



THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Report of the Meeting of the Advisory Group of 14 May 2009, Bandar Seri Begawan, Brunei Darussalam *[First Draft]*

Advisory Group

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

Second Meeting 2009

14 May 2009

10:15 AM – 11:30 AM

Bunker Meeting Room I (Country Club)

The Empire Hotel & Country Club

Bandar Seri Begawan, Brunei Darussalam

MEETING REPORT

First Draft

As of 05 August 2009

Welcome and Introduction

The meeting started at 10:15 am. Participants included members and staffers of the ABAC Finance and Economics Working Group (FEWG) and representatives from the International Monetary Fund (IMF), the Asia-Pacific Credit Coalition (APCC), and the Foundation for Development Cooperation (FDC). Mr. Mark Johnson (ABAC Australia) presided over the meeting.

Mr. Stephen Ong of ABAC Brunei Darussalam delivered warm words of welcome on behalf of the hosts.

In his opening remarks, Mr. Johnson welcomed the participants, conveyed the Advisory Group Chair's warm greetings, and gave an overview of the agenda items for discussion. He acknowledged the presence of Mr. Akira Ariyoshi, Director of the Asia-Pacific Regional Office of the IMF, Mr. Craig Wilson, Executive Director of the FDC, and Dr. Michael Turner, President of the Information Policy Institute who represents the APCC. He thanked the meeting host, ABAC Brunei Darussalam, for the hospitality and efficient preparations for the meeting.

Confirmation of New Advisory Group Chair

Mr. Yoshihiro Watanabe, Chair of the ABAC Finance and Economics Working Group (FEWG), announced the retirement of Dr. Jeffrey Koo as Advisory Group Chair following his retirement from ABAC, and the nomination of Mr. Mark Johnson as new Advisory Group Chair as well as of Mr. Stephen Ong as Co-Chair to serve alongside Dr. Twatchai Yongkittikul, the other Co-Chair.

The Chair acknowledged receipt of the farewell letter from Dr. Koo to the Advisory Group members, and proposed a vote of thanks for his foresight, vision and efforts to develop the activities of the Advisory Group. The Advisory Group endorsed the vote of thanks for the Chair to convey to Dr. Koo.

Review of the First 2009 Advisory Group Meeting in Wellington

The Advisory Group Coordinator, Dr. J.C. Parreñas, presented the second draft of the Report of the Advisory Group Meeting of 11 February 2009 in Wellington, New Zealand. Major items in the report include the review of the 2009 Advisory Group Work Program, discussions on financial inclusion and preparations for the March 31 – April 3 Tokyo workshop on financial inclusion, updates on credit reporting systems and Australia's experience with implementation reforms, preparations for the 3rd bond market forum and the 5th dialogue with financial regulators and infrastructure public-private partnership.

The Advisory Group approved the Meeting Report.

Financial Inclusion

The Coordinator presented the results of the workshop *Promoting Financial Inclusion through Innovative Policies*, which was jointly organized by the Advisory Group with ABAC, the ADB Institute and the Alliance for Financial Inclusion (AFI), in collaboration with the International Finance Corporation (IFC), Inter-American Development Bank (IDB) and the FDC on 31 March – 3 April at the ADB Institute in Tokyo.

The Coordinator reported that the Workshop attracted more than a hundred participants and observers. The ADB Institute brought in 30 senior officials from various Asian economies. The AFI, with funding from the Gates Foundation, brought in 25 officials and experts who have spearheaded successful reforms in their own economies. The main objective of the workshop was to share experiences and best practices in the six policy areas for promoting financial inclusion that were endorsed by ABAC in 2008. The ultimate aim of these innovative policies is to address the problem of financial exclusion, which is a major issue in many developing member economies.

The Coordinator highlighted the key points from the discussions at the Workshop, which were as follows:

- Agent banking is becoming an important vehicle for banks to conduct microfinance without incurring high operating costs and reputational risks that would result from opening many small branches offering limited services. However, developing agent banking especially to include deposit services requires a balanced and realistic legal and regulatory framework. Ideally, such a framework should help build strong principal-agent relationships; allow innovation and the use of new technologies, permit data to be transmitted in a safe and cost-effective manner and provide appropriate transparency, accountability and customer protection. Financial literacy is also important in promoting the growth of agent banking.
- Mobile phone banking has proven to be a very effective vehicle for financial inclusion. In the Philippines, for example, where 40% of municipalities do not have banking services, it has grown rapidly and is now used by around 10% of the population. It has also substantially lowered the cost of microfinance services. However, it poses challenges to regulators, because it requires a seamless regulatory framework that allows convergence of financial services, information technology and telecommunications, while maintaining financial system integrity and consumer protection. In Cambodia, m-banking is still experimental and unregulated, while in the Philippines it has benefited from a combination of branching deregulation, the spread of mobile technology and strategic partnerships among banks and agent networks. Dialogue between financial regulators and mobile operators is also important, especially in moving customers up the value chain of services, linking risks with proportionate regulation. Experiences highlight the need for regulation to follow the market, allow greater competition among banks and non-banks, and avoid overregulation of low-value payments that are not likely to be used for money laundering.
- The emergence of new models and new service providers has expanded the usefulness and scope of microfinance to such activities as short-term loans, money transfers and micro-insurance. In Uganda, for example, deposit-taking MFIs have brought many savers into the formal sector. In the Philippines, regulation has encouraged MFIs to branch out into micro-insurance. Various experiences underscore the need for a coherent legal and policy framework for regulating microfinance as a line of business. An effective framework focuses on products rather than institutions, is based on stakeholder consultation and collaboration and takes into account the costs of prudential regulation (in particular premature regulation, attempts to regulate what cannot be supervised, and requirements, for example AML, that may not be appropriate for low-income clients). It has to be flexible in order to allow space for innovation. In addition, the framework should be complemented by improved technical capacity and knowledge of supervisors and strong governance and internal controls in MFIs.

- Public banks can play a positive role that governments can harness. For example, Union Bank of India (a state bank) responded to liberalized entry of new competitors by networking its 2,600 branches, introducing new technology and harnessing agents – including milk collection agents wielding biometric identity cards. Through these, it was able to expand its micro-savings, credit, remittance and insurance business in rural areas. In Mongolia, the government reformed and privatized the Agricultural Bank (a failing state bank) with the help of USAID and the World Bank. Being the only bank operating in rural Mongolia, it successfully introduced ATMs, point of sale technology and phone banking to become the country’s largest and most profitable bank. Looking at various experiences, ingredients for success include strong political commitment by the government and independent management, supported by improvements in financial literacy, international support and adequate funding.
- Lack of financial identity is a major obstacle for many people to effectively access financial services. Creating financial identities involves a number of issues. First is in relation to standards for KYC procedures – the way this has been dealt with in many cases was to use simplified requirements at the lowest levels that increase as a client passes over a series of thresholds, for example to permit low-risk customers to open a basic bank account, normal customers to engage in standard transactions, and high-risk customers to access more sophisticated services. Second is the use of innovations such as biometrics. Third is data protection, including design of optimal privacy protocols and improved consumer education on privacy issues. Fourth is creating incentives for people to obtain financial identities.
- Protection of consumers at the bottom of the pyramid is an important element of financial inclusion. Promoting consumer protection involves promoting financial literacy; transparent provision of financial services; fairness of contracts; fair and transparent compensation of customers when there are failures of agents, outsourced services or IT systems; fair recovery practices; and a system for redress of client concerns.

The Coordinator reported that one of the main conclusions of the Workshop was that looking ahead, there is tremendous potential for regional public-private partnership. Participants agreed that an APEC initiative would add great value to ongoing efforts to improve financial inclusion. There was also agreement that an APEC initiative would do well to address issues at three levels. At the lowest level, it could focus on progressively expanding coverage to those who are still financial excluded, particularly through the six key policy solutions mentioned earlier. At the middle level, APEC could focus on facilitating the broader participation of commercial banks in microfinance and promoting the use of technology to lower processing and distribution costs. And at a higher level, APEC could focus on how to facilitate expansion of private funding through capital markets.

The Coordinator also briefed the participants on the progress of the Advisory Group’s and ABAC’s proposal in 2008 to the Finance Ministers to launch an APEC financial inclusion initiative. He noted that the Philippines’ Department of Finance has agreed to table this proposal at the next Senior Finance Officials Meeting in Singapore in July, and is seeking the support of other finance ministries that have expressed interest in the past, particularly Indonesia, Malaysia and Peru. During the workshop, the Japanese and Singaporean senior finance officials also gave a very positive response to the ABAC proposal.

A half-day brainstorming session was organized on April 1 at the ADBI in Tokyo with representatives of key institutions present. The following are the key results of that session:

- A huge number of ongoing activities are being undertaken to promote financial inclusion, involving a wide variety of public and private institutions. Although there are overlaps in their activities, there is very significant potential for complementation among these institutions, given their varying memberships, levels and nature of financial and technical resources and geographical reach.
- There is much interest among participating institutions in collaborating with an APEC financial inclusion initiative. Collaboration could take various forms, including funding of research, policy dialogues and study tours, provision of technical experts and access to networks, making

available meeting and video-conferencing facilities, and rendering of secretariat and coordination services. Participating institutions are keen on being involved at the implementation rather than the political level.

- Participants agreed that there is significant value in launching an APEC financial inclusion initiative, especially given the composition of the regional grouping's membership, the active participation of IFIs and an existing infrastructure for policy dialogue, capacity-building and research within APEC. APEC would be an excellent forum for sharing of best practices, as some of these have been established in member economies. The idea is timely, given the importance of using global knowledge to avoid misguided policies that governments, faced with populist pressures arising from the current financial crisis, might be tempted to undertake. Participants also agreed that such an initiative could contribute significantly to the agenda of the APEC finance ministers' process (FMP), particularly with regard to promoting broad-based development and financial deepening.
- Participants welcomed the suggestions of ABAC regarding the content of an APEC financial inclusion initiative. (a) The goal of the initiative would be to increase access to finance while maintaining the safety and soundness of financial systems in APEC economies. (b) Objectives would include extending the reach of microfinance to those who currently remain financially excluded; upgrading and strengthening of MFIs; especially through adoption of sound practices, professionalization and commercialization; and the deeper integration of microfinance into the formal financial sector through expanded access to funds from banks and capital markets. (c) The initiative would follow a strategy consisting of the following key components: helping identify and disseminate best practices; promoting institutional capacity-building; assisting governments through learning and exchange of knowledge; and developing a system to monitor progress. (d) Activities under the initiative could include policy dialogues focusing on identifying what constitutes an enabling environment; a structured capacity-building program to define and disseminate best practices, assist economies to attain these standards and allow them to demonstrate measurable progress toward agreed goals; advocacy and awareness-raising to promote support among policy-makers, legislators and opinion leaders; and research, monitoring and evaluation activities to clarify definitions, improve the availability and quality of data, monitor progress and evaluate the impact of measures. (e) The initiative would be a multi-year effort and involve various institutions with varying levels of commitment depending on their resources, how it fits into their existing programs and how they would prefer to be involved. It should ideally involve major private sector firms that are involved in microfinance, including banks, telecommunications and technology companies, among others.
- Participants discussed how an APEC financial inclusion initiative might be organized, noting that due to the enormity of tasks involved, the execution model would be an important component. They noted that APEC officials might consider an option with several key features. The initiative could be open to wide participation, including public and private organizations, international institutions and private foundations. It would be championed in the FMP and led by one or several member finance ministries, with the support of ABAC and other interested institutions that participate in the FMP. It would be helpful to have one institution play a coordinating or secretariat role. Depending on the preferences of APEC finance officials, this may be limited to monitoring and reporting functions within a decentralized structure, or could be given more responsibilities as needed. ABAC, interested finance ministries and participating institutions could exercise oversight and regular monitoring through the regular meetings of the Advisory Group on APEC Financial System Capacity-Building. ABAC could take care of submitting progress reports to SFOM and the FMM on a regular basis.
- Participants noted the importance of ensuring the availability of adequate resources. Participating institutions could share or divide among themselves funding for travel, consultants, publications, hosting, logistics and provision of technical expertise. Public sector international development institutions and IFIs could also provide support for certain activities. APEC finance ministries could make a very important contribution, which is to provide access to data, information and officials (as needed) as well as hosting of activities and meetings.

- Participating senior officials from APEC member economies welcomed the idea of an APEC financial inclusion initiative. It was also noted that among APEC officials, increasing attention is now being given to social resilience measures in response to the global financial crisis. Thus, while the APEC Senior Finance Officials' Meeting (SFOM) and the APEC Senior Officials' Meeting (SOM) had an extensive discussion on trade finance during their last meeting in February, social resilience will become a focus of discussions at the next meeting in July, which ABAC and the Advisory Group might consider as a possible point of entry with a presentation on financial inclusion to senior officials. Participating APEC senior officials expressed optimism that APEC member economies would support financial inclusion if concerted efforts are now undertaken to develop and obtain consensus on an effective work program.
- The session concluded with a consensus view that the launch of an APEC financial inclusion initiative this year is both desirable and doable. As a next step, participants agreed that ABAC work closely with senior finance officials in developing a proposal for a policy initiative under the FMP that will be submitted to and considered at SFOM-6 in July 2009. The proposal should take into consideration the various views expressed during this session as reflected in this meeting report. Through the Advisory Group, ABAC should also coordinate with interested institutions and APEC member economies, in particular the finance ministries of Singapore and Japan as current and next FMP Chair, to develop an adequately supported work program that could be undertaken once the initiative is approved.

In the ensuing discussions, participants who were present at the Tokyo workshop and at the brainstorming session confirmed that there was very strong agreement among the institutions involved regarding the way forward. The importance of an approach that balances well the need for regulation and the need for keeping costs down was also stressed.

The Chair noted that the Advisory Group's work on financial inclusion has reached the stage where it should now be formally incorporated in APEC's agenda. To this end, he proposed that the Advisory Group endorse the report of the Tokyo Workshop and authorize the Coordinator to bring the matter forward during SFOM-6.

The Advisory Group gave its endorsement to these proposals.

Public-Private Partnership for Infrastructure Development

Mr. Mark Johnson updated the Advisory Group on the progress of work being undertaken on this issue. He reported on the key outcomes of the recent ADB meeting in Bali, where the ADBI publication *Seamless Infrastructure for Asia* was launched. Noting the benefits of developing infrastructure on a regional basis, he emphasized the importance of mobilizing the large pool of savings in Asia to finance infrastructure in the region, especially in view of continued regional economic growth requiring the development of the regional infrastructure network. Given this situation, it is important to maintain a system for prioritizing targets. Mr. Johnson also noted that at present, ADB has been playing an increasingly active role in infrastructure development in the region, and this role is likely to grow further as it is provided more resources.

Mr. Johnson underscored the benefits of establishing an Asia Infrastructure Partnership (AIP), which can bring together expertise from the public and private sectors. Given that a common factor behind the failure of infrastructure projects is the information asymmetry and the subsequent lack of trust between the two sectors, the AIP can play an important role in promoting infrastructure public-private partnership in the region. Mr. Johnson will continue following up the proposal with various regional bodies and will report back again at the next meeting.

The discussions that followed focused on the importance of promoting infrastructure PPP in order to realize various plans to promote sustained growth in the region, including the Japanese government's intention to help Asian emerging markets to substantially expand their economies over the next decade.

The Advisory Group endorsed the next steps suggested by the Chair.

Update on Improving Credit Reporting Systems

Introducing the topic, the Coordinator mentioned that during the ABAC-SOM dialogue in Wellington, senior officials expressed interest in ABAC's collaboration with Advisory Group participants on credit reporting and suggested that the Advisory Group explore how to develop an APEC-wide regime.

The Coordinator made a reference to a paper entitled *Roadmap to Reform: Lessons from Around the World to Guide Consumer Credit Reporting Reform in Australia*, prepared for the APCC and Dun & Bradstreet Australia by PERC, and submitted to the Advisory Group by PERC. The paper provides information on the practice of information sharing and highlights key issues in promoting positive credit reporting. The key findings of the report are as follows:

- The “valley of transition”: Transitions from negative to positive reporting are usually associated with short-term reductions in lending and increase in defaults as lenders deal with newly available data. However, lending returns to normal levels and increases in time, as lending to traditionally underserved sections of the community is expanded, thus providing a broader base across which risk is spread and improving the stability of the financial system.
- Small business as key beneficiary: Positive reporting facilitates credit scoring, which is the preferred decision-making tool used by large lenders in assessing small loan applications.
- Preventing identity theft and fraud: More data provides a stronger base from which to detect identity theft and fraud. At the basic level, recording of accounts on credit reports allows the monitoring of unusual credit behavior. At a more sophisticated level, positive reporting comes with increased levels of automation that improves identity verification and data quality and matching.
- Importance of community support: The speed of implementing reforms reflects a number of factors, including technology, regulation, organizational culture and societal values. However, where there is a poor understanding of credit reporting systems, gradual reform could enhance community understanding and support.
- Importance of additional information, no matter how limited: The addition of new information to credit reports can have real benefits. The inclusion of credit accounts allows lenders to have a better understanding of existing commitments and greatly assist with detecting identity theft and fraud.
- Number of data sharers: A large number is critical to overall performance of a positive reporting system. It would have a significant impact on acceptance and default rates.
- Benefits and costs: Credit providers who contribute data have realized that the benefits accrued outweigh the costs of investing in information technology and other system changes.

Dr. Michael Turner gave a presentation on an *APEC Framework for Credit Information Sharing*. By way of introduction, he reviewed findings previously shared with the Advisory Group, regarding (a) the benefits of positive and comprehensive reporting over negative-only and fragmented reporting as borne out by various studies and experiences; and (b) the complimentary nature of public credit registries (focused on oversight, safety and soundness) and private credit bureaus (focused on credit risk assessment). He also made some references to current efforts to explore ways of developing global consumer credit information sharing standards within the World Bank Group and the International Organization for Standardization (ISO).

Dr. Turner noted the importance of credit information sharing in promoting financial inclusion through multi-level lending (downscaling by commercial banks and upscaling by microfinance institutes), which depends on the existence and vitality of credit information sharing systems. He proposed that, moving forward, APEC is well-positioned to drive the development of a regional standard for credit reporting and the emergence of a regional credit information regime. Such an initiative would have to involve convergence of actor norms, values, principles and expectations and the development of private credit bureaus throughout the region. The timing would be right for such

an initiative, as the events that have led to the global financial crisis and the present need for credit and stimulus underscore the importance of credit reporting.

Any effort to develop a regional credit reporting system would have to address (a) the legal and regulatory framework; and (b) technical issues.

With regard to the legal and regulatory framework, Dr. Turner emphasized the following:

- The legal and regulatory framework is important because a number of important procedures would need to be defined, including the type of information that can be collected, the rights of data subjects (access, notification, dispute resolution and redress), acceptable uses of information, data security requirements and obligations of credit bureaus, data furnishers and data users.
- An important element of an effective legal and regulatory framework is the specification of requirements regarding information contained in credit files. These requirements include (a) protection of consumer rights; (b) information privacy, referring to limitations and regulation of access to consumer information; (c) use of public record information; (d) the periodicity of reporting (e.g., 30 or 60 days); (e) data expiration regulation (data are usually expunged after a number of years, e.g., 7 years in the case of certain economies); (f) provisions for the sharing of both positive and negative information; (g) noting disputed information or suspected fraudulent activity; and (h) equal treatment of reporting financial and non-financial industries. Given the wide diversity among APEC member economies, how each of these requirements is addressed will vary across the region.
- Another important element is the determination of data subject rights and protections and the obligations of data furnishers and credit bureaus. (a) Data subject rights and protections would involve such issues as control over third-party access to credit files, right to access the credit file, procedures for consumer disputes and re-verification, redress for harms and notification of adverse actions and dispute rights. (b) Data furnisher obligations would involve the regular reporting of accurate data, timely responses to consumer disputes, correcting and updating inaccurate information, reporting the status of accounts (whether open, closed or delinquent), and responding to suspected identity fraud. (c) Credit bureau obligations would involve maintaining data quality standards, disclosures to data subjects, dispute resolution procedures, data privacy and security (including in the case of third-party verification), and inclusion of financial, governance and security standards.
- The *Organization for Economic Co-operation and Development (OECD) Fair Information Practice Principles* provide a useful reference point in efforts to develop the legal and regulatory framework. The Principles cover a number of areas, including limitations related to data collection (what is collected, means of collection, source of data, knowledge and consent of data subject and scope of application of the principle); data quality; permissible purposes or use limitation (control against original purposes, exceptions and disclosure mechanisms); security safeguards; openness; individual participation (the right of the subject to know about the existence of data, right to access data; right of challenge and provision of reasons for refusal; and subject challenge to data); and accountability.
- Dispute and grievance resolution mechanisms are important for safeguarding rights of data subjects, improving data quality and enhancing system legitimacy. An effective mechanism would address issues in each of the four basic phases of grievance resolution. (a) With respect to personal information, credit bureaus must be able to immediately release information to consumers and release all information in the consumer file. (b) With respect to the receipt of grievance (when a consumer contests the information), credit bureaus must provide consumers easy access to customer service and a clear framework for the resolution of each case should be in place. (c) Credit bureaus must have a system to verify data. (d) With respect to consumer rights in notice and follow up of grievance procedure, data subjects must be notified of the results of their case and a system of appeals should be in place in case the consumer refutes the resolution.

With regard to technical issues that need to be addressed in the process of developing a regional credit reporting regime, Dr. Turner identified four key domains that remain important irrespective of variations in methods and technical wherewithal as well as changes in technology, which are (a) data formatting standards (common standards of reporting make it easier to collect and use information and allow portability of data across borders); (b) identity verification (to help in matching information, improving accuracy and protection against financial identity fraud); (c) data security; and (d) disaster recovery (preservation of the information to help preserve the financial structure).

Dr. Turner also suggested three options for consideration as elements of an APEC initiative:

- Development of common credit reporting standards that will facilitate the collection and use of information across economies.
- Capacity-building to develop alternative data bureaus and promote mobile microfinance.
- Undertaking lender risk/reward analysis to build the business case on the product level to encourage creditors to fully report to private bureaus.

The ensuing discussions focused on several issues. Regarding synergy with other regional initiatives, participants agreed that there should be scope for simultaneously pursuing initiatives on regional credit reporting and financial inclusion, given their interrelationship.

Participants noted the huge diversity within the region as a challenge in developing a regional credit reporting regime. In some developing economies, moving to full-file and comprehensive credit reporting would involve considerable effort given the very restrictive regimes currently in place, for example, with regard to the scope of information that can be reported. Other member economies either have or are putting in place legislation to conform to the OECD Fair Information Practice Principles, for example, in the case of Chile, which is intending to join the OECD.

Participants endorsed the proposal to begin work on this initiative. As a starting point, it was suggested to (a) develop a comparative matrix of credit reporting regimes across the region; (b) identify what initiatives the business sector can already undertake on its own while promoting reform measures in the public sector; and (c) identify the right individuals and institutions that can be involved in future policy dialogues to help move this agenda forward.

Regional Response to the Global Financial Crisis

The Coordinator presented to participants the conclusions and recommendations from the Report of the Public-Private Dialogue on Basel II Implementation and Strengthening Banking Systems, held on 18-19 July 2008 in Kuala Lumpur and jointly organized by the Southeast Asian Central Banks' (SEACEN) Research and Training Centre, ABAC, the Asian Bankers' Association and PECC. He recapitulated the major points from the Report, which are as follows:

- In implementing Basel II, many banks in emerging markets are facing challenges with the advanced approaches. There is also considerable divergence in implementation across the region, and this is impeding smooth cross-border supervision.
- The full benefits of Basel II can only be attained if it is undertaken as part of an overall financial development program, to address highly fragmented banking systems, underdeveloped capital markets, and weak risk management and governance in domestic financial institutions.
- Corporate governance is a joint effort, where authorities promote standards, while the private sector promotes a culture of good governance. Regulatory frameworks alone cannot guarantee financial stability, and strong corporate governance is the first line of defence against any impending crisis.
- The crisis called attention to several related issues that should be addressed. These include: the regulatory use of ratings, the underestimation of risks in structured products, the pro-cyclical impact of Basel II; how to address risks not fully captured by Pillar I, e.g. liquidity risk; and the ability of directors to spot major market deterioration, to understand risk exposures, to ensure that

actual practices match governance mechanisms, and to know whether management is hiding risks from the board.

The Coordinator also briefed the Advisory Group on the preparations for the 5th dialogue which is scheduled to be held on 27-28 July 2009 in Bangkok, focusing on proposed changes to regulatory regimes and prudential oversight, pro-cyclicality, regulatory cooperation, regulators' response to financial innovation, protecting market integrity, corporate governance especially with respect to risk management and compensation practices, valuation of complex illiquid securities during times of stress and convergence toward a high quality global accounting standard. In addition, the dialogue will touch on strengthening credit reporting practices, infrastructure finance and financial inclusion, as well as managing SME lending risks.

Mr. Akira Ariyoshi of the IMF commented that the forthcoming dialogue is important in view of the huge changes taking place in financial regulation, particularly the work of the G-20. He observed that the work of the G-20 on financial regulatory reform, which will be discussed at the dialogue, are still in the early stages of development, and that there is a recognition of the need to have wider participation in this process. He underscored the importance of an active involvement of APEC, and the usefulness of the dialogue in promoting such involvement.

The Advisory Group endorsed the Report of the 4th SEACEN-ABAC-ABA- PECC Public-Private Dialogue for the Asia-Pacific Region and the program of the 5th Dialogue.

The Third APEC Public-Private Sector Forum on Bond Market Development

The Coordinator briefed the Advisory Group on the preparations for the Forum, which will be hosted by the Singapore Government and scheduled for July 16 in conjunction with the 6th APEC Senior Finance Officials' Meeting. This is an initiative under APEC that the Finance Ministers have asked ABAC to undertake, in collaboration with the Advisory Group. He noted that upon the request of APEC Senior Finance Officials, the focus of the forum has been widened to include the issue of how to broaden the institutional investor base.

The Coordinator gave a brief description of the program, which consists of four sessions. The first is a session on international financial institutions' perspectives on capital markets and the global financial crisis, including presentations by the IMF, World Bank and ADB. The second is a session focused on bond markets, with presentations by Malaysian and Thai regulators. The third is a panel discussion where private sector market players will provide their perspectives on the current situation in emerging bond markets, the challenges in broadening the institutional investor base, and what policies would be helpful to address these challenges. The last is a concluding session on capacity-building and public-private sector collaboration, with a summary of the key results from the first and second bond market forums.

During the discussions, participants underscored the importance of reviewing the results of the previous year's forum and the need to expand on the impact of existing impediments to the development of bond markets, including those related to tax measures.

The Chair noted the importance of the Forum in promoting the mobilization of savings in the region.

The Advisory Group endorsed the program of the 3rd Forum.

Next Meeting

The Chair announced that the next meeting will take place in Vietnam during the time of the ABAC meeting in August, and that all participants will be informed of the exact date and time as soon as this information becomes available.

Adjournment

There being no other matters to discuss, the Chair thanked the participants, as well as ABAC Brunei Darussalam for the excellent preparations, and declared the meeting adjourned at 11:30 am.