

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

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THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

Second Meeting 2017

26 April 2017

14:00 – 16:00

Emerald Room, 3F, FKI Conference Center

Seoul, Korea

Meeting Paper 2-A

**Report of the Meeting of the Advisory Group of 20
February 2017, Bangkok, Thailand**

Office of the Advisory Group Chair

PURPOSE	For consideration.
ISSUE	N.A.
BACKGROUND	N.A.
PROPOSAL	N.A.
DECISION POINT	Endorse the meeting report

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

First Meeting 2017

20 February 2017

10:00 – 11:30

Vimarn Suriya Room, Dusit Thani Bangkok Hotel
Bangkok, Thailand

MEETING REPORT

Draft as of 7 April 2017

Welcome and Introduction

The meeting started at 10:00 AM. Participants included ABAC members and staffers and representatives from various institutions collaborating with the Advisory Group on various initiatives.

The Advisory Group Chair, Mr. Hiroyuki Suzuki, presided over the meeting. In his opening remarks, he thanked participants for joining the meeting and ABAC Thailand for providing meeting facilities. The Chair outlined the agenda of the meeting, saying that its main purpose is to finalize the Advisory Group's work program for 2017. He provided an overview of the agenda items, which focused on the various work plans for financial inclusion, infrastructure and valuation practices, as well as a summary of the discussions on APFF during the preceding caucus meeting.

Review of the Fourth 2016 Advisory Group Meeting in Lima

The Advisory Group Coordinator, Dr. J.C. Parreñas, presented the draft Report of the Advisory Group Meeting of 14 November 2016 held in Lima, Peru.

The Advisory Group approved the Meeting Report.

Financial Inclusion

The Coordinator briefed the Advisory Group on the preparations for the 2017 Asia-Pacific Forum on Financial Inclusion on behalf of Mr. Shawn Hunter of the Foundation for Development Cooperation (FDC). The following points were highlighted as way of providing the background:

- The Asia-Pacific Forum on Financial Inclusion is an annual regional public-private sector forum for collaboration to help governments and regulators create an enabling environment for financial inclusion in APEC member economies.
- It is a policy initiative under the APEC Finance Ministers' Process (since 2010) entrusted to ABAC and organized by FDC in partnership with the Citi Foundation and ADB Institute / ADB. It has been supported by key stakeholders including IFC/WBG, CGAP, OECD and leading financial firms and industry associations, non-profit organizations and think tanks.
- Forums have been hosted in Tokyo, Japan (2011 and 2016), Shanghai, China (2012 and 2014), Batam, Indonesia (2013) and Tagaytay, Philippines (2015).
- This year's 2017 Forum will be held on 10-11 July in Hoi An, Vietnam and will be hosted by the State Bank of Vietnam

The Coordinator described the agenda of the Forum as follows:

- Session 1 (Financial Inclusion Strategies): Defining financial inclusion, creating an enabling environment, challenges and opportunities

- Session 2 (Microproduct innovations): Agrifinance; microinsurance; challenges and opportunities
- Session 3 (Digital finance): Blockchain technology; online supply chain finance; challenges and opportunities
- Session 4 (Consumer Protection) Financial education, digital identity, challenges and opportunities

The Coordinator mentioned that the outcomes of the Forum will be provided as inputs to the APEC Finance Ministers' decisions on financial inclusion at their annual meeting this October in Vietnam, and will be disseminated to a wide audience both in printed form and electronically.

In the ensuing discussions, participants noted the importance of financial inclusion for developing economies, especially the host of APEC 2018, Papua New Guinea, and lauded the focus on the agricultural sector. Participants agreed that the Forum should concentrate on actionable items and ensure that the microfinance sector is actively involved in discussions going forward.

The Advisory Group endorsed the program for the 2017 Asia-Pacific Forum on Financial Inclusion.

Infrastructure

Mr. Kenneth Waller of the Australian APEC Study Centre at RMIT University briefed the Advisory Group on the new directions for the Asia-Pacific Infrastructure Partnership (APIP). He highlighted the following:

- Following on from successful APIP dialogues in the 2011-2016 period, the APIP Secretariat, APIP Chair Mark Johnson AO and Robert Milliner, ABAC Australia member, met on 8 February 2017 to review the direction that APIP activities might take in line with ABAC priorities, proposals arising from the Sydney meeting in September 2016 and in response to the 2016 APEC Joint Finance Ministerial Statement.
- The meeting noted that the techniques and processes for infrastructure development, including by PPPs, is better understood and many sources of information and data were now available to assist economies in infrastructure development and financing. However, a weakness remains and that relates to inadequate or inappropriate organizational structures within governments. Addressing these require system change and buy-in by government to discuss best practices and review proposals about organizational approaches as well as access to sound analytical tools developed or being developed by the Global Infrastructure Hub and others.
- The issues then for the future of APIP is what value could it add and the approaches it could take. To enable APIP to retain its relevance, a strategy that APIP could implement in 2017-2019 is recommended below.
- Based on the above discussions, the proposal being put forward is that APIP should develop a strategic focus over the next two years as follows:
 - Focus on providing feedback to ABAC, Ministers and Senior Officials on the progress of 'how APEC economies are tracking against Pillar 4: Accelerating Infrastructure Development and Financing detailed within the Cebu Action Plan'.
 - Provide assessments on how economy infrastructure systems address the delivery of infrastructure projects, particularly PPP projects, with an emphasis on providing case studies and lessons learnt for projects that did not deliver positive outcomes for economies and/or the private sector in conjunction with the Global Infrastructure Hub (as part of its Collaboration Action Plan) and others.
 - Develop ways to give effect to the intent of paragraph 14 of the Joint Finance Ministerial Statement on implementing the APEC Network of PPP Centers in collaboration with the OECD and MDBs.
 - Continue engagement with the Ministries in particular of Thailand, Viet Nam and Indonesia as requested to mobilize and to offer targeted assistance for their PPP programs.

The Coordinator briefed the Advisory Group on the progress of the Islamic Infrastructure Investment Platform (I3P), which is being proposed as an APFF initiative. By way of providing background, he mentioned that it was suggested at the Finance Ministers' Dialogue with the Financial Industry in

Cebu and progressed at workshops in Brunei (2015) and Malaysia (2016). Participants in these workshops agreed to establish I3P as a platform for collaboration among public, private, international organizations and academic experts to address key obstacles to the expansion of cross-border investment by Islamic financial institutions, especially long-term investment, in infrastructure projects. The Brunei private sector, in coordination with ABAC Brunei, volunteered to play a secretariat role at the outset.

The Coordinator reported that at the Kuala Lumpur workshop in 2016, participants identified several work streams to form the components of I3P. These work streams are to focus on the following:

- common definitions of infrastructure projects and financial instruments acceptable to Islamic financial institutions;
- development of Islamic hedging instruments;
- development of financial instruments suitable for infrastructure investment from Islamic pension funds and takaful;
- identification of discriminatory tax policies in pathfinder economies and actions to address them;
- directory of experts, definitions, funders, participating economies, qualifying infrastructure projects to help progress various initiatives under this platform; and
- collaboration with the International Infrastructure Support System (IISS) in developing project preparation tools for participating economies.

It was proposed that endorsement of Finance Ministers be requested to facilitate collaboration of relevant agencies, regulatory bodies and development organizations.

The Coordinator briefed the Advisory Group on the preparations for the joint APFF-APIP dialogue with the government of Indonesia on promoting PPPs in waste management projects that was to be held on 14 March 2017 at the Hermitage Hotel in Jakarta, Indonesia. Following were key points of his presentation:

- The issue arose from the APEC High-Level Meeting on Overcoming Barriers to Financing Waste Management Systems to Prevent Marine Litter that was held on 28-29 September 2016 in Tokyo, Japan. The Meeting was sponsored by the Oceans and Fisheries Working Group (OFWG)/ SOM Steering Committee on Economic and Technical Cooperation (SCE) and the Chemical Dialogue (CD), under the leadership of Japan and the USA. At the meeting, participants requested ABAC to assist in convening dialogues with private sector and MDB infrastructure experts and long-term investors in three target economies in 2017: Indonesia, the Philippines and Vietnam.
- There is an urgent need for infrastructure to deal with the exponentially growing volume of waste in developing economies as a consequence of economic development and urbanization. The Asia-Pacific is expected to produce annually 1.4 billion metric tons of municipal solid waste by 2030, which is outstripping the capacity of traditional waste management systems (e.g., landfills).
- There are opportunities in waste-to-energy, which has become a priority issue for many cities in developing APEC member economies. The challenge is bridging the revenue gap in financing the municipal solid waste sector, and how to enable investment from private investors, multilateral development institutions and other sources of capital to create a pipeline of bankable projects and close the revenue gap, which is currently estimated at US\$40 billion.
- The objective of the Jakarta dialogue is sharing real world experiences and knowledge to help Indonesia launch successful projects that can serve as templates for a pipeline of bankable infrastructure PPP projects in waste management (especially waste-to-energy projects). Stakeholders include experts and practitioners from APIP, APFF (insurance and pensions), international organizations and interested governments. Target stakeholders in Indonesia include city governments intending to launch WTE projects, as well as central government and regulatory agencies needed to enable and support these projects.
- Contributors will include APIP and the APFF Insurance and Retirement Income Work Stream, the APEC OFWG network members (public and private sector experts), international organizations like the ADB, IFC/WBG, OECD, and advisory institutions such as the Global

Infrastructure Hub and the International Infrastructure Support System. The dialogue is being sponsored by the Ministry of Environment, Government of Japan.

- The agenda will focus on best practices in construction / operation of waste management projects (e.g.: preparing bidding documents; system design; selection of contractor; selection of appropriate technology; monitoring of facility), regulatory issues, inter-agency coordination, risk allocation among public and private stakeholders and financing (e.g.: use of subsidies, feed-in tariffs, guarantees and taxes).

During the discussions, participants noted that valuation of infrastructure assets is also a significant issue that the Advisory Group's work on valuation practices can help address.

The Advisory Group endorsed the new directions for AP/IP in 2017, the way forward for I3P and the agenda for the Joint APFF-AP/IP dialogue with Indonesia..

Improving Valuation Practices in APEC

Mr. Nicholas Brooke of IVSC reported on the progress of the valuation practices initiative. Highlights of his report were as follows:

- The initiative maintains its momentum and there is growing interest and attention being paid to the plans and program to encourage the increased adoption of common valuation standards across the APEC economies as well as to assist in the development of a robust valuation profession.
- Of particular importance and relevance is the production and issue by the International Valuation Standards Council of Investment Valuation Standards 2017 (IVS 2017) on 16 January 2017. IVS 2017 represents a major update to reflect changes that have occurred in the valuation arena since 2013 and in particular response to market demand for more extensive coverage of standards applicable to the valuation of intangible assets and financial instruments. Historically, the focus by users has been on tangible assets, especially real estate, but the increased use of intangible assets as collateral and the need to better understand how to derive a market value for derivatives and other forms of investment paper has been reflected by the creation of three Standards Boards by IVSC – tangible, intangible and financial instruments – which will enable each to focus more closely on its own area of specialization.
- The new Standards have attracted attention across a number of economies and one of the early priorities of the working group will be to raise awareness and to introduce these new standards to the APEC valuation community, in particular the regulators and valuation professional organizations (VPOs).
- In terms of specific focus, the working group, having largely completed its stock take of the valuation architecture across the 21 economies and the development of a best practice template, has been concentrating on holding in-economy Roundtables and Forums with valuation industry stakeholders.
- One particularly successful joint venture was undertaken in the autumn of 2016 in Bangkok when at the invitation of the Bank of Thailand and the Thai Bankers Association, and working with FIDN and appropriate valuation experts, the working group briefed a large audience of bankers and government officials on the valuation of intangible assets and intellectual property. The Thai Government has introduced secured credit legislation which requires the banks to view more favorably collateral offered by SMEs which invariably takes the form of intangible assets whereas the banks have previously only focused on and lent against tangible assets such as real estate.
- Another Roundtable was held in Kyoto on the wings of a major International Valuation Conference which was attended by some 30 valuers from a number of different economies. Topics discussed included: (a) the absence of any organization in Japan that represents the business valuation profession and the desire of the Japanese authorities to see a voice which speaks for this part of the valuation profession; (b) challenges and potential confusion in the

Philippines where there are two competing VPOs (see later); and (c) the need for specialist help in Indonesia around certain specific areas of valuation.

- Responding to the requests expressed in Kyoto, the working group subsequently held a Roundtable in Bali, Indonesia in September attended by over 50 valuation professionals and stakeholders, where they discussed two major areas of valuation, the first relating to the valuation of growing crops and the second to the assessment of compensation when land is compulsorily acquired for public purpose by Government. The working group has agreed to identify specialists in these areas and intend to convene a second Roundtable in Jakarta in the near future.
- Similarly, in mid-January 2017, a well-attended Roundtable was held in Manila where the working group was able to introduce IVS 2017 which had been published a day earlier. IVS 2017 was particularly well received by the regulator and government officials. As a result, a Technical Working Party was established in which the Working Group is represented to see whether it is possible for the Philippines to adopt IVS 2017 in its entirety, supplemented as necessary by local guidelines, rather than using the new Standards as a tool to update PVS, the local valuation standards which have not been updated in any way since 2008. If this proves possible, it would be a tremendous step forward.
- The working group plans to continue the program of Roundtables throughout 2017 and has received requests for repeat visits from Papua New Guinea, Philippines, Japan and Indonesia and for an exploratory Roundtable in Vietnam.

The Advisory Group endorsed the way forward as discussed.

Asia-Pacific Financial Forum (APFF)

The Coordinator summarized the outcomes of the discussions at the recently held APFF Caucus Meeting on the 2017 APFF Work Program. Following are the various deliverables in the work program:

- Financial Market Infrastructure: Regional Securities Investment Ecosystem: Roadmap to Enhance Financial Market Infrastructure in the Asia-Pacific Region
- Financial Market Infrastructure: FMI Fintech: Best practices for improving cybersecurity, KYC and e-payments in developing economies
- Retirement Income/Long-Term Investment: Infrastructure and investment: (a) Best practices in promoting infrastructure investment as a defined asset class; (b) Best practices in promoting pension and insurance investment in infrastructure through financing vehicles
- Retirement Income/Long-Term Investment: Retirement and Protection: (a) Best practices in designing mandatory provisions for retirement savings; (b) Best practices in design and implementation of tax incentives for long-term savings products; (c) Best practices in product innovation and financial awareness
- Retirement Income/Long-Term Investment: Regulation and accounting: (a) Inputs to IFRS 17 accounting standards for insurance contracts with respect to unit of account, scope for variable fee approach, and transition; (b) Inputs to Insurance Capital Standard (ICS); (c) Advice to APEC regulators on implementation of new solvency regimes
- Retirement Income/Long-Term Investment: I3P (a) Establish/expand I3P network and work streams; (b) Expand number of participating economies; (c) Submit interim recommendations to Finance Ministers
- Infrastructure investment: Hold APIP dialogues with Indonesia, Philippines, Vietnam and other interested economies on promoting private sector investment in infrastructure, including waste management systems.
- Capital Markets: Repo and Derivatives: Capacity building for China, Indonesia, Philippines, other interested economies
- Capital Markets: Information for Capital Market Investors: Self-assessment by interested economies based on the APFF templates
- Capital Markets: Asia Region Funds Passport: (a) Expanding ARFP membership; (b) Promoting reforms to expand investor base

- DRFI: (a) Identification of economies and perils of priority; (b) Completion of stock-taking on availability of risk exposure data; (c) Initiation of drafting process for the APEC Roadmap on the Development of DRFI
- Microinsurance: Completion of roadmap for expanding microinsurance coverage in APEC
- Fintech: Establishment of a platform for regulator-industry dialogue on enabling environment for Fintech
- Linkages and structural issues: (a) Studies on financial regulation in Asia (Financial Regulation in Asia Project); (b) Formulate proposal on understanding of “real assets” for institutional investors to undertake Islamic investment/con-investment by Islamic and conventional capital in infrastructure
- FIDN: Credit information: (a) Capacity building to help design/improve credit information systems for the Philippines, Thailand, Vietnam and other interested economies; (b) Draft and finalize consumer and commercial credit information data dictionary; (c) Cross-border credit information pilot in the Mekong region; (d) Cross-border credit information pilot in Oceania
- FIDN: Secured transactions: Capacity building to help design/improve secured transactions and insolvency laws for the Philippines, China, Thailand, Vietnam, Brunei
- Trade and Supply chain finance: Develop proposed pilot programs for cross-border supply chain financing, compliance and trade facilitation, based on discussions of evolving cross-border market practices and clients’ needs

The Coordinator also informed the Advisory Group of several upcoming activities, which were (a) the MSME Financing Ecosystem Seminar in Bangkok, (b) the breakfast meeting on the I3P in Bangkok; (c) Repo and Derivatives Market workshop in Bangkok, (d) APFF-APIP Joint Dialogue with the Government of Indonesia on Waste Management PPP Projects (e) Microinsurance Roadmap Workshop in Hanoi, (f) Workshop on repo, derivatives and corporate bonds in Beijing, (g) Trade and Supply Chain Finance Workshop in Singapore, and (h) Symposium on Personal Data Protection and Credit Information in Beijing.

The Coordinator presented the agenda outline for the APFF Symposium on Developing APEC’s FMI to be held on 25-26 April in Seoul, Korea.

The Coordinator also reported that after discussions at the APFF Caucus Meeting previously held prior to this one on the APFF communication strategy, including the introduction of an APFF Twitter account and proposed guidelines governing its operations, it was decided that the APEC Secretariat will finalize the overall APEC media strategy in April and that an updated proposal for the APFF Twitter account will be submitted for discussion during the next APFF Caucus Meeting in Seoul.

The Advisory Group endorsed the proposed 2017 APFF work program, noted the upcoming activities and the agenda of the APFF FMI Symposium in Seoul on 25-26 April.

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 encouraged participants to strongly support and diligently undertake the activities agreed upon as part of the 2017 work program. He announced that the next meeting of the Advisory Group will be hosted by ABAC Korea in late April in Seoul.

Adjournment

There being no other matters to discuss, the Chair declared the meeting adjourned at 11:30 AM.