THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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MEETING REPORT

First Draft
As of 6 October 2009

Welcome and Introduction

Mr. Mark Johnson, Chair of the Advisory Group, called the meeting to order at 2:10 pm.

Mr. Tran Quang Son of ABAC Vietnam welcomed the participants on behalf of the hosts.

The Chair acknowledged the presence of participants from a number of collaborating institutions: Mr. Akira Ariyoshi, Director of the Asia-Pacific Regional Office of the IMF; Ms. Lotte Schou-Ziebell, Economist at the Asian Development Bank; Mr. Ken Waller, Director of the Australian APEC Study Centre at RMIT University; and Mr. Thomas Clark, Vice President for Government Relations at GE Money representing the Asia-Pacific Credit Coalition. Ms. Hang Nguyen, Capital Market Project Manager at IFC, also joined the meeting.

Review of the First 2009 Advisory Group Meeting in Wellington

Dr. J.C. Parreñas, Advisory Group Coordinator, gave a brief overview of the report of the Second 2009 Advisory Group meeting in Brunei. Major items in the report include (1) the confirmation of the new line-up of Chair and Co-Chairs; (2) the discussion and endorsement of the report of the Tokyo financial inclusion workshop and the results of the brainstorming with finance officials and IFIs on launching an APEC financial inclusion initiative; (3) the discussion on infrastructure PPP, where the Advisory Group endorsed the proposed Asia Infrastructure Partnership and steps to promote regional dialogue on PPP in APEC; and (4) the discussion on credit reporting systems, where the Advisory Group endorsed steps to promote full file comprehensive credit reporting and a region-wide credit reporting regime.

The Advisory Group approved the Meeting Report.

Report of the 3rd APEC Public-Private Sector Forum on Bond Market Development, Singapore, 16 July 2009

The Coordinator presented a summary of the report of the 3rd APEC Public-Private Sector Forum on Bond Market Development, which was held in Singapore on 16 July 2009. During the ABAC dialogue with Finance Ministers in 2006, the Ministers agreed to ABAC's proposal to hold regular bond market forums as part of the official process. Following two successful forums in Melbourne and Cusco, the Advisory Group this year coordinated the preparations for the 3rd Forum.

The forum was divided into four main sessions. The first three sessions were structured to provide perspectives from IFIs, officials and private sector market players, and the fourth session focused on capacity-building and public-private sector cooperation to broaden the region's institutional investor base. The following are the major conclusions of the forum.

- There is a need to prioritize corporate bond market development and to identify ways for governments to facilitate this process. For example, governments should have clear strategies for creating a benchmark yield curve, promoting secondary market liquidity and risk management instruments, widening the issuer and investor base, and establishing new products.
- Legal and regulatory systems need to be strengthened to attract investors. This means working toward securities and corporation laws that foster and enforce transparency and fair play, provide adequate creditor protection and recovery processes, market regulations that allow efficient bond transactions, and standardized custodial and settlement practices designed to reduce operational risks.
- Taxation is a key issue, as investors look at total return. Tax and other incentives should be considered in expanding the investor base, and the impact of double taxation, capital gains taxes, withholding taxes and stamp duties, among others, should be reviewed.
- Investors should be assured of the quality of requirements for issuance and adequate disclosure, and should have sufficient access to market information. Examples of measures are making bond issuer documentation available to investors on websites, promoting continuous post-issuance disclosure by issuers, advisers and trustees, and making available fair value prices of local currency bonds by bond pricing agencies and rating announcements by credit rating agencies.
- Adequate market surveillance is needed to ensure compliance of market players and intermediaries with relevant guidelines and should cover primary and secondary markets to detect abuses and deter misconduct.
- Markets that enable investors to hedge, such as through interest rate and currency swaps, are necessary to manage underlying risks in portfolios.
- Credit guarantee institutions could help facilitate access of local companies to long-term capital.
- Investor education is important to develop a credit culture, which is key to greater market activity, and the role of institutional investors should be promoted.
- Incentives are useful in promoting local demand for new assets, such as savings bonds or Islamic financial instruments, which have a wider investor base.
- The investor base should be diversified by mobilizing the onshore individual savings pool in addition to existing public and corporate asset pools and providing the right conditions for foreign investors to enter the market.
- Further steps are needed to provide investors with useful and comparable credit ratings for bonds across the region's emerging markets, as well as efficient bond settlement systems.

The Coordinator also reviewed the conclusions of the two previous forums, which focused on measures to promote depth and liquidity, develop market infrastructure as well as capacity-building. Since 2007, the Advisory Group has already documented developments covering the bond markets of eight developing member economies, providing a useful basis for identifying reforms and for peer reviews. He also mentioned the report from ABAC Chile that the Chilean financial regulator instituted a number of reforms that were identified as a result of the Cusco forum last year.

He also noted that for 2010, the senior finance officials are considering the continuation of the bond market forum as one of the initiatives under the Finance Ministers' Process, and requested the Advisory Group to endorse the report.

Ms. Schou-Zibell updated the Advisory Group on ADB's ongoing work on bond markets. She noted that growth rates in Asia's local currency bond markets have stabilized in the first quarter of 2009 after a decline in the previous quarter, mainly due to fiscal stimulus packages undertaken by governments. Central banks also issued bonds for broader monetary management purposes as corporate issuance recovered. In the first quarter of 2009, emerging East Asian bond markets expanded collectively by 10.7% on a year-on-year basis. The strongest improvements in bond market growth rates came out of Indonesia (9.5%); Hong Kong, China (8.6%); Thailand (6.8%); and the Republic of Korea (Korea) (5.9%). China's bond market reported continued strong growth year-on-year in the first quarter of 2009 and also continues to dominate bond market growth in the region.

Ms. Schou-Zibell reported that there has been considerable progress since the mid-1990s in developing the region's capital markets. Financial markets in developing East Asia increased from about US$25 bilion in 1995 to US$43 billion in 2008. At the same time the share of the banking sector decreased from 58% to 45% while that of bond markets increased from 21% to 33%. Equity markets grew more modestly in size from 21% to 23%.

She noted, however, that emerging Asian local currency bond markets remain underdeveloped, with low liquidity due to inactive trading. Generally, individual Asian local currency bond markets lack depth in terms of market size, number of investors and number of issuers. With the exception of Japan and Korea, other Asian bond markets are capitalized at less than US$100 billion. There are several challenges to the integration of the region's bond markets. Capital controls across local bond markets prevent seamless trading of bonds in different currencies. There are also no standard tax concessions or withholding tax arrangements; regulatory frameworks differ; and there is no comprehensive linkage of settlements and clearing systems across all Asian currency markets.

In several economies there is a lack of developed swap, repo and futures markets. There are different rating methodologies and criteria for various rating agencies. There is no standard legal framework and the documentation and disclosure requirements vary across markets. She also referred to studies indicating that barriers to international trade and investment, lack of free trade, and inadequate information on foreign securities may also pose impediments to international integration with Asian bond markets.

Ms. Schou-Zibell described ADB's current efforts to actively support various regional initiatives to develop integrated local currency bond markets. These include providing technical and research assistance to the ASEAN Plus Three Asian Bond Markets Initiative (ABMI); stimulating market activities by issuing local currency bonds; promoting capacity building for bond market development in ASEAN Plus Three; and promoting research and information dissemination through the Asia Bond Monitor, Asia Capital Markets Monitor, and various working papers.

She noted that regional cooperation can contribute to deeper and more sophisticated markets, and that regional initiatives can help strengthen market infrastructure for bond markets and can serve as models for developing regional bond markets and for enhanced regional integration and cooperation. She mentioned that both the African Development Bank and the Inter-American Development Bank are looking at setting up a similar arrangement as the ABMI.

The objective of the ABMI is to develop efficient and liquid bond markets in the region and to foster a high degree of financial integration in Asia. The initial ABMI was endorsed August 2003, with the ADB serving as the Secretariat. In May 2008, a new medium-term road map was endorsed, and a steering group was set up to monitor progress and coordinate future plans. The new road map envisaged four task forces as well as a Working Team that can be set up if necessary to execute specific tasks as recommended by the steering group.

Task Force 1 focuses on the supply side and promotes the issuance of local currency-denominated bonds. An important initiative under this task force is the establishment of a credit guarantee and investment mechanism. Its objective is to support the issuance of local currency corporate bonds in the Asia and Pacific region by providing local currency bond guarantees. It has been designed to raise the rating of corporate bonds and give leverage to private firms to access more financing. Borrowing costs will also be reduced and foreign exchange liquidity boosted in the region. It will also enable issuers to lengthen the maturity of their debt issuance.

The mechanism will be established as a trust fund of ADB with an initial capital of US$500 million and is expected to be operational by the time of the 2010 ASEAN Plus Three Finance Ministers' Meeting. It will have its own AAA rating, will not borrow from the capital market and will be self-sustainable, operating independently on a commercial basis. The proportion of individual contributions by ASEAN Plus Three and ADB will be determined following multilateral discussions.

Another project under this task force is the Asian Currency Note Program. This is a multicurrency bond platform that links domestic capital markets in Hong Kong, Malaysia, Singapore, Philippines and Chinese Taipei. The latter two joined the program in May 2009, while Korea and Thailand are in the process of joining. The single structure allows issuers to access several Asian financial markets simultaneously and helps reduce legal and transaction costs. Investors benefit from more frequent issues and greater diversification, and market development is enhanced because the program documentation achieves a single issuance platform by using a common set of documents governed by English law. In this sense it supports efforts to harmonize bond documentation and conventions in the region.

A third project under the task force is bond financing for infrastructure projects in the ASEAN Plus Three. ADB is supporting the structuring of a pilot cross-border bond issue in Thailand by the Lao PDR government, backed by Lao electricity sales to Thailand. That could become a model for future asset-backed issuance in the region in the future.

Task Force 2 focuses on the demand side. The Asian Bonds Online website is an initiative under this task force. It was launched in May 2004 as a one-stop information site on ASEAN Plus Three bond markets, receiving an average daily hit of over 23,000 per day. The objective of the website is to function as a data hub for local currency bond markets and to integrate data and practices of ASEAN Plus Three local currency bond markets; promote public awareness of the ABMI; deepen engagement with institutional investors; facilitate information exchange among member economies on developments in the local currency markets; and broaden interaction with market regulators.

Task Force 3 aims to improve the regulatory framework. The work on harmonizing bond standards is just starting. There will be a report to ABMI in early 2010 on harmonization efforts in secondary markets for government and corporate bonds and self regulatory agencies.

Task Force 4 aims to improve related infrastructure for the bond markets. An initiative under this task force is the Regional Settlement Intermediary. For this initiative, a group of experts has been established to conduct a feasibility study of various options and to identify barriers for cross-border bond transactions and settlements in the region. The task force is expected to put forward recommendations to ABMI in April 2010 on the costs and benefits of each option, regulatory requirements, and next steps.

Ms. Schou-Zibell also discussed ADB's local currency bond issuance. During the period 2003 – 2007 ADB has issued local currency bonds, contributing to the supply of high quality domestic currency bonds. It has had a developmental impact on domestic bond markets, setting a precedent of good practice in domestic bond markets for other issuers to follow. ADB has issued local currency-denominated bonds since 2003; in 2007, local currency bonds were issued in Hong Kong, Kazakhstan, Malaysia, the Philippines and Singapore.

The ADB also supports a training program for bond market development, which aims to help formulate strategies that can be used to overcome impediments to bond market development. The training program is designed to run for three years, producing case studies on bond market development that will also be published and disseminated on the Asian Bonds Online website.

Finally, Ms. Schou-Zibell reported on ADB's research and information dissemination activities. The Asia Bond Monitor is a quarterly publication that provides an overview of recent developments, including regulatory changes, in ASEAN Plus Three local currency bond markets. The Asia Capital Market Monitor is a new publication launched in April. Research is also published on the ADB working paper series on regional economic integration, which can be downloaded from either the Asian Bonds Online or the Asia Regional Integration Center (ARIC) website.

Mr. Francisco Garces of ABAC Chile briefed the participants on the recent take-off of Chilean capital and bond markets. He noted the following developments:

- The development of capital markets in Chile began at the end of the 70's and early 80's with the Capital Markets Reform supported by the World Bank and other institutions as well as with the Pensions Reform of 1981. Pension Funds are the main Institutional Investors. They suffered with the 2008 financial crisis but recovered substantially in the first semester of this year. Currently, there are US$ 22 billion in outstanding corporate bonds, compared to US$ 2.7 billion in 1999. Until June 2009, the amount of placed corporate bonds has grown rapidly, matching the amount placed in the entire previous year. Bonds issued and outstanding by the Treasury and Central bank, held by institutional investors, are valued at US$17 billion.

- With respect to transaction volume, the largest corporate issued amount correspond to that of the Chilean power transmission company Transelec (A+) with a US$ 450 million equivalent, at 21 years tenor (December of 2006). The basic yield curve of the Chilean economy is derived from Central Bank notes in inflation indexed to local currency (Unidades de Fomento). The sweet spots in the curve are concentrated in the 5th and 21st years. Traditionally Chilean investors have invested in "A–" ratings or higher under the local scale. A rating "A–" local is equivalent to a BB+/BBB– in the international scale. However, given recent market volatility, they are showing a strong preference for AA issuers.

- The regulation allowing foreign issuers to issue in Chile was published January 2006 and updated in June 2009. The disclosure requirements have been assimilated to those of the Determined Market and the filing process has been fast tracked (3 to 4 weeks), although the registration of a bond program can take approximately 3 months. América Móvil has already issued the first bond of a foreign issuer for approx. US$ 140 million in April 2009. Banchile | Citi registered the bond program for an amount of UF 30 million (approximately US$ 1.0 billion) for a 30 year issue.

- Costs associated with issuing in Chile are substantially lower than those in the US market. For an issuance of about US$300 million, the up-front costs, excluding the stamp tax (which will be unchanged during 2009), but including legal expenses, rating agencies and other fees, are estimated at US$500,000. A stamp tax is imposed on all debt transactions in Chile. However, given the current volatility of international markets, the local government has decided to temporarily reduce it to zero. This implies that any debt raised in 2009 will not pay this up-front tax (previously on levels of 1.2%).

- Main institutional investors are pension funds ("AFPs") and life insurance companies, which account for around 80% of total institutional investors' funds (vs. 90% in 2000). Chilean Institutional investors managed an investment portfolio of around US$ 152.7 billion, which is approximately equivalent to 110% of the local GDP published for the year 2008.

- Pension funds' investment portfolios have increased due to a rise in the inflow of resources from affiliates and due to higher returns. Additionally, there has been a change in the portfolio mix, decreasing government paper and mortgages and increasing corporate papers and foreign investments. The implementation of the multi-fund system continues to attract more resources from affiliates. This, together with the youthfulness of the Chilean pension system makes the inflows higher than the outflows. Additionally, there has been a change in the portfolio composition, with an increase in equity, foreign investments and corporate bonds (these three items currently represent around 60% of their portfolio vs. a 28% in June, 2000), and a decrease in government papers and mortgages.

- Life insurance companies have changed their investment portfolio mix, increasing the weight of long term corporate bonds. This allows them to better match their liabilities with securities that offer attractive rates with high rating standards. Life insurance companies have increased their portfolio weight towards corporate bonds from 6.9% in Dec-99 to 33.4% as of Dec-08. Their portfolio has grown approximately 143% in the same period. Recent legislation modifications have allowed them to expand investment limits on each specific issuer.
- The local bond market has been the preferred financing alternative for Chilean issuers during the last five years, led by the rapid development of pension funds and life insurance companies. Almost 80% of these issuances have been placed within the last five years, evidencing a market under quick development. The local corporate bond market in Chile has the equivalent to US$22.2 billion in outstanding issues. Outstanding issues are held mainly by pension funds (approx. US$10.8 billion), life insurance companies (approx. US$ 8.9 billion), mutual funds (approx. US$1.8 billion) and other players such as banks and stock brokers.
- Market depth has been improving during the last years, with capacity to absorb bond placements for up to US$ 450 – 500 million in a single transaction. The Chilean Market is an investment grade market, providing much longer tenors than other countries in the region (up to 30 years). During the last twelve months(1), a total of UF 150.6 million (app. US$ 5.3 billion) were placed in the local bond market in 36 issues. All of these issues correspond to corporate issues, given that the last infrastructure transaction was placed on January of 2007.

Mr. Garces outlined the remaining barriers to growth of bond markets, which are divided into regulatory/bureaucratic and tax barriers. The regulatory/bureaucratic barriers are as follows:

- Delays in first time registration processes of bond issuances, which until recently took up to 4 months but have now been reduced to 30 days indicate a clear improvement toward enhancing the market's dynamism in 2009.
- There are still problems related to the bureaucratic interpretations regarding the exemption of bond issuances from capital gains taxes. Issues of stocks are exempt from said tax.
- A pending matter is the exclusion of companies which do not have an investment grade (the high yield market) from the possibility of issuing bonds in the local market.
- More coordination among the Regulator, Tax Authorities and the Central Bank is necessary in local, regional and international markets.

Tax barriers include the following:

- Stamp Duty currently levied a rate of 1.2% down form a previous 1.60% which has now been suspended until January 2010. The proceeds are 0.6 of annual GDP.
- The Additional Tax levied on profit remittances by foreign companies has a maximum rate of 35%. Variable income instruments would be exempt, while a duty would be placed on bonds or fixed-income instruments.
- Tax on Interest (Withholding Tax) levied on remittances of interests at a rate of 4%
- Tax on overseas credits with terms of less than one year, levied at a rate of 3.6%
- Tax on stock dividends, and sub-sequentially on income received from AFPs (Double Taxation Case)
- Inheritance Tax. A case of double taxation. Proceeds are equivalent to 0.1 of GDP. With a maximum rate of approximately 25%.

With respect to regional efforts to develop bond markets, Mr. Garces underscored four key points. First, the APEC Public-Private Sector Forum on Bond Market Development is making significant contributions to public-private collaboration in the region. Second, there is much potential for collaborative efforts to develop the role of institutional investors, especially pension funds, in emerging markets; and promoting corporate bond markets, including cross-border issuance and investment. Third, there is a need to convince governments to eliminate regulatory, bureaucratic and tax barriers which are still major impediments to market development. Fourth, these efforts can contribute significantly to the recovery and stabilization of markets and economies.

The Advisory Group endorsed the report of the bond market forum.

Summary of the 5th SEACEN-ABAC-ABA-PECC Public-Private Dialogue for the Asia-Pacific Region, Bangkok, Thailand, 27-28 July 2009

The Coordinator presented the report of the 5th SEACEN-ABAC-ABA-PECC Public-Private Dialogue for the Asia-Pacific Region, which was held in Bangkok, Thailand on 27-28 July 2009. Key messages from the dialogue were as follows.

- First, the crisis has led to a re-evaluation of how central banks should deal with asset price bubbles. Until the crisis, the prevailing sentiment was against intervention, in view of potential costs of deflating a false bubble. However, the crisis has demonstrated that bubbles may not deflate in an orderly way and can cause much damage when they do so. Consequently, central banks are beginning to consider a paradigm shift toward acting against suspected bubbles even in the absence of sufficient information.
- Second, the crisis underscored the danger of systemic risks. Financial regulators are now encouraged to strengthen both macro-prudential frameworks, which focus on systems, and micro-prudential frameworks, which focus on individual institutions. This will increase demands on the capacity of regulators to cover systemically important institutions, markets and instruments, improve prudential standards on capital and liquidity, ensure a coherent international framework, and enhance supporting policies and infrastructure, including accounting standards, credit ratings and compensation.
- Third, governance failures played an important role in the genesis of the crisis, particularly with respect to compensation and risk management policies. Regulators and the financial industry are focusing on addressing four key structural gaps: compensation governance, design of compensation systems, use of risk adjustments in determining compensation, and weaknesses in payout mechanisms. However, there is a need for caution in introducing regulations (such as compensation caps) that could result in shifting rewards and risk-taking to lightly regulated sectors, so that ultimately you end up increasing the risks within the system.
- Fourth, international coordination among regulators must be improved to effectively address systemic risks, but also to ensure that compliance requirements for financial institutions do not unduly increase the costs of delivering financial services and restrict innovation. However, mechanisms should also be identified to allow more effective regional contributions to regulatory arrangements that reflect assessments of region-specific prudential interests.
- Fifth, dialogue with the private sector is important in designing new regulations in a way that achieves a balance between promoting stability of financial systems and ensuring continued efficiency and innovation in the financial sector. This is especially needed today, where the introduction of measures such as increased capital requirements that would further restrict lending could undercut efforts to revive financial markets and stimulate economic activity.
- Finally, valuation of complex securities during times of stress has become an important issue. This, however, should be seen in a broader context, with the implementation of IAS 39 remaining a challenge for the region's emerging markets, particularly with respect to disclosure, accounting and presentation standards, cost of implementation for small banks, tax regimes and lack of capacity among banking practitioners, external auditors and regulators.

The Coordinator informed the Advisory Group that the process of getting feedback from key participants in the dialogue is still ongoing, and that the full report will be presented at the next meeting. He encouraged participants to submit any comments they might have.

Mr. Ariyoshi discussed four major subjects of current discussions among international regulators. These refer to the impairment of the banking sector and securitization markets, the timing and modalities of exit strategies, the huge transfer of private risks to sovereign balance sheets and its impact on financial stability and prospects for recovery, and how to reform regulatory and market structures. He noted the existence of concerns about the lack of a clear vision of the overall global regulatory architecture to guide current efforts by regulators and standard-setters to reform domestic regulation, as well as insufficient dialogue between regulators and the private sector in the introduction of reforms in banking and securities markets. He also underscored the need for capacity-building in emerging markets.

Mr. Francisco Garces emphasized the need to reinforce cooperation among regulators in the development of bond markets and the importance of bond market standards to facilitate bond market development, financial integration and cross-border transactions. He mentioned the important role that ADB is playing in efforts to develop Asia's bond markets and noted that the IDB could play a similar role in Latin America and should cooperate with ADB to help development markets in the broader Asia-Pacific region.

Mr. Ken Waller underscored the importance of mechanisms to ensure systematic regional inputs into global regulatory reforms. Tan Sri Dato' Azman Hashim expressed his agreement with Mr. Waller's remarks and suggested that ABAC should provide its own inputs on regulatory reforms to Finance Ministers rather than merely react to the initiatives of the G-20, the Financial Stability Board and other international bodies. Ms. Shou-Zibell mentioned that ASEAN Plus Three is initiating the multilateralization of the Chiang Mai Initiative this year.

The Chair noted that most regulatory responses to the crisis reflect domestic conditions and requirements, and that ABAC should take advantage of its role within the APEC Finance Ministers' Process to seize the tide and engage Finance Ministers to ensure that regional concerns are taken into account. He informed the Advisory Group that the draft report will be finalized after comments and suggestions from the dialogue participants have been received, and a final draft will be presented for endorsement at the November meeting of the Advisory Group in Singapore.

2009 Advisory Group Report on Capacity-Building Measures to Strengthen and Develop Financial Systems

The Coordinator presented the draft 2009 report of the Advisory Group. He mentioned that the draft is based on the record of Advisory Group discussions in Wellington and Brunei, the report of workshops and forums, and papers that have been submitted this year by Advisory Group participants. He outlined the Advisory Group recommendations that APEC undertake capacity-building initiatives in five areas – financial inclusion, bond markets, infrastructure, credit reporting and financial regulatory reform.

The Advisory Group endorsed the 2009 report and the inclusion as annexes of the report of the Tokyo microfinance workshop and the report of the bond market forum. The Chair informed the Advisory Group that he will request ABAC Plenary and the Finance Working Group to annex the Advisory Group 2009 Report to the ABAC Report to the Finance Ministers, as in previous years.

Future Agenda: Infrastructure Public-Private Partnership

Mr. Ken Waller referred participants to a communication from Australian Treasury regarding the progress on an expert study on an APEC framework of guiding principles for enhancing private sector infrastructure provision. In the communication, the Australian Treasury noted the following:

- A small steering committee has been formed to guide the development of this project. Members include Australia, Canada, Indonesia, Korea, New Zealand, Singapore and Vietnam. Close consultations have been undertaken in the course of developing a work plan and drafting the terms of reference (TOR) for the project.
- To ensure that the project is consistent with the extensive work already underway in various regional groupings and bodies, the proponents also consulted ADB, World Bank and other relevant institutions. This consultation process is expected to continue throughout the duration of the study.

- Input has also been sought from ABAC to ensure that business and private sector perspectives are taken into account in the course of developing this project. The Treasury will continue to consult and seek ABAC's input into the project.
- Potential experts who have the qualifications, knowledge and experience to undertake this study have been identified and invited to submit expressions of interest in accordance with the TOR. A suitable expert will be selected and work on the study is expected to commence at the beginning of September.
- SFOM members will receive a draft report on the study by the third week of October for comment following its review by the Steering Committee and other stakeholders. The report is expected to be completed and submitted in time for FMM in November.

Mr. Waller talked about the work of the Australian APEC Study Centre and the Melbourne APEC Finance Centre at RMIT University on infrastructure public-private partnership in the APEC region. He discussed the training program that the Centre will convene in Melbourne on 21-28 October for around 30 policy makers from the APEC region and other Asian economies. The program is funded by the Australian government and negotiations with the Asian Development Bank Institute are also ongoing about terms of additional funding support and will address financing and managing risk in PPPs at domestic and local government levels.

As regards possible future activities, the Centre has been invited to tender for the work being commissioned by APEC to develop guiding principles on common aspects of PPP infrastructure projects with a view to promoting private sector financing in an environment of diminished private sector appetite for risk taking in long-term infrastructure projects and pressure on public budgets arising from the global financial crisis. He also noted that the Centre will be delighted to support and associate with any capacity building activity that ABAC and the Advisory Group may consider appropriate to be convened on the margins of the ABAC meeting in Melbourne in February 2010.

Tan Sri Dato' Azman noted that there is a need for success stories on infrastructure to encourage active engagement by governments and the private sector, and mentioned the rail link between Singapore and Thailand as an example of a project that could benefit from innovative ideas.

The Chair underscored the challenges facing infrastructure PPP in the current environment, with diminished private sector risk appetite and public sector capacity to fund large infrastructure projects. He noted the need to mobilize Asian savings to fund infrastructure projects in the region and to address the information asymmetry between the public and private sectors with respect to infrastructure PPP projects. He reiterated the Advisory Group's proposal to provide a structure that brings together public and private sectors and IFIs.

Future Agenda: Financial Inclusion and Microfinance

The Coordinator updated the Advisory Group on the progress of efforts to promote an APEC Financial Inclusion Initiative. He noted that current efforts now focus on developing the initiative as a component of APEC's inclusive growth theme, and suggested that the Advisory Group authorize the Coordinator to work with collaborating institutions to ensure that APEC senior officials fully understand the proposals on financial inclusion; that ABAC members actively encourage their respective finance ministers to endorse the proposed initiative; and that ABAC members will mention this proposal in their dialogue with APEC Finance Ministers and Leaders in connection with inclusive growth this coming November. The Chair encouraged Advisory Group members to collaborate actively in efforts to promote the initiative.

Future Agenda: Improving the Region's Credit Reporting Systems

Mr. Thomas Clark presented some considerations related to credit information and lending transparency in the wake of the financial crisis. He underscored that the origins of the crisis had to do not with the use of information, but rather the failure to use already available information and risk assessment tools. He noted that the key to preventing similar crises is a robust system of credit information sharing, decision science, sound underwriting practices and regulatory transparency and predictability.

He outlined four proposals to build on the work already done in this area. The first is identity verification with respect to credit information. The second is identifying standards and best practices to allow portability of credit data for consumers and small businesses. The third focuses on how sensitive public data (such as wage and income information from unemployment insurance for income verification) can be accessed and used by credit bureaus. The fourth is capacity-building to facilitate commercial lending, particularly for SMEs.

Mr. Gary Judd noted that governments also contributed to encouraging financial institutions to disregard available credit information in lending activities that led to the crisis.

The Chair concluded that discussions on future work could be guided by this year's Advisory Group recommendation, which states that APEC should initiate a policy initiative to promote full-file, comprehensive reporting to private credit bureaus, including sharing of best practices in implementing reforms and eventually moving toward the establishment of a region-wide credit reporting regime

Next Meeting

The Chair announced that the next meeting will take place in Singapore sometime during the ABAC meeting in November, and that all participating institutions 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 Vietnam for the excellent preparations, and declared the meeting adjourned at 3:59 pm.