of the G20 Global Infrastructure Hub; (c) APIP and regional capacity building initiatives; and (d) the research paper "Success factors in the Philippines PPP program"
- APIP Dialogue with Vietnam to be held on 3 November 2016 in conjunction with the Ministry of Finance. This meeting will consider: (a) the current and prospective infrastructure projects and financing in Vietnam; and (b) the infrastructure work of the Finance Ministers' Process and the second pillar of the APEC Multi-Year Plan for Infrastructure Development and Investment.

The Advisory Group noted the report and endorsed the preparations for the activities.

Improving valuation practices in APEC

Mr. Nicholas Brooke of the International Valuation Standards Council (IVSC) reported on the progress of the Advisory Group's valuation practices initiative. Highlights of his report are as follows:

- As reported at the last meeting in PNG, the current focus of the APEC/IVSC Valuation Working Group is engaging with the valuation communities and stakeholders in the various APEC economies to ascertain how the Working Group might be of assistance through examples of best practice in reinforcing the valuation infrastructure in that particular economy and assisting with the application of common standards and the development of a robust valuation profession.
- In particular, there have been requests from a number of economies for assistance and input in relation to the valuation of intangible assets and intellectual property as economies embark on programs to extend credit and secured lending to their SME communities as part of the wider agenda of inclusive growth. A most recent example is the introduction in Thailand of the new Secured Lending Act which became law on 4 July and which permits the commercial banks whose lending previously had been restricted to hard assets to collateralize intangibles such as

accounts receivable, intellectual property, goodwill and brands, among others. At present, neither the banks nor the valuation profession have any experience in assessing the value of such intangibles. As a result the Working Group was approached by the Thai Bankers Association to arrange a Roundtable/Workshop in Bangkok to brief their members on the challenges and complexities of intangible asset valuation and through experience sharing to explain the standards, benchmarks and guidelines that are adopted and accepted by way of best practice.

- The Roundtable/Workshop took place on 26 July and was attended by some 80 representatives from over 30 banks as well as members of the two VPOs and the SFC. Besides outlining the backcloth and context to the valuation of this class of asset, three specialists in the field from Hong Kong and Australia explained through case studies and examples the methodology to be adopted in the valuation of each asset type and the assumptions and inputs that need to be addressed in arriving at fair value. The Roundtable/Workshop included an interactive Q&A session when not only how to arrive a fair value but also issues relating to both risk and enforceability were of clear concern to the participants.
- This Roundtable/Workshop is to be complemented by a Bank of Thailand/ APFF-FIDN Conference on Credit Infrastructure that will be held again in Bangkok on 24-25 August, where one of the main areas of focus will be Secured Lending Reform. There is to be a Session focusing on Valuation Best Practice and the importance when developing new secured lending initiatives for lenders to have the ability to assess the value of the collateral that they are being offered and the considerations for different types of collateral. The speakers will also illustrate that a consistent and rigorous approach to value as well as the application of common standards and guidelines are essential to ensure the success of the Government's new lending legislation.
- In addition to its current involvement in Thailand the APEC/IVSC Working Group has received requests for input and involvement from Indonesia, Philippines, Vietnam and Japan and subject to specialist availability and funding of travel costs it is hoped to arrange Roundtables/Workshops in at least two of these economies before the year end.

The Advisory Group welcomed the report and endorsed the way forward as described.

Financial innovation

The Coordinator briefed the Advisory Group on the outcomes of the Roundtable on Financial Innovation held on 15 July 2016 in Hong Kong. Following are the highlights of the discussions:

- The Roundtable discussed the evolving Fintech regulatory landscape in global financial centers and in Asia, distributed ledger technology, policy/regulatory issues (cybersecurity, data privacy and the cloud), alternative lending/P2P, regulatory technology (regtech), artificial intelligence, machine learning and robo advisors, dealing with KYC, AML and financial crime, market and reference data, and digital payments.
- Opportunities and challenges in alternative lending/P2P need to be managed. Different approaches are being pursued in the region and volumes are growing rapidly, particularly in China. While regulators are reviewing rules, the industry sees a need for smart and balanced regulations, in view of the risk of bubbles and the need to promote consumer trust.
- Regtech is not yet sufficiently utilized as part of the regulatory toolkit, so it is important for regulators to see how they can better harness its potential. In the short term, regtech enhances regulatory supervision. With better usage and understanding, it could also be a productive tool for regulators.
- The discussions on artificial intelligence, machine learning and robo-advisors focused on whether the evolution of IT is threatening human jobs, aspects of abuse and security concerns around AI and robo-advisors, the laws around data protection and data privacy, data analytics and sharing and cognitive intelligence and incorporation of AI in the current operations of various businesses.
- Key issues on the regulatory agenda for KYC, AML and financial crime include: providing high-quality data with a mechanism for regularly updating information; digitization of data,

information and records; providing the data in a standardized format for ease of analysis and centralizing the data into quality repositories.

- The impact of fintech and access to new alternative data is having a net positive impact on the industry, where evolution rather than revolution is taking place. From the standpoint of market and reference data, fintech companies have been enablers or partners in driving change in operating models, standards of service, increased personalization of products and opening up new markets.
- The region is leading in the area of digital payments because consumers are familiar with mobile devices and are more likely to purchase through social media channels. Digital payments have significant potential to further expand financial inclusion, and are enabling both start-ups and traditional players to increase access to finance for the poor and for SMEs. Harmonized regulations and standards are essential to support the inter-operability of digital platforms and the increasingly cross-border nature of payments.
- Regulators need to strike a balance between regulation and innovation and to take a differentiated approach to different technologies and their application, avoiding a “one-size-fits-all” approach. Regulatory coordination, information sharing and cooperation in supervision and enforcement are necessary to avoid unnecessary and potentially disruptive duplication of laws and regulations across jurisdictions.
- Participants agreed on the importance of establishing a platform for regulators and policy makers, market participants representing fintech start-ups and financial institutions and companies investing in fintech, and experts from multilateral institutions, academe and industry, to undertake a continuous dialogue. This platform can help regulators and policy makers provide an effective enabling environment to harness financial innovation in promoting financial inclusion and the development of financial services across the Asia-Pacific region.

The Advisory Group endorsed the proposal to establish a platform for regulators and market participants to monitor the development of Fintech and engage in regular dialogues.

Asia-Pacific Financial Forum (APFF)

The Coordinator summarized the highlights of the just concluded APFF Caucus Meeting outcomes, which included the agreement on the draft 2016 APFF Progress Report and this year’s recommendations, which covered the following:

- Expanding micro-, small and medium enterprises’ (MSMEs’) access to finance through legal and institutional reforms.
- Increasing microinsurance coverage in APEC
- Developing effective disaster risk financing and insurance (DRFI) mechanisms.
- Expanding the region’s long-term investor base.
- Mobilizing Islamic Finance for infrastructure investment.
- Deepening the region’s emerging capital markets.
- Facilitating innovation in financial market infrastructure.
- Harnessing financial technology (Fintech)
- Fostering continued dialogue and research on the future of financial regulation

The Advisory Group endorsed the 2016 APFF Progress Report.

2016 Advisory Group Report on Capacity Building Measures to Strengthen and Develop Financial Systems

The Coordinator presented the draft 2016 report of the Advisory Group recommending that APEC Finance Ministers:

- endorse the 2016 APFF Progress Report and its recommendations;
- encourage policy makers and regulators responsible for financial inclusion and MSME finance to study the report of the 2016 Asia-Pacific Forum on Financial Inclusion and to participate in the 2017 Forum;

- decide that the APEC Finance Ministers' Process (FMP) more closely integrate and coordinate its various infrastructure initiatives under the FMP, including new initiatives introduced by the CAP and ongoing initiatives such as the Asia-Pacific Infrastructure Partnership (APIP) Dialogues, the APEC PPP Experts' Advisory Panel and the PPP Center Network, by using the PPP Experts Advisory Panel as the coordinating center;
- call for expanded cooperation between the Global Infrastructure Hub (GIH) and the FMP, including early adoption by member economies of the GIH's online tools and resources as well as their participation in the International Infrastructure Support System (IISS);
- promote the continuation of APIP dialogues among interested governments, the private sector and relevant international organizations in 2017, with future dialogues building on and advancing the conclusions of previous dialogues that have been held with Indonesia, Malaysia, Mexico, Peru, the Philippines, Thailand and Vietnam;
- advance the CAP's initiative to promote urban infrastructure development in collaboration with the Urban Infrastructure Network (UIN); and
- host discussions with ABAC, the International Valuation Standards Council (IVSC), valuation professional organizations (VPOs), experts from industry and other relevant bodies on improving the quality of valuation practices and professionals.

The Advisory Group endorsed the report for attachment as annex to the ABAC Report to APEC Finance Ministers together with the 2016 APFF Progress Report.

Chair's Closing Remarks

The Chair delivered his closing remarks and thanked China Construction Bank for hosting the meeting. He also announced that the next meeting will take place in Lima during the ABAC meeting in November, and that participating institutions will be informed of the exact date and time as soon as this information becomes available. He also encouraged all attendees to participate in the APFF Symposium, which was to be held next door starting at 10:30am.

Adjournment

There being no other matters to discuss, the Chair declared the meeting adjourned at 10:15 am.