



# THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

## **First Meeting 2017**

20 February 2017

10:00 – 11:45

Vimarn Suriya Room, Dusit Thani Bangkok Hotel  
Bangkok, Thailand

## **Meeting Paper 2-A**

# **Report of the Meeting of the Advisory Group of 14 November 2016, Lima, Peru**

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>	Approve the meeting report

# THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

## **Fourth Meeting 2016**

14 November 2016

09:00 – 10:30

Ica Room, Country Club Lima Hotel  
Lima, Peru

## **MEETING REPORT**

*Draft as of 15 February 2017*

### **Welcome and Introduction**

The meeting started at 9:00 am. Participants included ABAC members and staffers and Sherpas and representatives of the APFF Financial Infrastructure Development Network, Insurance and Retirement Income Work Stream and Capital Markets Work Stream.

The Advisory Group Chair, Mr. Hiroyuki Suzuki, presided over the meeting. In his opening remarks, he thanked ABAC Peru 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 2016; a discussion of next year's work on financial inclusion, valuation practices and infrastructure, and a summary of the outlook for APFF initiatives.

### **Review of the Third 2016 Advisory Group Meeting in Shenzhen, China**

The Advisory Group Coordinator, Dr. J.C. Parreñas, presented the draft Report of the Advisory Group Meeting of 1 August 2016 held in Shenzhen, China.

*The Advisory Group approved the Meeting Report.*

### **Review of 2016 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:

- 2015 Sep 22, Iloilo, Philippines: APEC SME Finance Forum
- 2015 Sep 23-24, Iloilo, Philippines: APFF Roundtable on Lending Infrastructure for MSMEs
- 2015 Nov 12, Manila, Philippines: Reforming the Asia-Pacific Financial Infrastructure and Launch of FIDN
- 2016 Mar 14-15, Manila, Philippines: FIDN Conference on Credit Infrastructure
- 2016 May 21-22, Nanjing, China: International Conference on Secured Transactions Legal Reform
- 2016 Jul 4-5, Bangkok, Thailand: First Meeting on the Mekong Credit Information Sharing
- 2016 Aug 2, Shenzhen, China: APFF Collateral Registry Roundtable
- 2016 Aug 24-25, Bangkok, Thailand: FIDN Conference on Credit Infrastructure
- 2016 Oct 27, HCM City, Vietnam: International Conference on Supply Chain Finance in Vietnam
- 2016 Jul 8, Singapore: APFF Workshop on Trade and Supply Chain Finance
- 2016 Apr 7-8, Tokyo, Japan: 2016 Asia-Pacific Forum on Financial Inclusion
- 2016 Feb 13-14, Lima, Peru: FMP Workshop on DRF and DR Insurance

- 2015 Oct 27, Brunei Darussalam: Workshop on Developing an Islamic Infrastructure Investment Platform (I3P)
- 2016 May 10, Kuala Lumpur, Malaysia: APFF Workshop on Developing an Islamic Infrastructure Investment Platform (I3P)
- 2016 Sep 5, Bangkok, Thailand: APIP Dialogue with the Government of Thailand
- 2015 Nov 16, Manila, Philippines: APFF Repo and Derivatives Market Workshop for the Philippines
- 2016 Mar 23, Sydney, Australia: APFF Industry/Regulator Dialogue
- 2016 Apr 19, Jakarta, Indonesia: APFF Repo Market Workshop for Indonesia
- 2016 Feb 24, San Jose, USA: APFF Roundtable on Financial Innovation I
- 2016 Jul 15, Hong Kong, China: APFF Roundtable on Financial Innovation II
- 2016 Jan, Kuala Lumpur, Malaysia: Malaysia Valuation Roundtable
- 2016, Apr 26, Port Moresby, Papua New Guinea: PNG Valuation Roundtable
- 2016 Aug 1, Shenzhen, China: APFF High-Level Symposium: Public-Private Collaboration to Develop APEC Financial Markets – Achievements and Way Forward
- 2016 Oct 14-15, Lima, Peru: APEC Executive Dialogue on Finance

He noted that the Finance Ministers stated the following in their 2016 Joint Statement: “*We commend ABAC for its contributions in 2016 for the implementation of the CAP, including the activities undertaken in the Asia-Pacific Financial Forum (APFF) and the Asia-Pacific Forum on Financial Inclusion. We welcome ABAC’s report and recommendations on access to finance, infrastructure investment, capital markets, and health and disaster risk financing. We encourage relevant authorities to collaborate with the private sector in advancing them in 2017.*”

In the ensuing discussions, participants discussed various ideas that were put forward by some ABAC members. One idea proposed was to bring the collaboration with global organizations to a next stage through an Asia-Pacific Financial Summit that will involve top level participants. Another idea was to streamline APFF’s agenda, focus on a few key priority areas, and pass on the responsibility for advancing the rest to industry associations and other relevant organizations. It was also mentioned that integration in the Asia-Pacific region, for example, the integration of capital markets, is also being driven by informal processes that need to be incorporated in the overall approach of APFF.

The Chair noted the comments of participants and agreed to continue these discussions in 2017.

*The Advisory Group noted the report on the outcomes of the Advisory Group’s work in 2016 and endorsed the conclusion proposed by the Chair regarding the issues raised in the discussions.*

### **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.

Mr. Michael Fairbairn of AASC provided the following updates on the APIP:

- An APIP Dialogue with the Government of Thailand was held on 5 September 2016. Key issues considered included: (a) the importance of infrastructure investment; (b) a presentation of a road map of Thailand’s infrastructure; (c) current efforts to establish a Future Fund to support infrastructure investment; and (d) the need for certainty and clarity in bidding and project approval.
- The Dialogue generated the following recommendations: (a) the identification of 5 or 6 projects that could be brought to market; (b) greater focus on the sustainability of projects; (c) ensuring that sufficient foreign exchange cover is available where foreign capital is involved; and (d) ensuring that the purpose and operating processes of the Future Fund is clearly established to avoid conflict of interest.
- An APIP Outreach Event was held in Sydney on 14 September 2016. Key issues discussed included the following: (a) a discussion of infrastructure developments in Australia and the Asia Pacific region, noting government obstacles and inadequate regional coordination; (b) formation

by the Asian Infrastructure Investment Bank of a strategic rather than an economy-by-economy approach; (c) the role of specialist agencies like the Global Infrastructure Hub (GIH) and the International Infrastructure Support System in providing a broader view of global infrastructure developments; (d) ongoing development by the Global Infrastructure Hub of a capability framework to assist economies in assessing how well they are performing and to define needed reforms, as well as its development of the Global Infrastructure Pipeline on projects that have global reach; (e) changing circumstances around the rationale for APIP, including the growth of new advisory/data information groups with a broader international perspective; and (f) the need for APIP to be reviewed in light of these new circumstances.

- Discussions concluded that a reassessment will be undertaken of APIP and recommendations on its purpose and future role will be presented to ABAC 1 in 2017.
- Going forward, a paper will be developed by the APIP Secretariat, APIP Chair Mark Johnson AO and ABAC Australia member Robert Milliner for consideration at the first ABAC meeting in 2017 on the future role of APIP and its relevance in supporting the growth of infrastructure investments in the Asia Pacific region.
- Other activities being planned include an APIP Dialogue with Vietnam (possibly in late 2016 or early 2017) on current and prospective infrastructure projects and financing, a follow-up dialogue with Thailand to provide further advice on the experiences of APIP panel members of good and bad projects, and other dialogues to be organized taking into account ABAC deliberation on the reassessment of APIP, as noted above.

In the ensuing discussions, a suggestion by the Ministry of Finance of Vietnam to focus the work of the Finance Ministers' Process in 2017 on risk allocation was mentioned. It was pointed out that the GIH has already done much work on this topic, including a risk allocation matrix, that can be leveraged in this work.

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

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

The Coordinator delivered a presentation on behalf of Mr. Shawn Hunter of the Foundation for Development Cooperation (FDC), who was unable to travel to Lima to join the meeting. Highlights of the presentation included the following:

- Further progress was achieved in 2016 with the holding of the Asia-Pacific Forum on Financial Inclusion on the theme "Financial Inclusion in a Digital Age" on 7-8 April in Tokyo, Japan. The Forum was hosted by the Asian Development Bank Institute and co-organized with FDC, which coordinated the preparations as well as post-event activities, with the generous support of Citi Foundation. The Forum, which is an official policy initiative of the APEC Finance Ministers, attracted over 130 participants.
- Forum topics included the following: (a) credit information systems; (b) microinsurance; (c) cross-border payments; (d) savings; (e) digital finance infrastructure; (f) financial literacy; (g) consumer protection; and (h) insolvency.
- A post-forum report was done by FDC, outlining policy recommendations as a result of the Forum. It has been made available on the ABAC website (<https://www2.abaconline.org//page-content/22611571/Financial%20Inclusion>), and hard copies were mailed to over 800 APEC stakeholders.
- Planning is now underway for the 2017 Forum, which will be hosted by the State Bank of Vietnam on 10-11 July 2017 in Hoi An, Vietnam, with anticipated support from Citi Foundation, ADBI and ADB.
- Topics are (a) financial inclusion strategies (defining financial inclusion; creating an enabling environment; challenges and opportunities); (b) microproduct innovations (agrifinance; microinsurance; challenges and opportunities); (c) digital finance (blockchain technology; online

supply chain finance; challenges and opportunities); and (d) consumer protection (including financial education, digital identity, challenges and opportunities).

- The Forum is now being supported by a number of important institutions and firms forming the Financial Inclusion Caucus, led by ABAC. These include the International Finance Corporation (IFC), Consultative Group to Assist the Poor (CGAP), Japan International Cooperation Agency (JICA), RMIT APEC Study Centre, Policy and Economic Research Centre (PERC), GE Capital, Nomura Research Institute, World Savings and Retail Banking Institute, GIZ, The Foundation for Development Cooperation (FDC), TRPC, Citi, Wells Fargo, Alliance for Financial Inclusion (AFI), The Asia Foundation, Deutsche Bank, HSBC and Standard Chartered Bank.

*The Advisory Group endorsed the way forward as proposed and the concept and agenda of the 2017 Financial Inclusion Forum.*

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

On behalf of Mr. Nicholas Brooke of the International Valuation Standards Council, who was unable to come to Lima to join the meeting, the Coordinator presented the paper submitted by IVSC.

Following are its contents:

- As reported at the last APFF meeting in Shenzhen, the focus of the APEC/IVSC Valuation Working Group continues to be on engaging with the valuation communities and stakeholders in the various APEC economies to ascertain how the Working Group might be of assistance 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.
- The main area where economies are seeking assistance is in relation to the valuation of intangible assets and intellectual property as they embark on programmes 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 of legislation in Thailand—a new Secured Lending Act which became law on 4 July which permits the commercial banks whose lending previously had been restricted to hard assets to collateralize intangibles such as accounts receivable, intellectual property, goodwill, brands, etc. and 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 lasted some five hours 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 backdrop and context to the valuation of this class of asset, 3 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 it was clear that issues relating to both risk and enforceability were of concern to the participants, as well as the need for the creation of some form of central collateral register.
- This Roundtable/Workshop was complemented by a Bank of Thailand/ APFF-FIDN Conference on Credit Infrastructure which was held, again in Bangkok, on 24-25 August where one of the main areas of focus was again Secured Lending reform. There was 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. I and a specialist business valuer from Hong Kong explained the factors to be taken into account when considering different types of collateral. IVSC stressed the importance of a consistent and rigorous approach to value as well as the application of common standards and guidelines to ensure the success of the Government's new lending legislation.

- Subsequent Roundtables have been held in Kyoto, Japan and Bali, Indonesia. The first was in the wings of the Pan Pacific Valuation World Congress and was attended by valuation professionals and stakeholders not only from Japan but also participants from other mature and emerging economies. Australia was presented as an example of best practice and to provide a target for other economies attending the Roundtable which still have progress to make. Specific issues that were identified were intervention by the regulator in Japan to introduce “local business valuation standards” and the need to identify appropriate international valuation standards to address challenges being faced in Indonesia in relation to compulsory land acquisition and the valuation of growing agricultural crops.
- The second Roundtable was held in Bali in conjunction with the IVSC AGM and the RICS – MAPPI Asia Pacific Valuation Conference. The Roundtable was very well attended with over 50 participants covering the majority of the APEC economies. There was extensive sharing of experiences across a wide variety of markets and asset types. There was general agreement that the prime area requiring attention was the valuation of intangible assets. However, it also became evident that there is a need for an early visit and Roundtable in Manila where the regulator had given notice that it is contemplating introducing “local” standards to be applied when undertaking business valuations and the valuation of intangible assets in the Philippines.
- The Working Group is also considering which valuation related events it might hold next year in Vietnam to coincide with that economy taking the chair of APEC. One potential opportunity is participation in the major FIDN Symposium to be held in Vietnam in July.

*The Advisory Group noted the report and endorsed the way forward as proposed.*

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

The Coordinator summarized the outlook for APFF initiatives as follows:

- Capital markets: Work on repo and derivatives will focus on capacity building for China, Indonesia, Philippines, other interested economies. Work on information for capital markets will focus on self-assessment by interested economies. The substream on the Asia Region Funds Passport (ARFP) will be aiming to expand ARFP membership and promote reforms to expand the investor base.
- Financial market infrastructure: The Regional Securities Investment Ecosystem sub-stream plans to develop a draft Roadmap to Enhance Financial Market Infrastructure in the Asia-Pacific Region. The FMI Fintech sub-stream will be focusing on improving cybersecurity, KYC and e-payments in developing economies.
- Fintech: The APFF plans to establish a regional platform for public-private collaboration.
- Disaster risk financing and microinsurance: For DRF, APFF plans to focus on the identification of economies and perils of priority, a completion of stock-taking on availability of risk exposure data and initiation of drafting process for the APEC Roadmap on the Development of DRFI. For microinsurance, APFF intends to begin drafting a roadmap for expanding microinsurance coverage in APEC.
- Islamic Infrastructure Investment Platform (I3P): APFF plans to establish and expand the I3P network and work streams, help expand the number of participating economies; and help submit interim recommendations to Finance Ministers.
- Pensions and insurance investment in infrastructure: APFF is looking to develop best practices in promoting infrastructure investment as a defined asset class, as well as best practices in promoting pension and insurance investment in infrastructure through financing vehicles
- Expanding retirement income systems: APFF plans to develop best practices in designing mandatory provisions for retirement savings, best practices in design and implementation of tax incentives for long-term savings products, and best practices in product innovation and financial awareness.

- Insurance regulations and accounting issues: APFF will work to provide inputs to IFRS 17 accounting standards for insurance contracts with respect to unit of account, scope for variable fee approach, and transition, as well as to the Insurance Capital Standard (ICS) 1.0 Phase I standards for confidential reporting. APFF will also provide advice to APEC regulators on implementation of new solvency regimes.
- Financial Infrastructure Development Network: On credit information, efforts will focus on capacity building to help design/improve credit information systems for the Philippines, Thailand, Vietnam and other interested economies, drafting and finalizing consumer and commercial credit information data dictionary; advancing the cross-border credit information pilot in the Mekong region; and launching a cross-border credit information pilot in Oceania. The work on secured transactions will focus on capacity building to help design/improve secured transactions and insolvency laws for the Philippines, China, Thailand, Vietnam, Brunei. The work on trade and supply chain finance will aim to develop proposed pilot programs for cross-border supply chain financing, compliance and trade facilitation.
- Linkages and structural issues: APFF will undertake discussions of studies on financial regulation in Asia and formulate a proposal on understanding of “real assets” for institutional investors to undertake Islamic investment/co-investment by Islamic and conventional capital in infrastructure.

*The Advisory Group noted the outlook for the various initiatives under the APFF.*

### **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 Peru for hosting the meeting and all the participants for joining. He announced that the next meeting of the Advisory Group will be held in Bangkok 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 10:30 AM.