

**Advisory Group
Meeting II**

PAPER 2-A

Document: AGFSCB 38-008

Draft: **SECOND**

Date: 09 April 2018

Source: AGFSCB Chair

Meeting: Tokyo, Japan



THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

Second Meeting 2018

16 April 2018

09:00 – 12:00

“Tsuru”, 3F, Imperial Hotel Tokyo
Tokyo, Japan

Meeting Paper 2-A

**Report of the Meeting of the Advisory Group of 2
February 2018, Auckland, New Zealand**

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 2018

2 February 2018

17:15 – 19:00

Aquamarine Room, Hilton Auckland
Auckland, New Zealand

MEETING REPORT

Draft as of 6 April 2018

Welcome and Introduction

The meeting started at 17:15 PM. Participants included ABAC members and staffers and representatives from various institutions collaborating with the Advisory Group on various initiatives.

The Advisory Group Chair, Mr. Kobsak Duangdee, presided over the meeting. In his opening remarks, he thanked participants for joining the meeting and welcomed the guests – Ms. Michelle Curry of FDC, Mr. Makoto Okubo of Nippon Life and Mr. James Bond of Citi. The Chair thanked ABAC New Zealand for arranging the meeting facilities and outlined the agenda of the meeting, saying that its main purpose is to review past performance, update the terms of reference and finalize the 2018 work program of the Advisory Group. He provided an overview of the agenda items, which focused on the various work plans for financial inclusion, infrastructure and the various work streams under the APFF.

The Advisory Group Co-Chair, Mr. Nobuhide Hayashi, shared his views on the work of the Advisory Group in 2018. He noted that at the Finance and Economics Working Group (FEWG) meeting during ABAC IV in Da Nang, most ABAC members expressed appreciation for the Advisory Group's contributions to implementing ABAC's recommendations and the Cebu Action Plan. He observed that digital technology and cross-border supply chains are two major forces shaping this world and are substantially transforming the business landscape, and that economies that succeed in enabling businesses to harness these forces are the ones most likely to prosper in today's world. However, the legal, policy, regulatory and institutional ecosystems must enable financial services to modernize and businesses to seize new opportunities. This involves a lot of cross-cutting issues, and the challenge of governments is how to overcome the old ways of working in silos and to have more synergy across different agencies and ministries.

Mr. Hayashi noted that in recognition of these trends, ABAC members expect the Advisory Group to do more to help develop a new paradigm for capacity building in APEC that cuts across traditional areas of responsibility and traditional industry sectors. However, before the Advisory Group can play this role, work streams must collaborate more closely and cross-functionally and find synergy, rather than dealing with the same issues as separate work streams independently of each other. He also mentioned that ABAC agreed to undertake a study of policy and regulatory framework reform across APEC economies with respect to digital technologies and innovation and expressed his conviction that capacity building initiatives under the Advisory Group will be a key driving force to achieve this reform.

He concluded by expressing his appreciation for the activities of the APFF, APIP and Financial Inclusion Forum and the contribution made by Sherpas, as well as ABAC members who have joined the meeting to speak under the various agenda items.

Review of the Fourth 2017 Advisory Group Meeting in Da Nang

The Advisory Group Coordinator, Dr. J.C. Parreñas, presented the draft Report of the Advisory Group Meeting of 4 November 2017 held in Da Nang, Vietnam.

The Advisory Group approved the Meeting Report.

Stocktake and Terms of Reference for the Advisory Group and APEC Finance Ministers' Process (FMP) Initiatives (APFF, APIP, Financial Inclusion Forum)

The Coordinator presented the results of the Stocktake of the achievements and current status of the FMP initiatives. Following are the highlights of the presentation:

- The initiatives being managed by the Advisory Group on behalf of ABAC – APFF, APFIF and APIP – assist governments in taking concrete measures to properly implement ABAC recommendations now incorporated in the Cebu Action Plan. This capacity-building assistance takes various forms: workshops and dialogues, meetings, roadmaps, studies, inputs and new collaborative platforms.
- Activities leverage the expertise and resources of over 200 major private and public organizations in the APFF, APFIF and APIP networks, as well as ABAC's unique position as the trusted vehicle for private sector collaboration with APEC. They are helping economies put in place the interconnected building blocks that will enable the region to effectively harness the digital technology and cross-border supply chains shaping the business landscape of the 21st century to achieve prosperity.
- APFIF (since 2010), APIP (since 2011) and APFF (since 2013) have helped several economies initiate legal reforms, issue rules and circulars, introduce new institutions or strengthen existing ones, enable the use of particular financial instruments, establish collaborative inter-agency structures, and make regional initiatives viable.
- Among these are Brunei's new law on secured transactions and steps to build its credit information system; the design of a new secured transactions bill and warehouse receipts bill in the Philippines; a pilot project in the Mekong region to enable MSMEs to use their credit information in home economies to finance cross-border business in host economies; new legislation improving the secured transactions systems in Thailand and Vietnam; adjustments in the draft rules that enabled Japan to join the Asia Region Funds Passport (ARFP); a study on tax implications of the ARFP; the introduction of the title-transfer repo in the Philippines; and the successful mandatory exchange of variation margin among financial institutions across APEC.
- APIP dialogues with several economies have resulted in adoption of key ABAC recommendations improving the PPP investment environment. Among these were the establishment of PPP centers in China and Indonesia; the Land Acquisition Law, a new regulation on viability gap funding, an 800% increase in capital for the government corporation funding project preparation and a new regulation on availability payment in Indonesia; rules allowing unsolicited proposals, institutionalization of viability gap funding and amendment of regulations on single borrower's limit for loans to PPP projects in the Philippines; and Thailand's PPP Act, which streamlined the approval process.
- APFF also convinced IASB to improve two critical items in IFRS 17 (financial reporting standards on insurance contracts) that affect insurers' appetite for long-term investment, particularly in infrastructure.
- Various activities are helping lay the groundwork for structural reforms, where a sufficient understanding of how markets are impacted by policies is a prerequisite. These involved the creation of roadmaps and work programs for specific parts of financial markets, baseline studies,

awareness raising on key issues, and establishment of platforms for industry-regulator collaboration.

- These included the draft roadmap for creating safe, connected and inter-operable clearing, settlement, custody and payment infrastructure across APEC; a draft roadmap for expanding the coverage of microinsurance; a continuing platform for industry-regulator-academic dialogue on fintech and digital finance; an ongoing conference program on trade and supply chain finance; and the Islamic Infrastructure Investment Platform (I3P).
- Annual conferences convened by the APFIF since 2010 have incubated the ideas for credit information, secured transactions and insolvency systems, remittances and trade/supply chain finance that governments are now translating into laws, policies and regulations with the support of APFF's network of technical experts. Ongoing work includes promoting access to finance for those in the informal sector, inclusive asset accumulation policies and expanded participation in the formal financial system.
- Many other ongoing activities are expected to result in further reforms in coming months and years. These include the reform of bankruptcy laws in several economies, collaboration with officials and legal experts in the design of secured transactions and insolvency chapters of China's new civil code, collaboration with officials and regulators in creating an enabling policy environment for the effective use of data, fintech and digital finance (including digital supply chain financing), expanding the private sector's role in disaster risk financing, reforms to expand the role of pension funds and insurers as the region's long-term investor base, and linking initiatives on both sides of the Pacific.
- A global financial industry publication¹ named APFF as one of 26 key factors currently impacting finance, alongside Basel III, the EU's Anti-Money Laundering Directive/Funds Transfer Regulation, the EU Capital Markets Union and the EU MiFID II (Markets in Financial Instruments Directive, Version 2), among others. The publication credited APFF with creating "additional business opportunities" across the corporate, insurance, institutional, investment manager, broker dealer, global custodian, and infrastructure sectors.

The Coordinator concluded that the Stocktake illustrated how the APFF, APIP and APFIF have quickly grown into effective platforms for public-private collaboration that deliver concrete results appreciated by APEC stakeholders, the private sector and multilateral institutions. They have been effective instruments in translating ABAC recommendations into policies, and they are providing a channel for ABAC members to play active roles in marshalling the region's financial industry to join with the public sector in creating a robust and integrated Asia-Pacific financial system.

The Coordinator then presented the draft Terms of Reference for the Advisory Group and the three FMP initiatives. The following are the highlights of the presentation:

- The Advisory Group is the structure through which ABAC manages the APFIF, APIP and APFF. The Advisory Group provides the regular mechanism for overseeing and monitoring these 3 initiatives, reporting their progress to ABAC and the Finance Ministers' Process (FMP), and making needed adjustments to their work based on feedback from ABAC and FMP.
- The scope of the Advisory Group's work covers the scope of its three component initiatives. The focus of APFF is implementation of ABAC's recommendations on MSME finance, capital market development and integration, retirement income and long-term investment; and financial resilience. The focus of APFIF is financial inclusion. The focus of APIP is infrastructure financing. The Advisory Group will undertake work on the above matters with a view to addressing new business issues and critical cross-cutting aspects, such as fintech and legal issues, in an integrated and comprehensive way.
- The Advisory Group is headed by a Chair and Co-Chair(s) appointed by ABAC. The Advisory Group Coordinator assists them in fulfilling their responsibilities, which are (a) developing the

¹ Deutsche Bank, flow (October 2017), page 18. <http://cib.db.com/insights-and-initiatives/flow-e-magazine-october-2017.htm?page=12#gsc.tab=0>

annual work program of the APFF, APFIF and APIP; (b) reporting regularly to ABAC on the progress of these initiatives in a concise manner, focusing on policy recommendations, decision points, new work and high-level topics of interest to ABAC members; (c) reporting regularly to the FMP; (d) developing a concise and streamlined progress report for these initiatives focusing on clear areas of progress and tangible accomplishments rather than descriptions of events, that will be annexed to the ABAC Report to APEC Finance Ministers; and (e) undertaking necessary measures to ensure the effective and efficient implementation of the work program.

- The Advisory Group Chair and Co-Chair(s) are also the Chair and Co-Chair(s) of the APFF. The leadership structure of each work stream will be tailored to most effectively fit the culture of the respective finance subsectors and participating institutions. The APFIF is managed since 2010 by the Foundation for Development Cooperation (FDC). The APIP Chair is selected on the basis of knowledge and experience in infrastructure finance, dealing with public sector officials and effectively managing dialogues.
- The Advisory Group is composed of (a) ABAC members who have signified their interest; and (b) sherpas, Core Group members and leaders of the APFF, APFIF and APIP. Participation in the APFF, APFIF and APIP is open to individuals and entities that are able to contribute knowledge and resources to activities.
- The Advisory Group meets during the time of the regular ABAC meetings, covering the activities of APFIF, APIP and APFF. The venue and logistics for the Advisory Group meeting will be provided by the ABAC meeting host. In conducting meetings, APFF, APIP and APFIF will follow relevant APEC and ABAC guidelines and practices. External communications will follow the guidelines in the ABAC Handbook. Funding of activities will follow the normal practices followed since their establishment.

Mr. Alberto Salas (ABAC Chile) noted the comprehensive and high quality work and impressive achievements of the Advisory Group. He expressed his agreement with the 2018 Work Plan, noting the importance of placing emphasis on deliverables and convergence between Asian member economies and those in the Pacific Alliance. He acknowledged the contributions of previous and current leaders of the Advisory Group, including former Chair Hiroyuki Suzuki, the current Chair and Co-Chair and the Coordinator.

Tan Sri Rastam Mohd Isa (ABAC Malaysia) said that he strongly believes the Advisory Group remains relevant to the work of the APEC Finance Ministers. Commenting on the draft Terms of Reference, he cited the unique structure of the Advisory Group that needs to remain within the ABAC process. He referred to the reference to APFF in the Deutsche Bank publication cited by the Coordinator as one of the major developments that are presently impacting the financial world in a positive way as evidence of its effectiveness. He expressed the view that the Advisory Group was instrumental in helping ABAC develop recommendations to the Finance Ministers that will benefit both public and private sectors, providing as examples the I3P and MSME finance initiatives where ABAC Malaysia is very actively engaged. He expressed his expectation for continued work by the Advisory Group on promoting digital financial services, Islamic financial institutions' investment in infrastructure and wider use of innovative financing mechanisms for MSMEs.

Mr. Ho Meng Kit (ABAC Singapore) expressed his support for the result of the Stocktake, which illustrated the value of the work done by the Advisory Group and the three initiatives and the significant difference this has made to many economies, not just to developing economies but even to Singapore, where 10 percent of the population remains unbanked. The work plan is very relevant especially in responding to the need to develop e-payments, adequate pension systems, financing MSMEs, and funding much-needed infrastructure in the region. He expressed his strong endorsement and support for the continuation of the work of the Advisory Group.

Mr. David Dodwell conveyed ABAC Hong Kong's strong support for the Advisory Group, noting that it provides APEC officials with a relevant alternative model for achieving progress and valuable real-world inputs that APEC needs. He cited the limits posed on ABAC's capacity by the relatively small number of its members which can be overcome by adopting the APFF, APIP and APFIF model

to expand ABAC's capacity to harness the vast knowledge and resources in the wider business sector and international private and public organizations to advance its agenda in the field of trade among APEC Senior Officials.

Following the above discussions, the Advisory Group noted the Stocktake and endorsed the proposed Terms of Reference.

Asia-Pacific Financial Inclusion Forum (APFIF)

Ms. Michelle Curry of FDC presented the 2018 work plan of the APFIF. Highlights of the work plan are as follows:

- Its end goals include (a) improved access to a wide range of financial services (including digital finance) by individuals and micro-entrepreneurs currently in the informal economy; (b) implementation of inclusive policies supporting productive asset accumulation (e.g. home ownership, land titles); (c) expanded participation in the formal economy (e.g., superannuation and pension schemes, access to MSME / agri funding, greater income security among others); and (d) promoting the role of consumer data in achieving the above three goals.
- The 2018 deliverables include: (a) a paper on financial inclusion presented to the PNG government in relation to the 2018 APEC Financial Inclusion Initiative; (b) action report of the 2018 Asia-Pacific Forum on Financial Inclusion; (c) action report of the 2018 Mekong Inclusive Growth Forum; and (d) action report on the role of women in inclusive growth.
- To achieve these deliverables, the following activities are being prepared: (a) June 27-28, Tokyo: 2018 Asia-Pacific Financial Inclusion Forum (formal FMP policy initiative); (b) September, Bangkok: 2018 Mekong Inclusive Growth Forum as a side activity of the Financial Inclusion Initiative within the FMP; (c) date and venue TBD: Roundtable on the role of women in inclusive growth – opportunities to achieve greater inclusion - as a side activity of the Financial Inclusion Initiative within the FMP; and (d) other roundtables/workshop meetings throughout the year as governed by the APEC host's work plan.

Mr. Alberto Salas (ABAC Chile) presented Chile's experience as a case of financial inclusion in a middle income economy, based on a study especially prepared for this meeting by Enrique Marshall, Chairman of Banco Estado and Nicole Winkler, Executive Officer, Financial Planning Office, Banco Estado.

Highlights of the presentation are as follows:

- Financial inclusion is much more than a poverty-alleviation strategy, but a strategy to make the payment system more efficient, to increase productivity among MSMEs, and to provide a positive contribution to financial stability. Institutional ways to catalyze financial inclusion need to have solid foundations and an adequate institutional framework. Technology is an ally of financial inclusion, as it helps in reducing banks' transactional and operational cost, allowing them to pass these lower costs on to clients.
- Chile is a typical middle-income economy, with a GDP in 2017 of US\$ 264,8bn, a GDP per capita in 2016 of around US\$ 16,600, GDP annual growth rate in 2017 of 2.2%, a population in 2017 of 18.5 million, inflation rate in Oct. 2017 of 1.9%, and an unemployment rate in Oct. 2017 of 6.7%. Chile has been a member of OECD since 2010.
- Remarkable progress has been achieved in the past decade with strong growth of transactional or payment accounts and debit cards associated with them. Debit cards, for example, have increased from 7,411,000 in 2007 to 21,286,000 in 2017.
- Factors behind this rapid growth include: (a) the soundness of Chile's financial system as recognized by several international rankings/standards; (b) provision of services through multiple channels including digital (internet and mobile), and traditional (branches, ATMs & correspondent networks); (c) proportionate regulation, particularly flexible requirements for the opening of transactional accounts as an effective way to reduce access barriers; and (d) adjustment of fees to customers' needs, such as by replacing fixed charges with a charge based

on movements and fulfilling the need for charges' rationale to be explained to the public and applied with transparency.

- Other key factors include the role played by the central bank (Banco de Estado) in providing remarkable leadership, not only in terms of financial inclusion but also through its decision to innovate with regards to the implementation of an efficient correspondent banking network as well as 400 full branch offices (the only bank of the system in 120 counties), 107 small-type branch offices and 2,400 ATMs; and the promotion of the use of transactional accounts through online payment of state subsidies and benefits the private sector encourages employees to have an account for the direct and automatic payment of their wages.
- Another key feature of Chile's experience has been universal access to transactional account accompanied by infrastructure that favors their use. The central bank offers a CuentaRUT account to everyone with a taxpayer number (RUT). The number of CuentaRUT accounts has grown from 600,000 in 2007 to 9,784,000 in 2017, and the share of these accounts of total debit card accounts has risen from 8 percent to 46 percent over the same period.
- Chile faces a number of challenges. (a) Digital transformation: the rapid advance of technology must be matched if effective financial inclusion across all sectors is to be achieved. (b) Financial education should be addressed jointly by both the educational and financial authorities, promoting financially responsible behavior across all segments of the population. (c) Remittances for immigrants through banking institutions can favor financial inclusion since the senders seldom have a transactional account despite having a reasonably constant inflow of cash. (d) Implementation of Basel III and financial inclusion - Chilean regulators should implement these international standards and replicate preferential treatment of SMEs.
- Financial inclusion remains a challenge worldwide. To address these challenges, it is crucial to identify the main barriers to continuously increase access to financial products. Sound and secure financial systems require informed consumers, hence the importance of financial education programs to promote responsible indebtedness and products' effective use. Economies should provide a regulatory infrastructure that includes the design of products suited to users' needs, and flexible to allow new technologies.

Mr. Andry Asmoro conveyed ABAC Indonesia's views on the subject. He noted that the scope of the work plan is in line with the needs of Indonesia, which faces similar issues as Chile. He said that Indonesia can make valuable contributions to advancing financial inclusion in the region, as the government is now involving the private sector in promoting financial inclusion, including in the formulation of policies and regulations and the involvement of the banking sector in financial inclusion initiatives. He referred to the tremendous challenge faced by Indonesia, where the financial inclusion rate currently stands at only 35.6 percent, while many people still do not have bank accounts. He expressed ABAC Indonesia's intention to share Indonesia's experience going forward.

Ms. Joy Siew (ABAC Chinese Taipei) focused her remarks on access to finance for MSMEs and how to introduce best practices around the region. She highlighted the role of credit information in enabling MSMEs to have better access to finance, and mentioned the example of Chinese Taipei's Joint Credit Information Center (JCIC). She expressed the expectation that APFIF will provide valuable ideas on how this can be implemented and how expertise can be shared across the region.

The Advisory Group endorsed the APFIF work plan and noted the presentation of ABAC Chile as well as the comments by ABAC Indonesia and ABAC Chinese Taipei.

Asia-Pacific Infrastructure Partnership (APIP)

The Coordinator presented the 2018 work plan of APIP. Highlights are as follows:

- The end goal is to create a pipeline of bankable infrastructure projects in key sectors, including benchmark PPP projects in greenfield sectors.

- As a deliverable for 2018, APIP aims to help Indonesia, the Philippines and Vietnam complete the project preparation phase for initial benchmark PPP projects in waste management or another key sector.
- APIP will seek to organize dialogues with key decision-makers in these three economies, including relevant local government officials and line agencies.
- Another deliverable is the further development of I3P.

Ms. Hafimi Abdul Haadii (ABAC Brunei) highlighted the work of APIP and APFF in developing the I3P. She noted that Islamic finance is becoming a key driver for infrastructure finance in several economies, with potential sources of funding available in economies like Brunei, Indonesia and Malaysia, as well as in the Middle East. To translate this potential into reality, there are several things that need to be done.

- The first is to increase the supply of bankable infrastructure projects.
- The second is to harmonize definitions of sharia compliance across jurisdictions to enable cross-border investment.
- The third is to address discriminatory tax treatment of Islamic institutions' investment in infrastructure vis-a-vis conventional financing.
- The fourth is to develop the Islamic derivatives market, which is especially important for managing the risks in long-term investments.
- The fifth is to develop enabling regulatory frameworks for innovative hybrid financing instruments that can pool resources from a wide array of investment sources.

She expressed the hope that these will find more support in the FMP this year.

Ms. Joanne de Asis (ABAC Philippines) commended the Advisory Group for its achievements under the leadership of its Chair, Co-Chair and Coordinator. She stressed the importance of its initiatives and work program for APEC economies, citing as example the role of APIP in helping address barriers to investment in infrastructure. She expressed the view that I3P is important for the development of Mindanao in the Philippines, and while various domestic regulatory issues still need to be addressed at present, ABAC Philippines will remain engaged in this initiative. She highlighted the critical role of APIP, APFF and the Advisory Group in the future success of promoting Islamic financing of infrastructure projects.

Mr. Guillermo Luz (ABAC Philippines) acknowledged that the Philippines benefited from the work of APIP. He noted that the several dialogues undertaken since 2011 have helped sharpen the thinking of key stakeholders in government and contributed to the successful delivery of several PPP projects during the period covered by the dialogues.

Mr. David Dodwell cited the great value added to APEC's work on infrastructure by APIP and the impressive way that it has developed as a genuine ABAC invention. He noted that other initiatives have been struggling to engage the private sector, and that APIP's role in communicating to governments what the private sector needs in order to expand investment in infrastructure is critical for success.

The Advisory Group endorsed APIP's 2018 work plan.

Asia-Pacific Financial Forum (APFF)

The Coordinator presented the APFF work plan to the Advisory Group. Highlights of the presentation are as follows:

- Digital technology and cross-border supply chains are two major forces shaping the new business landscape. The Advisory Group seeks to help economies provide enabling ecosystems for businesses to harness them through capacity-building activities under the CAP.
- *Bringing financial services to the digital age.* Enabling market players to leverage technology to provide more inclusive and efficient financial services requires modernization of the legal,

regulatory, institutional and market ecosystems for the financial sector. The Advisory Group will integrate ongoing efforts to achieve concrete milestones to help accelerate digitalization across financial services – from financial market infrastructure (payment, clearing, settlements, custody), lending (use of digital credit information and financial data domestically and across borders, digital collateral registries), trade and supply chain finance, debt- and equity-based innovative financing for MSMEs.

- *Financing MSMEs.* Building MSMEs' capacity to grow, especially through participation in cross-border supply chains, requires addressing the most important constraint – financing. The work of APFF has already resulted in policy reforms that enable lenders to use transaction data and a wider range of collateral to expand lending to MSMEs, and further work is ongoing. The APFF will continue promoting reforms to facilitate the use of digital technology in supply chain finance and exploring the use of debt- and equity-based innovative financing for MSMEs. APFF will also begin work on reforming personal bankruptcy laws that promote growth of MSMEs through efficient restructuring, insolvency and discharge procedures based on international best practices.
- *Financing the expansion of the region's infrastructure.* The expansion of opportunities for the region's businesses to participate in global supply chains will require massive investments in infrastructure. This in turn requires the development of capital markets, the long-term investor base and bankable infrastructure projects. To this end, APFF is promoting cross-border financing of infrastructure through reforms to expand the investor base (including pension funds, insurance firms and Islamic financial institutions), and expanded cross-border portfolio investment and availability of risk management tools to improve depth and liquidity of bond markets.
- *Strengthening financial resilience.* Rising costs of frequent natural disasters and the growth of non-communicable diseases have significant financial impact on households, enterprises and government budgets. Catastrophic events pose major challenges to global supply chains, especially to participating MSMEs. APFF is helping governments design innovative financing instruments to enable markets to play a greater role in more efficient and sustainable financing of these costs. APFF is also pursuing wider microinsurance coverage as part of comprehensive financial inclusion.

Deliverables include the following:

- Financial Market Infrastructure: Regional Securities Investment Ecosystem: Endorsement of FMI Roadmap by Finance Ministers at the 2018 AFMM.
- FIDN: Secured transactions - (a) Philippines: passage and signing of new secured transactions law; (b) Philippines: passage and signing of new warehouse receipts law; (c) Vietnam: one secured transactions related decree or circular issued following the new Civil Code; (d) China: further progress in developing the secured transactions chapter of the new Civil Code; and (e) Brunei: follow-up measures on secured transactions ecosystem to support the new secured transactions law.
- FIDN: Insolvency/bankruptcy systems – (a) Draft roadmap for establishment / modernization of personal bankruptcy systems in developing APEC members; and (b) China: preparation of draft regulation on the resolution of distressed consumer debtors.
- FIDN: Credit information ecosystems in individual economies – (a) Brunei: promulgation of new credit information law, including guidance on cross-border data; (b) China: further rationalization of the credit reporting market; (c) Vietnam: revision of decree on credit information to broaden data sources and to enable cross border information sharing; (c) Australia: implementation of full-file and comprehensive credit reporting; and (d) study on the sustainable development of data analytics industry and related financial consumer protection issues.
- FIDN: Credit information to support cross-border business activities – (a) Mekong region pilot project: signing of the first agreement between credit bureaus of Mekong region economies; (b)

Oceania pilot project: preliminary agreement among credit bureaus with support from privacy commissions; and (c) finalizing the baseline study on credit information sharing in APEC.

- FIDN: Trade and supply chain finance – Continued growth of the trade and supply chain finance volume in key developing markets (e.g., China, Vietnam, Thailand) as measured by the relevant registration numbers in the collateral registries
- FIDN: Innovative financing for MSMEs - Draft roadmap for APEC to facilitate the cross-border use of data in financial services through regional collaboration in modernizing legal and regulatory frameworks governing privacy, data security and the use of big data to help finance MSMEs
- Financial Inclusion: (a) Paper on financial inclusion presented to the PNG government in relation to the 2018 APEC Financial Inclusion Initiative; (b) Action report of the 2018 Asia-Pacific Forum on Financial Inclusion; (c) Action report of the 2018 Mekong Inclusive Growth Forum; and (d) Action report on the role of women in inclusive growth.
- Capital Markets: Repo and Derivatives to improve market liquidity – (a) achieving stakeholder consensus to develop title transfer repo markets, particularly Indonesia and Vietnam; and (b) achieving stakeholder consensus to introduce netting legislation in APEC member jurisdictions where there is need for netting certainty, particularly Indonesia and Vietnam.
- Capital Markets: Asia Region Funds Passport (ARFP) – (a) assisting the ARFP Joint Committee with ARFP rules formulation to successfully launch the ARFP; (b) sharing best practices for the design of a Pacific Alliance funds passport system that can inter-operate with ARFP in the future; and (c) supporting ARFP enlargement through outreach and providing best practices.
- Retirement/Health/Long-Term Investment: Islamic Infrastructure Investment Platform (I3P): Endorsement of I3P work program by Finance Ministers at the 2018 AFMM.
- Retirement/Health/Long-Term Investment: Infrastructure and investment – (a) concrete steps toward reform of solvency regulations in Hong Kong and Singapore, including special treatment of debt and equity investment related to infrastructure; and (b) and a toolbox to facilitate infrastructure investment (e.g., financial vehicles, government incentives, PPP initiatives).
- Retirement/Health/Long-Term Investment: Retirement and Protection – (a) case studies/follow ups on Chile, Hong Kong, Korea and Thailand; (b) toolbox for expanding retirement savings and longevity solutions (i.e., mandatory provisions, tax incentives, government subsidies, longevity transfers, digital economy, and 4th pillar).
- Retirement/Health/Long-Term Investment: Regulation and Accounting – (a) concrete steps in Indonesia, Hong Kong and Thailand toward mitigating unintended consequences of IFRS17 (and IFRS9) on long-term business; (b) achievement of stakeholder consensus on incorporating growth in global regulatory discussions (i.e., discount rate); and (c) checklist on implementation of IFRS17 including potential impact on financial reporting and solvency assessment and recommended adjustments (if any).
- Retirement/Health/Long-Term Investment: Innovative Health Financing Mechanisms - Initiating a pilot project in Thailand to establish and support a structure within the Thai Government that can lead efforts to develop innovative and sustainable health financing mechanisms.
- Disaster Risk Financing and Insurance and Microinsurance: Endorsement of Microinsurance Roadmap by Finance Ministers at the 2018 AFMM.

Mr. Jonathan Choi (ABAC Hong Kong) reported on the 2017 APIC-ABAC/APFF Regional Pension Funds and Social Security Systems Summit. Following are highlights of the report:

- The Summit was held on 5-6 December in Hong Kong. It was a timely Summit due to current social security systems reforms not only in Hong Kong but in the rest of the Asia-Pacific. The Summit was a closed-door event and by invitation only to allow for free discussions. Participants included officials and business experts from around the Asia region, Europe and USA. It provided a platform for policy leaders, regulators, asset owners and financial market experts to

discuss in confidence strategies, successful implementation of innovative asset allocations and concerns affecting the retirement industry.

- Most economies and stakeholders have been adjusting to varying degrees with the financial aspect of a rapidly ageing population. Hong Kong continues to be among the cities in the world with the highest life expectancy, and is facing similar ageing issues which will become more acute over the next 10 years.
- In his keynote speech, Mr Matthew Cheung, the Chief Secretary for Administration of the Hong Kong SAR Government, said that Hong Kong's retirement protection system has adopted the World Bank's multi-pillar approach and consists of four pillars. They are a multi-tiered social security system as Pillar One, the Mandatory Provident Fund (MPF) and other occupation-based retirement savings schemes as Pillar Two, voluntary savings as Pillar Three, as well as public services, family support and personal assets as Pillar Four. The design is underpinned by the principles of sharing the responsibility of retirement protection among individuals and families, employees and the Government, as well as addressing the varying needs of elderly persons through multiple channels.
- Mr Cheung also said that the existing system is affordable, financially sustainable, equitable and offers comprehensive protection.
- The Hong Kong Government will seek to improve each of the existing pillars. For the MPF Scheme, the Government is working very hard with stakeholders to devise a way to increase scheme members' overall retirement savings and maximize the protection offered to them. This includes driving administrative fees down by launching the Default Investment Strategy and eMPF. The Government is also considering a larger issuance of the very popular Silver Bonds with longer maturity period for the elderly population. It also encourages the financial sector to develop more retirement-related investment products and is delighted to learn that the Hong Kong Mortgage Corporation is planning to launch a life annuity scheme in mid-2018 to help the elderly convert assets, one-off, into a stable monthly retirement income.
- Majority of pension and social security systems investment teams see the need for asset diversification to meet their yield targets. Main challenge and deterrent include: fund charter and law in their economies do not (yet) allow pension or social security systems to invest into risky assets.
- As part of risk management strategy, more pension funds and insurance companies are exploring collaborative investments.
- There is increased awareness among pension funds of the importance of environmental, social and governance (ESG) in the investment implementation, especially in monitoring their external fund managers' ESG activities.
- The deterrents in pension funds' participation in infrastructure include fund charter and legal set-up of their pension funds do not allow to invest in riskier assets such as alternatives and infrastructure. There is lack of Policy support or understanding of this asset class and lack of internal investment team to manage alternative investments. Fund charter does not allow hiring of external fund managers.
- The Summit has received positive feedback as the content, seniority and diversity of participants made the discussions and conversations informative and practical.

Mr. Ho Meng Kit (ABAC Singapore) expressed support for the 2018 Work Plan, which includes focus on digital trade and supply chain financing, an issue where ABAC Singapore is taking the lead. He encouraged participants to attend the APFF workshop that ABAC Singapore is hosting before ABAC III.

Dato' Rohana Tan Sri Mahmood (ABAC Malaysia) called for continued synergy between the MSMEEWG and APFF's Financial Infrastructure Development Network (FIDN) in promoting an enabling environment for expanding access to finance for MSMEs, as well for advancing innovative

financing mechanisms. She also highlighted APFF's work on facilitating Islamic financial institutions' investment in infrastructure, where ABAC Malaysia is playing a leading role alongside ABAC Brunei and ABAC Thailand. She conveyed her intention to continue inviting the APFF Chair to update MSMEEWG on the progress of MSME finance initiatives. Dato' Rohana commended the APFF for the many good work it has done during the past few years.

Mr. Makoto Okubo of Nippon Life updated the Advisory Group on the work of APFF related to retirement, health and long-term investment. He referenced the 2017 Joint Finance Ministerial Statement, which described actions to be implemented by APEC economies over the next year to achieve strong, sustainable, balanced and inclusive growth. They include measures to address long-term infrastructure investment, financial inclusion, base erosion and profit shifting, and disaster risk financing and insurance. The statement also contains an annex on diversifying financing sources and fostering private sector involvement in infrastructure investment in APEC economies that reflected the views of the APFF. Mr. Okubo outlined the progress in the work of various sub-streams and the 2018 work plan for each of them, as follows.

- On pension and protection, APFF held dialogues with pension and insurance regulators, including through the APFF/APIP Regional Pension Funds and Social Security Systems Summit held on 5-6 December 2017 in Hong Kong. The APFF has also been monitoring recent progress in Thailand, Malaysia, Australia and Hong Kong. The work stream is pursuing the end goal of expanding by 2022 the pension fund investor base by promoting adoption by relevant policy makers of best practices in: (a) designing mandatory provisions for retirement savings, (b) design and implementation of tax incentives for long-term savings products; and (c) product and distribution innovation and financial awareness. Deliverables include case studies/and follow-ups on Chile, Hong Kong, Thailand and a toolbox to expand retirement savings and longevity solutions (i.e. mandatory provisions, tax incentives, government subsidies, longevity transfers, digital economy). Major actions planned in 2018 include APFF roundtables and workshops throughout the year.
- On infrastructure investment, APFF is coordinating with global (i.e. Global Infrastructure Hub, OECD, WEF) and ASEAN initiatives (i.e. AIC) and the securities industry (i.e. ASIFMA), and undertakes dialogues with selected APEC economies (i.e. Indonesia, Vietnam, Philippines, Thailand). In 2017, APFF and APIP held a Dialogue with Indonesian Government on PPPs in Waste Management on 14 March in Jakarta and participated in the APEC Finance Ministers Process Seminar on Long-Term Investment in PPP on 17 May in Ninh Binh and in the APFF Roundtable on Long-Term Investment on 25 July in Toronto. The APFF continues to study selected APEC economies and examine possible improvements to attract long-term investors, including financing vehicles, green finance, and survey on infrastructure investments.
- The work stream is pursuing the end goal of expanded investment by insurance firms and pension funds in infrastructure through the development of innovative financing vehicles and regulatory changes to treat infrastructure as an asset class by 2022. This year's deliverables include working with Singapore and Hong Kong Regulators on reform of solvency regulations, with new regulations to include special treatment of debt and equity investment related to infrastructure and a toolbox to facilitate infrastructure investment (i.e. financial vehicles, government incentives, PPP initiatives). Activities in 2018 include an APFF Dialogue/roundtable on infrastructure and investment to achieve agreement on definition of infrastructure drawing on existing EU, NAIC and World Bank definitions, and to identify specific areas where regulations can be amended to remove unnecessary barriers to investment (drawing on work of APIP), and other roundtables and workshop meetings throughout the year in collaboration with APIP, SDIP, ASEAN, among others.
- On the regulation and accounting gap, APFF has been participating in global and regional conferences and meetings to discuss relevant regulatory and accounting issues. APFF has engaged in continuous outreach and dialogue with policymakers, regulatory authorities and accounting standard setters, international (i.e. IAIS, IASB, OECD, World Bank) and regional institutions (i.e. ADB, ASEAN, NAIC, ASSAL). These include IAIS work on risk-based global

ICS and Dialogue with IAIS, IFRS17 and Dialogue with IASB, dialogue with regulatory authorities in the region, and coordination with AIC, Geneva Association and IIF. Last year, APFF continued to study selected APEC economies and examine regulatory and accounting issues and provided support through the APFF Roundtable on Insurance Regulations and Accounting on 31 October in Hong Kong.

- The work stream is pursuing the end goal of the adoption of solvency and accounting regimes that do not discourage insurers from making long-term investment in infrastructure and capital markets. This year's deliverables include working with Indonesian, Thai and Hong Kong regulators on IFRS17 (and IFRS9) to mitigate unintended consequences on long-term business, achieving stakeholder consensus on incorporating growth in global regulatory discussions (i.e. discount rate), and a checklist on implementation of IFRS17 including potential impact on financial reporting and solvency assessment and recommended adjustments, if any. Activities in 2018 include an APFF dialogue or roundtable on insurance regulations and accounting to continue outreach and dialogue with policymakers, regulators, standard setters and international institutions.
- On innovative health financing, the work stream is pursuing the end goal of establishment of structures and adoption of best practices in APEC members to harness the private sector in creating innovative and sustainable health financing mechanisms by 2022. This year's deliverable is the launch of a pilot project in Thailand to establish and support a structure within the Thai Government that can lead efforts to develop innovative and sustainable health financing mechanisms. Activities in 2018 include an APFF Workshop on Innovative and Sustainable Health Financing Mechanisms to be held in Thailand.

Mr. James Bond of Citi highlighted the importance of APFF's work on data, including cross-border flows. He suggested that to help promote a deeper understanding of fintech among Finance Ministers, it would be helpful to present positive examples of where it has worked and where it can work. Also, he stressed the usefulness of research and analysis that can highlight how different regulatory approaches affect fintech across the region, for example in the case of the use of digital signatures. He agreed that APFF's plan to develop a roadmap for the ecosystem around the use of data in financial services responds to a clear need.

The Advisory Group endorsed the 2018 work plan for the APFF.

Other matters

The Co-Chair commented that digitalization and regional economic integration driving changes in the Asia Pacific business landscape has created the need for a new paradigm for financial system capacity building. In this new paradigm, the interconnection among technology, finance and the real economy has intensified, and its implications on legal, policy and regulatory approaches would affect innovation and economic growth. With respect to this, he noted the relevance of the work of ABAC and APEC in dealing with legal, policy and regulatory issues to businesses that are trying to find ways of harnessing digital technology and global value chains to create jobs and spur economic growth. He stressed that businesses offering innovative financial services are important for the region, where there are still many people who have limited access to financial services.

To help stakeholders better understand the importance of having an enabling ecosystem that can bring the financial sector to the digital age and the role that the Advisory Group's capacity building work in support of ABAC's Finance and Economics Working Group to assist governments plays in this process, he will be inviting two fintech entrepreneurs to share their first-hand experience illustrating the real-world challenges and opportunities in this new business landscape and a regulator from the Monetary Authority of Singapore to discuss ways of addressing these challenges through public-private sector collaboration.

Mr. Hayashi also mentioned the initiation this year of work on the development of personal bankruptcy laws in the region. He noted that this will further complement the FIDN's on-going work on credit information and secured transactions that have been contributing to the promotion of the access to finance for MSME in the region.

The Coordinator provided additional details to this work, which seeks to address the negative impact of inefficient and overly lengthy personal bankruptcy legal proceedings on the growth of entrepreneurship, especially since it is not unusual for most entrepreneurs to fail in their first attempt to start a business. He mentioned that the work plan calls for an international conference to be held in Beijing and the development of a roadmap for promoting personal bankruptcy law reforms in the region.

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 2018 work program. He announced that the next meeting of the Advisory Group will be hosted by ABAC Japan in mid-April in Tokyo.

Adjournment

There being no other matters to discuss, the Chair declared the meeting adjourned at 19:00.