

Advisory Group
Meeting II
PAPER 5-A



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Update on the
Asia-Pacific Infrastructure Partnership (APIP)
and
Report on Discussions with APEC Deputy Finance
Ministers on the
Islamic Infrastructure Investment Platform (I3P)
and next activities

Updates

APIP

- **July 31, Taipei, Chinese Taipei:** PPP Seminar and APIP Dialogue with Chinese Taipei
 - Hosted by Chinese Taipei Ministry of Finance
- To be scheduled: APIP Dialogues on PPPs in Waste Management
 - Indonesia
 - Philippines
 - Vietnam

I3P

- **March 13, Port Moresby:** Presentation on I3P at the Seminar on Accelerating Infrastructure Development and Financing / FCBDM Finance and Central Bank Deputies' Meeting
- **Under discussion** – **October 3-4, Kuala Lumpur:** I3P workshop in conjunction with the Global Islamic Finance Forum (GIFF) 2018

Highlights of I3P Presentation

at the

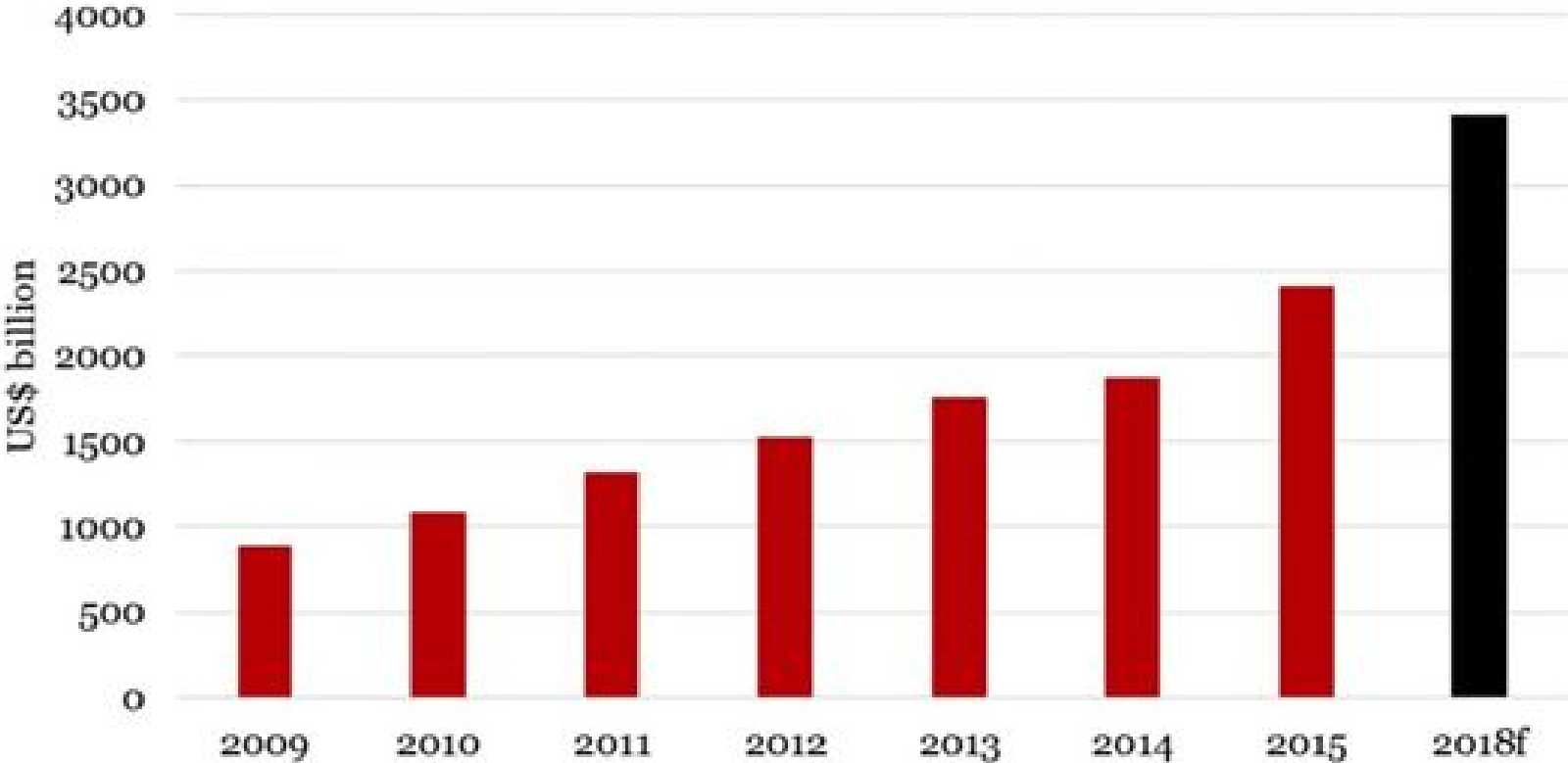
Seminar on Accelerating Infrastructure Development and
Financing / FCBDM Finance and Central Bank Deputies'
Meeting

13 March 2018

Port Moresby, Papua New Guinea

The growth of Islamic Finance

Total Islamic Finance Assets (2009 - 2018f)



Source: The International Shari'ah Research Academy for Islamic Finance

www.truewealthpublishing.asia

1%

small share
of global
financial assets,

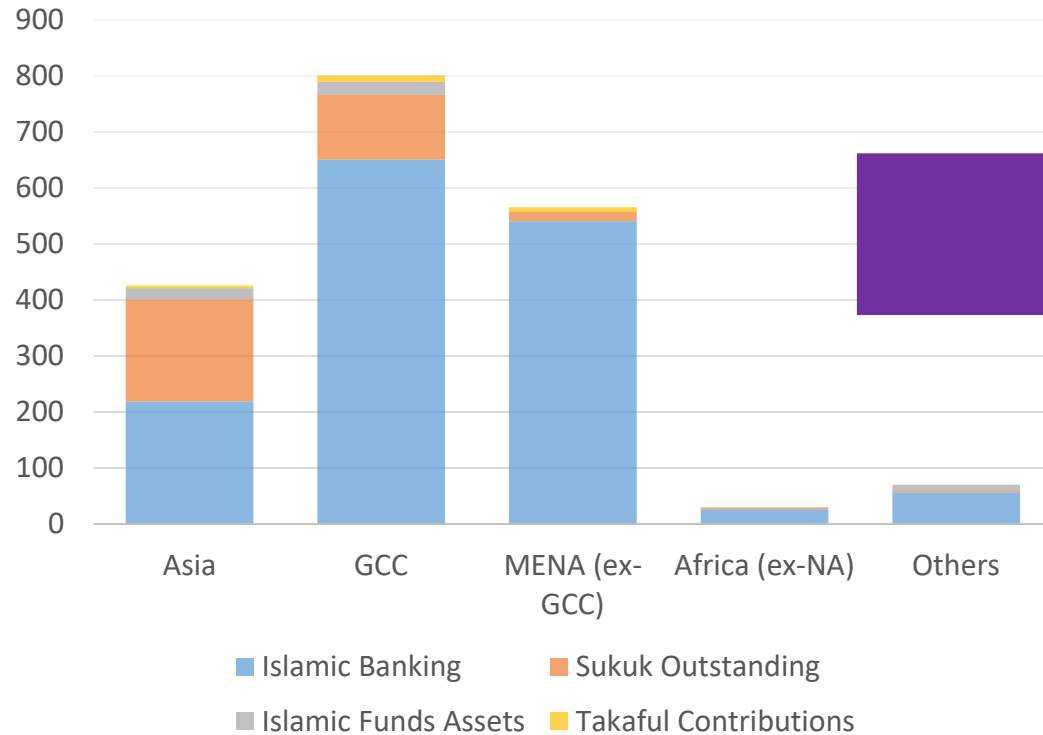
but
strong growth

15%

annual
growth rate
over the last
2 decades

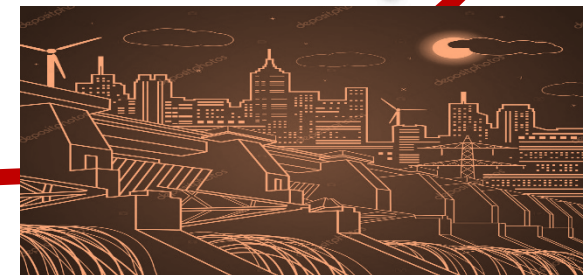
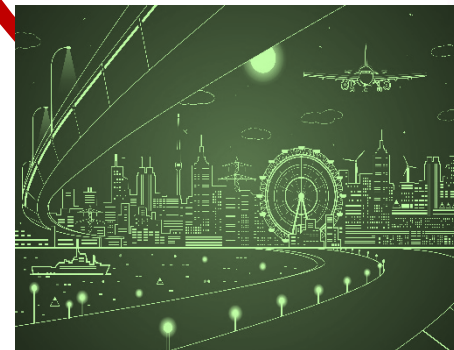
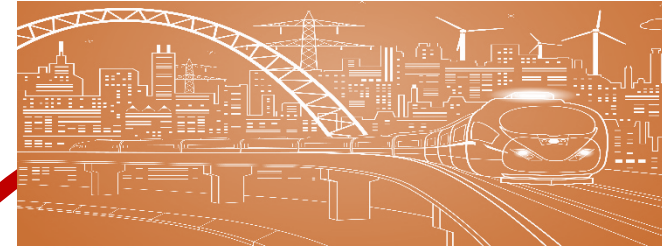
Opportunities for financing infrastructure in APEC economies

Breakdown of Islamic finance services industry by region (US\$ Billion), 2016*



* Data for sukuk outstanding and Islamic funds is for full year 2016; data for Islamic banking is for 1H2016; data for takaful is for end-2015.

Source: Islamic Financial Services Board (IFSB) Secretariat



Key challenges for cross-border investment

- Lack of standards for Islamic finance contracts
 - *E.g., varying definitions of sharia-compliance of projects and financial instruments across jurisdictions*
- Tax treatment
- Risk mitigation instruments
- Legal and regulatory barriers to financial innovation
- Capacity for project preparation

I3P's proposed work streams to address challenges:

1 – Harmonizing investment requirements and rules

- Establishment of minimum benchmarks to harmonize Islamic finance contracts (e.g., mudaraba, musharaka, ijara), sharia-compliant infrastructure projects and concession agreements
 - *Can be used in designing any infrastructure project to attract funding from Islamic financial institutions*
- Capacity building for interested member economies

I3P's proposed work streams to address challenges:

2 – Addressing tax policy issues

- Establish minimum benchmarks for tax neutrality between Islamic and conventional finance, including:
 - Tax treatment of profits (e.g., tax deduction for interest payments)
 - Tax treatment of multiple transactions between company and SPV – disposal, sale, leaseback
 - Stamp, withholding, VAT, real property gains tax vs, capital gains tax
 - Tax neutrality committees to grant specific approvals (while waiting for legislative reforms)
 - Approaches (e.g., product-by-product, case-by-case or blanket legislation, white list of transactions qualifying as tax neutral, coordination between regulator and supervisor)
 - Tax incentives to facilitate transactions
- Regional minimum benchmarks for sharia auditing and sharia advisers

I3P's proposed work streams to address challenges:

3 – Risk mitigation instruments

- Legal reform to facilitate use of derivatives (where needed)
 - Certainty and enforceability of derivatives transactions
 - Clarity of insolvency and enforceability of netting provisions
 - Clarity of treatment of collateral
 - Role of courts and arbitration tribunals
 - Treatment of foreign law-governed contracts and foreign-based counterparties
 - Set-off rights, financial collateral arrangements, guarantees, letters of credit, insurance, credit derivatives
- Adoption of standardized documentation (e.g., ISDA, IIFM TMA)
- Regional minimum benchmarks for legislation governing derivatives
- Best practices in enabling policies for new Islamic derivatives for equity risk management

I3P's proposed work streams to address challenges:

4 – Enabling financial innovation

- Addressing key legal and regulatory barriers to hybrid/blended financial instruments
 - E.g., musharaka with ijara embedded, combining sukuks with different characteristics such as those for construction and leasing
- May cover regulations on:
 - Equity or corporate bond investment
 - Pension fund, insurance company and asset manager investments
 - Investment in unlisted infrastructure companies
 - Direct investment in projects
 - Infrastructure funds or investments
 - Alternative investments
 - Minimum ratings for bonds
 - Foreign exposure
 - Hedging of transactions involving multiple currencies

I3P's proposed work streams to address challenges:

5 – Developing project preparation capacity/pilot projects

- Best practices in embedding sharia compliance into design of projects seeking wider investor base
- Improved capacity of relevant officials to use project preparation tools (GIH InfraCompass, GIH Risk Allocation Matrices, GIH Project Pipeline, SIF Source)
- Starting benchmark/pilot projects with support mechanisms

I3P's proposed work streams to address challenges:

6 – Establishing the I3P Secretariat

- Terms of reference for the Secretariat
- Network directory
- Online Resource Center - Database of:
 - Sharia compliant infrastructure projects
 - Sharia compliant infrastructure funds
 - Case studies
 - Experts in Islamic finance in the areas of financial products, law, valuation, tax, audit, ratings, insurance, pension funds, asset management
- Common definitions

Islamic Infrastructure Investment Platform (I3P): Participants in Ongoing Discussions

- Asian Development Bank
- Bank Islam Brunei Darussalam
- Bank Negara Malaysia
- Bank of Thailand
- Credit Guarantee and Investment Facility (CGIF)
- Global Infrastructure Hub (GIH)
- Islamic Corporation for the Development of the Private Sector (ICD)
- Islamic Development Bank
- Malaysia International Islamic Financial Centre
- Ministry of Finance, Brunei Darussalam
- Ministry of Finance, Indonesia
- Ministry of Finance, Malaysia
- Ministry of Finance, Thailand
- Ministry of International Trade and Industry, Malaysia
- National Economic and Social Development Board, Thailand
- Securities Commission Malaysia
- Sustainable Infrastructure Foundation (SIF)
- World Bank
- Alpha Pacific Group
- Amanie
- AmBank Group
- APEC Business Advisory Council
- Ashurst ADTLaw LLC
- Banco de Chile
- Bangkok Bank Public Company Limited
- Bank of Tokyo-Mitsubishi UFJ
- Berwin Leighton Paisner
- Brunei Accenture Group Networks
- BSN Provincial Takaful
- CIMB
- Fajr Capital
- Gamuda
- Goldman Sachs
- Harvard Law School
- International Centre for Education in Islamic Finance
- Institute of Strategic and International Studies Malaysia
- International Swaps and Derivatives Association (ISDA)
- Islamic Bank of Thailand
- Lee & Ko
- Maybank Islamic
- Maybank Kim Eng Securities
- Mizuho Bank
- Morgan Stanley Asia
- Nippon Life Insurance
- Nomura Islamic Asset Management Sdn Bhd
- Nomura Research Institute
- Prudential BSN Takaful Berhad
- Prudential Corporation Asia
- PwC
- State Street
- Thai Bankers' Association
- Tokio Marine Middle East Ltd.
- Trowers & Hamblins
- UOB Malaysia
- University of Toronto
- ZICO Law

