



THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Meeting Paper 5-C

Advice on Two Programs Being Proposed to Build APEC Capacities in Investment and Finance by the Australian APEC Study Centre at RMIT University and an Invitation to Participate

Australian APEC Study Centre at RMIT University

**ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY BUILDING
THIRD MEETING 2010, BANGKOK, 26TH AUGUST 2010**

ITEM 5 - C: ADVICE ON TWO PROGRAMS BEING PROPOSED TO BUILD APEC CAPACITIES IN INVESTMENT AND FINANCE BY THE AUSTRALIAN APEC STUDY CENTRE AT RMIT UNIVERSITY AND AN INVITATION TO PARTICIPATE

Introduction

The Australian APEC Study Centre at RMIT University submitted two concept notes to Ausaid with a request for funding by the Australian Aid Bureau. Ausaid have indicated initial support and the Centre has subsequently provided detailed proposals:

- one relates to reducing investor risk in investment in the APEC region
- the other will consider the relevance, impact and implementation of reforms being proposed by international standard setting bodies in response to the global financial crisis to APEC developing economies

Attached are two papers which provide an outline of the two programs.

Each program would involve a regional symposium – bringing international agencies, regional policy makers and regulators and businesses together - to discuss contemporary developments and challenges in investment and in financial regulatory arrangements and to consider policies and responses that might best suit the APEC region.

Each will also include a training program for officials and regulators later in the year. The finance program will also include a component related to research on reforms now being formulated by international standard setting bodies, and their possible impact on regional economies.

Both programs would be convened in first and second quarters of 2011.

The Melbourne APEC Finance Centre, a facility of the Australian APEC Study Centre, will jointly fund the programs with AusAid funding.

The Senior Financial Officials under the APEC Finance Ministers' processes have endorsed the finance program and the Investment Experts' Group have indicated support for the investment program.

Both programs envisage the deep involvement of business in partnership with the IFIs and policy makers and regulators in the programs.

Purpose of this note

First, to seek the endorsement of the Advisory Group that these programs do meet the objectives of the group in bringing together public private partnerships in capacity building initiatives in the region. Such an endorsement would be particularly helpful in gaining final Ausaid approval.

Second, as in other programs organized by the Australian APEC Study Centre, the Centre is very pleased to extend an invitation to members of the Advisory Group and ABAC to associate with and participate in the programs. Such an association would be extremely helpful to ensuring the success of the programs in meeting their key objectives.

Australian APEC Study Centre at RMIT University

2nd August 2010



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Proposal for a Symposium (February 2011) and Training Course (June 2011)

(Date of Proposal: July 2010)

Program: *Enhancing investment flows by reducing risk in private investment in APEC economies*

The Centre has been invited to submit a detailed proposal under AusAID's PSLP funding scheme for a two-stage program, including:

- 1) A two-day regional symposium; and
- 2) A five day intensive capacity building training course.

The objective of the activity is to build policy and implementation capacities to minimise investor risk in an uncertain global economic climate and to encourage and facilitate investment flows in the Asia-Pacific region. This activity would target relevant policy advising agencies, including investment facilitation and promotion agencies, and would draw on key lessons emanating from APEC's investment framework, including the OECD's Policy Framework for Investment (PFI) and also work of the World Bank, UNCTAD, UNESCAP and the ADBI.

In recent years, there has been a marked decline in investment flows in most of the targeted regional economies, largely as a consequence of the global financial crisis and its sharp impact on investor confidence. The decline is noticeable in both foreign and domestic investment flows. Recovery in most economies will be a lengthy process and is by no means assured. The activity would aim to stabilise and enhance investment flows, by defining key investor risk concerns, and measures to ameliorate them. Relevant priority issues would be identified and could be taken into account by APEC in formulating the Investment Facilitation Action Plan (IFAP) 2, thereby contributing to a sustained enhancement of APEC's investment policy environment.

The first stage of this program will involve a two-day regional symposium involving senior policy makers from the region and international and regional agencies, as well as business decision-makers and private sector investors, with the purpose of identifying core factors in minimising investment risks in cross-border and domestic investment that could be taken into account in formulating IFAP 2. Major initiatives by the OECD, World Bank, ADB and UNESCAP will be considered. Australian institutions including the Treasury, the Productivity Commission, the Business Council of Australia, Partnerships Victoria, the APEC Business Advisory Council (ABAC) and other major business groups will be invited to be involved. The views and experiences of major private investors in the region's economies will be considered. The symposium will also be partly funded by the Victorian Government under the MAFC facility.

The symposium will include 9 sessions over 2 days and will have the following basic structure -

DAY 1

- Session 1: Introduction
- Session 2: Basic Determinants of Investment and Sovereign Risk
- Session 3: Macro-Economic Policy Factors
- Session 4: Characteristics of a Sound Foreign Investment Policy
- Session 5: Behind the Border Barriers to Investment

DAY 2

- Session 6: Investment in Infrastructure
- Session 7: Investment in Resources Sector
- Session 8: Investment in Financial Sector
- Session 9: Key Messages and Conclusions

Attached is a detailed outline of this program.

The second stage will involve a five day intensive capacity building training course for investment policy specialists and investment promotion and facilitation officials, covering policy issues relevant to enhancing domestic and foreign investment flows, drawn from the regional symposium, and contemporary relevant developments in investment. The inputs for the training course will be based on discussions that the Lead Academic Coordinator and Symposium Coordinator will have with the OECD, UNESCAP, APEC Investment Experts Group (IEG), ABAC, and others, and will be informed by the PFI and work undertaken by the World Bank and UNCTAD.

The focus will be on reducing or eliminating investment risk, based on components of the PFI to encourage and facilitate investment, measures to reduce risk in infrastructure investment, the amelioration of sovereign risk, investment and its role in structural reform, the role of investment treaties and policies to ensure efficient administration in investment decision making processes, and business perspectives on investment risk minimisation. Through the delivery of high quality and informed presentations and supporting materials, participants' understanding of the necessary components of a well-developed investment policy regime will be deepened. Case studies will be utilised in the training course based on economy experiences in the APEC region and on the work of international agencies involved in the development of investment policies.

PROPOSED PROGRAM FOR TWO-DAY REGIONAL SYMPOSIUM

“Policies and Environment Conducive to Investment”

DAY 1

Session 1: Introduction

Presentation by Forum Chairman on Forum’s Processes and Objectives

Session 2: Basic Determinants of Investment and Sovereign Risk

Chaired by Forum Chairman

- Presentation on the Basic/Fundamental Determinants of Investment and Sovereign Risk – UNCTAD or UNESCAP Representative
- Comments by Panellist – ABAC Representative
- Discussion/Q&A Session

Session 3: Macro-Economic Policy Factors

Chaired by UNCTAD or UNESCAP Representative

- Presentation on Macro-Economic Policy Factors by OECD Representative
- Comments by Panellist – BCA Representative
- Discussion/Q&A Session

Session 4: Characteristics of a Sound Foreign Investment Policy

Chaired by OECD Representative

- Presentation on the Characteristics of a Sound Foreign Investment Policy – Foreign Investment Policy Expert
- Comments by Panellist – UNCTAD or UNESCAP Representative
- Discussion/Q&A Session

Session 5: Behind the Border Barriers to Investment

Chaired by Foreign Investment Policy Expert

- Presentation on Behind the Border Barriers to Investment and the World Bank’s ‘Doing Business’ Report – World Bank or ADB Representative
- Comments by Panellist – UNCTAD or UNESCAP Representative
- Discussion/Q&A Session

DAY 2

Session 6: Investment in Infrastructure

Chaired by World Bank or ADB Representative

- Presentation on Issues for Infrastructure Investment – Infrastructure Expert (Eg: Academic)
- Comments by Panellist – ABAC Representative

- Comments by Panellist – Victorian Government (Partnerships Victoria)
- Discussion/Q&A Session

Session 7: Investment in Resources Sector

Chaired by Infrastructure Expert

- Presentation on Issues for Investment in the Resources Sector – Resources Sector Expert
- Comments by Panellist – A Second Resources Sector Expert
- Discussion/Q&A Session

Session 8: Investment in Financial Sector

Chaired by Resources Sector Expert

- Presentation on Issues for Investment in the Financial Sector – Financial Sector Expert
- Comments by Panellist – A Second Financial Sector Expert
- Discussion/Q&A Session

Session 9: Key Messages and Conclusions

Chaired by Forum Chairman

- Comments on Key Points and Conclusions by **Four** Presenters
(Two from International Organisations and two from the Business Sector)
Selected from (depending on who attends), representatives from the OECD, World Bank, ADB, UNCTAD, UNESCAP, ABAC or BCA.
- Concluding comments by Forum Chairman

Presenters (and Panellists) to be arranged:

- Symposium Chairman
- Representatives from all (or some) of:
 - OECD
 - World Bank
 - ADBI
 - UNCTAD
 - UNESCAP
- ABAC Representative/s
- BCA Representative
- Foreign investment policy expert
- Private sector infrastructure sector expert/s
- Private sector resources sector expert/s
- Private sector financial sector expert/s
- Victorian government representative
- Academic with public policy investment expertise



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Proposal for a Symposium (February 2011) and Training Course (June 2011)

(Date of Proposal: July 2010)

Program: Enhancing financial policy and regulatory capacities to implement reforms in response to the global financial crisis

The Centre has been invited to submit a detailed proposal under AusAID's PSLP funding scheme for a program with multiple components, including:

- 3) Commissioned research on major recommendations arising from standard setting bodies in response to the global financial crisis and the impact on regional economies by professional financial and regulatory policy specialists;
- 4) A two-day regional symposium; and
- 5) A five day intensive capacity building training course.

The objective of this activity is to build capacities in APEC's developing financial system policy and regulatory agencies to consider the relevance, impact, and implementation, of the region's financial systems of reforms proposed by international standard setting bodies in response to the global financial crisis. The goal is to help APEC economies understand the complex nature of proposed reforms and their impact, and to implement best standards and practices as appropriate to regional economies. The purpose is therefore to reduce future risk to financial systems and to economic stability arising from shocks to financial systems, and to build on the lessons learned from the global financial crisis.

Following the report of commissioned research on major recommendations, the second stage will be a regional symposium, which will focus on linkages between markets and financial products, emerging regulatory and supervisory proposals, as well as their efficacy for regional economies. Significant reforms are proposed, and these will be thoroughly explained and discussed in the symposium. The symposium will be informed by the commissioned research.

We propose a two-day regional symposium bringing together senior regulators and policy makers from the Asia-Pacific region. It will involve the ADB, the ADBI and international standard setting bodies, including the Bank for International Settlements (BIS), International Association of Insurance Supervisors (IAIS), and the International Organisation of Securities Commissions (IOSCO), along with industry and academic finance specialists. The proposal is supported by Australian policy and regulatory agencies, Treasury and APRA. It is anticipated that they and other Australian agencies will be involved in both the symposium and the training course (see below). The symposium would also involve funding by the Victorian Government under the MAFC facility.

The symposium would involve presentations and dialogue between policy makers, financial system regulators, international standard setting bodies and representatives of major commercial financial sectors. An important purpose and outcome of the symposium will be the identification of capacity training needs in implementing reforms in the region which will inform the training course and future training initiatives.

Draft Symposium Structure:

Day 1

- Session 1 Promoting Best Practice Principles
- Session 2 Managing the Crisis
- Session 3 Overview of Regulatory Impacts
- Session 4 Liquidity and effective reliable securities markets – to balance stability and financial system innovation
- Session 5 Credit Rating Agencies

Day 2

- Session 6 Macro Prudential Supervision
- Session 7 Basel II (reforms): Accounting & Valuation/IASB recommendations and contrast with Basel II
- Session 8 Safety Nets; Deposit Insurance Systems; Consumer Finance and Protection
- Session 9 Governance and Risk management /Incentives and Compensation
- Session 10 Regulatory structures – coordination and resourcing
- Session 11 Closing Session – Identification of capacity building needs

Attached is a detailed outline of this program.

A comprehensive report of the outcomes will be made available to all agencies involved and to relevant APEC forums, in particular the Finance Ministers' Process. The report will be used to develop the subsequent training course.

The third stage will include the development and design of a 5 day intensive training program. It will include presentations by experts, case studies, participant contributions, panel discussions and the sharing of experiences in policy making and regulatory system implementation. It will focus on specific capacity building needs identified in the symposium, but it will include critical topics already identified by standard setting bodies, including macro-prudential supervision, liquidity provisioning, capital charges, risk management and governance, stress testing, consumer protection, regulatory cooperation and cross-border regulatory coordination. It would be an opportunity for participants and experts to share their experiences and knowledge in order to enhance policy and regulatory capacities in the region.

Regional Symposium on Enhancing International and Regulatory Cooperation – Post Global Financial Crisis

DRAFT SYMPOSIUM OUTLINE

Session	Content
DAY 1	
Session 1 Opening Address	“Promoting Best Practice Principles”
Session 2 Managing the crisis	<ul style="list-style-type: none"> • Cooperation on fiscal and monetary policy • Responses by impacted internationally operating banks and other financial intermediaries • Critique of progress so far
Session 3 Regulatory Impacts - Overview	<ul style="list-style-type: none"> • Overview of regulatory impacts and proposed solutions • Progress in Implementing reforms to supervisory standards - status
Financial Stability Board	<ul style="list-style-type: none"> • FSB mandate – recommended regulatory changes – banking and securities • Basel II and other reforms
BIS, BGBS, IOSCO, IAIS	<ul style="list-style-type: none"> • Regulatory responses; where to from here • Responses to systemic issues • Systemic issues and common problems
Session 4 Liquidity and effective reliable securities markets – measures to balance stability and financial system innovation	<ul style="list-style-type: none"> • Unregulated markets and hedge funds • Securitisation and credit derivatives • Short selling • Central counter-party clearing systems/organised exchanges and OTC agencies • Credit rating agencies
Session 5 Credit rating agencies	<ul style="list-style-type: none"> • Recommendations for reforms • Industry responses – changing practices
DAY 2	
Session 6 Macro prudential Supervision	<ul style="list-style-type: none"> • Macro prudential orientation of prudential policies • Tools to adopt a macro prudential approach to regulation and supervision • Surveillance and monitoring – regional developments
Session 7 Basel II (reforms): Accounting & Valuation/IASB recommendations and contrast with Basel II	<ul style="list-style-type: none"> • IASB – key accounting/valuation recommendations • Impact on Basel II and banking
Banking provisioning	<ul style="list-style-type: none"> • Recommendations • Impact on banking activity • Effect on Basel II • Capital charges
Leverage & Valuation	<ul style="list-style-type: none"> • Implementing recommendations • Impact on banking activities • Effect on Basel II
Session 8	<ul style="list-style-type: none"> • Role and interaction of financial sector safety net players

Safety Nets	<ul style="list-style-type: none"> • System liquidity management, lender of last resort; role of central bank • Crisis management
Deposit Insurance Systems	<ul style="list-style-type: none"> • Core Principles for Effective Deposit Insurance Systems • Assessment methodology
Consumer finance and protection	<ul style="list-style-type: none"> • Issues in retail financing • Changes to enhance consumer protection
Session 9 Governance and Risk management / Incentives and Compensation	<ul style="list-style-type: none"> • Issues and proposed responses • Incentives and compensation • Stress testing
Session 10 Regulatory structures – coordination and resourcing	<ul style="list-style-type: none"> • Coordination between national regulators • Resourcing regulatory agencies • Enhancing cross-border regulatory cooperation / Supervisory colleges
Session 11 Closing session	<ul style="list-style-type: none"> • Identification of capacity building needs • Summary and conclusions

Target Audience

Central banks, securities regulators, bank supervisors, insurance regulators, stock exchanges, associated financial regulatory agencies and financial system policy makers from Treasuries and Ministries of Finance and self-regulatory organisations from within the Asia Pacific region and international standards-setting bodies.

Seminar objectives

Provide a forum to promote understanding of the impact of proposed regulatory reforms and to promote financial regulatory co-operation

- a comprehensive overview and status of all regulatory reforms being proposed across financial markets and how they will impact on financial system supervisors and on the industries/functions they are required to supervise
- encourage cross-market dialogue amongst relevant groups of financial regulators – securities , banks, hedge funds, insurance – and standard setting bodies and private sector groups on issues associated with the regulatory reforms
- understanding the issues behind the financial crisis
- a platform to share experiences amongst financial regulators
- an opportunity for developing economies to learn first-hand the experiences of developed economies in their successes and failures in handling the drivers of the financial crisis
- assist emerging markets with their understanding of the regulatory reforms being proposed
- identify any training needs as a result of the regulatory reforms being proposed

Presenters (and Panellists) to be arranged:

- Symposium Chairman
- Representatives from all (or some) of:
 - FSB
 - BIS
 - IMF
 - ADB / ADBI
 - World Bank
 - IAIS
 - IOSCO
 - IASB

- ABAC Representative/s
- Representatives of regional and Australian financial policy and regulatory agencies
- Representatives of regional and Australian private sector financial consultants from banking, insurance and securities sectors
- Academic finance and regulatory specialists