



THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

Document: AGFSCB 30-045
Draft: **FIRST**
Source: AGFSCB Chair
Date: 25 October 2010
Meeting: Yokohama, Japan

Fourth Meeting 2010

10 November 2010

10:15 AM – 12:15 PM

Seiryu I/II, Yokohama Bay Sheraton Hotel & Towers
Yokohama, Japan

Meeting Paper 2-A

Report of the Meeting of the Advisory Group of 26 August 2010, Bangkok, Thailand *[Second Draft]*

Office of the Advisory Group Chair



THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

Third Meeting 2010

26 August 2010

Ballroom 1, InterContinental Hotel, Bangkok
Bangkok, Thailand

MEETING REPORT

Second Draft

As of 15 October 2010

Welcome and Introduction

The meeting started at 2:22 pm. Participants included members and staffers of the ABAC Finance and Economics Working Group (FEWG) and representatives from the Asian Development Bank, the Consultative Group to Assist the Poor, the Japan International Cooperation Agency, Alliance for Financial Inclusion, Foundation for Development Cooperation, Association of Development Financing Institutions in Asia and the Pacific, the Australian APEC Study Centre at RMIT University, the Asia-Pacific Credit Coalition (APCC), the Policy and Economic Research Council, GE Capital, State Street and Goldman Sachs.

The Advisory Group Chair, Mr. Mark Johnson, presided over the meeting. In his opening remarks, he welcomed the participants and gave an overview of the agenda items for discussion. He acknowledged the presence of Mr. Jean-Pierre Verbiest and Ms. Noy Siackhachanh (ADB), Ms. Rosamund Grady (CGAP), Mr. Kazuto Tsuji (JICA); Ms. Sung-Ah Lee and Mr. David Saunders (AFI), Mr. Craig Wilson (FDC), Mr. Octavio Peralta (ADFIAP), Mr. Kenneth Waller (Australian APEC Study Center), Dr. Robin Varghese (PERC and APCC), Mr. Thomas Clark (GE Capital and APCC), Mr. Hon Cheung (State Street) and Mr. James Shipton (Goldman Sachs)..

Dr. Twatchai Yongkittikul welcomed participants on behalf of ABAC Thailand.

Review of the Second 2010 Advisory Group Meeting in Taipei

The Advisory Group Coordinator, Dr. J.C. Parreñas, presented the draft Report of the Advisory Group Meeting of 20 May 2010 in Taipei.

The Advisory Group approved the Meeting Report.

Capital Market Development

The Advisory Group Coordinator presented the results of the Sapporo bond market forum, focusing on the following highlights:

There was a review of previous discussions during the past three years of holding the forum, calling attention to the key weaknesses that remain. In particular, supply constraints represent the key obstacle to market development, and it remains important for the growth of the market to have continued and focused capacity-building efforts and collaboration among stakeholders.

The forum looked at developments in the Chinese, Korean and Japanese bond markets, which find themselves at different levels of development and face different sets of challenges. Consistent with the general trend in the region, the progress they have achieved over the past several years underscore the tremendous impact that reforms can have on market development. Speakers identified particular issues that need to be addressed to sustain the momentum. For China, the focus is on optimizing the financing structure, improving diversity of products and issuer base, globalization, integration with banking markets, and development of derivatives markets. For Korea, the key issue is ensuring that regulatory changes are in line with objectives of market development, particularly with respect to liquidity and the demand for safe assets. For Japan, major issues revolve around improving efficiency, transparency and liquidity, developing a robust market infrastructure, and diversifying the investor and issuer base.

The forum discussed new innovative policy solutions to bring capital market development and integration beyond the current efforts under ABMI and ABF, to the next higher level. Participants agreed on a list of five possible initiatives.

- First is developing wholesale securities markets open only to professional investors. This is meant to address the situation in some markets where corporate market growth has been limited by stringent requirements designed to protect retail investors, although the majority of corporate bonds are actually being purchased by professional investors. Existing private placement markets are also not easy to use for both investors and issuers. This is, for example, the case in the Japanese market, which has tremendous potential to provide funds for the region. Establishing a professional securities market, with disclosure rules adapted to the needs of sophisticated investors, can encourage the expansion of the issuer base, including foreign issuers. The proposal is for individual economies to establish professional securities markets, and then to collaborate in developing regional arrangements for securities settlement, removing barriers to entry and undertaking further steps to create an integrated regional professional securities market.
- Second is reducing barriers to cross-border settlement. For the East Asian region, various private sector institutions have identified 13 major barriers, with the most serious being related to currency convertibility, taxes, securities numbering and cash remittance. Some of these barriers are due to regulations, but others are due to market practices. There are also perception gaps, where market participants remain unaware of new improvements. The proposal is for the public and private sectors to coordinate reforms in their respective areas and to undertake collaboration where it is needed.
- Third is promoting the use of foreign securities as eligible collateral throughout the region, with the objective of enhancing bond market liquidity. Cross-border securities collateral management is used particularly for liquidity risk management, where in times of crisis central banks provide local currency loans to foreign commercial banks using securities as collateral. This would require both the borrower and the central bank to open an account with a custodian in the borrower's home country; usually the custodian is the home country's central bank. Currently, foreign securities are accepted as collateral by the Fed, the Bank of England, Swiss National Bank and the Bank of Japan. This practice is not common in emerging markets, where cash is preferred. The proposal is for central banks in the region to collaborate in developing a network of bilateral arrangements, so that the use of foreign securities as collateral can lead to the development of cross-border collateral markets where bonds are actively used as collateral in money market transactions or traded in repurchase agreements.
- Fourth is improved collaboration among governments, regulatory agencies, credit rating agencies and market players to promote region-wide convergence of accounting standards, disclosure regimes and corporate governance practices toward robust global standards, in order to provide a healthy environment for the use of credit ratings.
- Finally, participants also discussed a proposed pathfinder initiative to introduce a funds passport scheme based on the UCITS model, which has successfully contributed to the integration of European financial markets. (The Coordinator referred to the separate presentation to be made on this issue by State Street).

Ms. Siakhachanh updated the Advisory Group on the progress of the Asian Bond Market Initiative (ABMI). She reported that ASEAN+3 economies worked with ADB to establish the Asian Bonds Online Website as a one-stop-shop for information on local currency bond markets. She also reported on the various actions undertaken by ASEAN+3 economies under the ABMI.

- To promote the issuance of corporate bonds, participating economies undertook the following actions: (a) issuing of sovereign bonds to establish benchmarks; (b) encouraging state-owned financial institutions to issue bonds; (c) encouraging multilateral financial institutions (MFIs such as ADB and the World Bank), government agencies to issue local currency bonds within the region with local currency bond issuance; and (d) introducing the harmonization of issuance standards across the region through an Asian currency note program by an MFI (ADB).
- To promote the demand for Asian currency denominated bonds, participating economies worked to: (a) improve credit information on debt issuers to allow better investment decisions; (b) strengthen related market infrastructure; (c) address cross border investment barriers; (d) strengthen market regulations to protect investor and broaden investor base; and (e) conduct market research and technical assistance programs to seek cooperative solutions to issues of common interest.

She highlighted the remaining challenges that need to be addressed, which are as follows:

- Limited liquidity and diversification of investor base: The supply of corporate bonds remains limited. Domestic investors tend to buy and hold, while the investor base remains limited. Asian investors have greater affinity for equity markets and the domestic insurance industry remains underdeveloped.
- Limited access to debt markets by lower rated issuers: With the spread between bonds rated AAA and BBB are significantly large, even investment grade issuers are not issuing bonds, and issuers with AAA rating can issue bonds with maturity of only up to 5 years.
- Barriers to cross-border bond transactions: High costs and policy barriers are the most significant.

To address these challenges, ADB and ASEAN+3 economies undertook the following activities:

- Technical assistance to support bond market development, focused on (a) improving regulations to protect investors, in the areas ranging from better disclosure requirements, more effective bankruptcy procedures, and better credit risk assessment; (b) broadening investor base to facilitate both foreign and domestic investors' investment in bonds denominated in local currency bonds; (c) improving liquidity; and (d) developing other related market infrastructure.
- Facilitating cross-border bond transactions: An independent group of experts (GoE) was established to study key impediments to cross-border bond transactions and settlement issues. The GoE consisted of private sector entities or individuals with expertise in cross-border bond or foreign exchange transactions and settlements issues, nominated by each ASEAN+3 participating economy. Currently, there are 17 national member institutions and 9 international member institutions, including central securities depositories (CSDs), local custodians, global custodians, and international central securities depositories (ICSDs). The study undertaken by the GoE concluded that transaction costs in the region are higher than those in the US and EU, and that fee levels tend to vary widely among markets and may also vary within individual markets. Major barriers were identified. The GoE also assessed possible paths toward a regional settlement intermediary.
- Establishment of an ASEAN+3 Bond Market Forum (ABMF): To adopt the recommendations of the GoE, ASEAN+3 recently established the ABMF as a platform to foster standardization of market practices and harmonization of regulations relating to cross-border bond transactions within the region. ASEAN+3 also established a working group on a regional settlement intermediary (RSI) to further assess the policy recommendations on options for RSI.
- Establishment of a regional credit guarantee and investment facility (CGIF): ASEAN+3 and ADB recently established a regional credit guarantee facility for bonds denominated in local currencies

to increase access of corporations to local currency bond markets and lengthen their bond maturity with their own domestic markets. CGIF will also provide guarantees for eligible issuers seeking to raise local currency funds across the region, outside their own domestic debt markets. CGIF is a trust fund of ADB, with capital contribution from ASEAN+3 and ADB. Initially, it will have a capital of \$700 million. It is expected that CGIF will be operational by mid 2011.

Mr. Hon Cheung of State Street discussed the regional funds passporting proposal (which is included in the report of the Sapporo bond market forum). He noted that cross-border recognition of financial products is a global trend that has an impact on products listed on exchanges as well as unlisted products. Its benefits include lower product manufacture and investment costs for companies and greater investment choice and potential returns for investors. Major challenges are the interface with domestic regulatory regimes and protecting consumers from enhanced risks.

He described the Undertakings for Collective Investment in Transferable Securities (UCITS) as an example of successful passporting of unlisted funds. UCITS includes equity-linked funds, balanced funds, bond funds, money market funds and alternative funds. UCITS funds are marketed across the EU including to retail investors once registered, and are widely used by European households and sold to investors outside the EU, including the Middle East and Asia. Products are developed, distributed and serviced.

Mr. Cheung discussed the question of whether it is now a good time to develop an Asia-Pacific fund vehicle. At present there is no mutually agreed vehicle in the region for unlisted funds and limited cross-border recognition of unlisted fund products. Regulators have felt more comfortable recognizing a European product like UCITS than products from other economies in the Asia-Pacific region. It is currently easier to offer a European product like UCITS in the region than to offer a product from one Asia-Pacific market to another. In this context, a regional funds vehicle and passporting regime might give regulators the comfort they need to increase cross-border recognition of products from within the region. The fact that UCITS has penetrated some markets in the region indicates that passporting is possible, but the absence of UCITS in other markets suggests that there may be a need for another product.

Now seems to be a good time to develop such a vehicle given several factors. Capital markets in the region have developed to significant levels. There is increasing cooperation among regulators. Several markets have significant and growing assets. There is a need to improve financial intermediation, as well as liquidity, depth and skills within the region. Skills to sustain an unlisted fund industry already exist in the region. There is growing interest in the region on the part of investors from EU and the US. Interest in the idea is growing, particularly its potential to help the region tap into a predicted US\$156 trillion in global assets under management over the next ten years, and to reduce overall product cost and encourage cross-border flows of funds within the region.

Mr. Cheung discussed the ABF Pan Asia Bond Index Fund (PAIF) as a case study. PAIF is an exchange traded bond fund investing primarily in local currency government and quasi-government bonds in eight Asian markets (China, Hong Kong, Indonesia, Korea, Malaysia, the Philippines, Singapore and Thailand) managed by SSgA since 2005. The fund is domiciled in Singapore and listed in Hong Kong and Japan, and is available in these three markets. It is perhaps the only regionally domiciled large fund offering that can be offered across a wide range of Asian jurisdictions.

PAIF offers several lessons relevant to the development of funds passporting. It demonstrates that cross-border recognition across several jurisdictions can be successfully done in the region. The key is for regulators to commit to an idea and then collaborate to overcome regulatory and administrative barriers. Cooperation is possible if governments are motivated to act together. As PAIF was established to develop the bond markets in Asia, passporting could help develop the unlisted funds market in the region. The PAIF experience also suggests that a regional passporting scheme could begin with only a few jurisdictions as early adopters.

APEC can play a useful role in the adoption of a regional funds passporting scheme under the Finance Ministers' Process. Among various issues that need to be examined to determine the feasibility of such an initiative are products to be sold under the regime, key regulations that should apply, passporting

mechanisms, whether to create separate regulations or to use existing regulations, and the link between a regional vehicle and UCITS.

The Chair concluded that the next step should be the development of a roadmap toward a regional funds passporting scheme.

The Advisory Group endorsed the Sapporo Forum report on bond markets as an attachment to the 2010 Advisory Group report, and noted the presentations of ADB on the progress of the Asian Bond Market Initiative and the presentation on funds passporting, which is one of the proposals that will be included in the 2010 Advisory Group report.

Financial Inclusion

The Advisory Group Coordinator presented the results of the Sapporo financial inclusion forum and updated the Advisory Group on the progress of the APEC financial inclusion initiative proposal. He reported that the results of the Sapporo forum were presented at the SOM-SFOM dialogue that took place the following day. He summarized the discussions at the forum, highlighting seven key points:

- First, microfinance has become a potentially powerful tool, and the key factor has been the introduction of technology and innovation, such as mobile and point-of-sale technology and biometrics. Microfinance has taken off in economies where policies were put in place to enable the use of these technologies.
- Second, commercial investments are now flowing into microfinance, and this is important in view of the fact that existing resources from donors, socially-responsible investors and IFIs are very limited in comparison to what is needed. To date, MFIs have reached barely 10 percent of the estimated 1.5 billion poor people who need financial access. However, the problem of commercial investors is the very limited number of top-tier MFIs that meet their standards.
- Third, to address this problem and broaden investment opportunities, it is important to accelerate the process of upgrading existing MFIs, as well as to promote wider participation of financial institutions. The most difficult challenge, however, is how to broaden the base of the financial inclusion pyramid, by expanding the coverage and penetration of microfinance. Very relevant in this context is our recommendation that regulators focus on six areas where policies can have the most impact.
- Fourth, an area where APEC can play a constructive role is promoting financial identity through the development of properly structured credit sharing information systems based on full-file and comprehensive credit reporting, which we also recommended, accompanied by appropriate legal and regulatory frameworks.
- Fifth, there is a need to recognize the significant potential of the public sector, especially government banks, in promoting financial inclusion. Capacity-building measures to assist developing economies in effectively harnessing public sector resources and in promoting public-private sector partnerships are needed.
- Sixth, there is a lot of commonality between the G-20's approach and the approaches currently being discussed in APEC and there is great potential for APEC to undertake an initiative that complements the work of the G-20.
- Finally, there are ample resources, including expertise, funding and networks that private, international and bilateral institutions are willing to share in support of an APEC financial inclusion initiative.

Updating the Advisory Group on the progress of the proposed APEC initiative, the Coordinator reported that after the Forum, four economies held a meeting to discuss the proposal. Australia, Japan, Philippines and the US have indicated their interest in co-sponsoring the initiative under the APEC Finance Ministers' Process, with the US Treasury playing a lead role next year as APEC Chair. Work is now focused on identifying activities for the initiative, and for this purpose the Advisory Group offered to convene an informal discussion, which took place in the morning of August 26 in Bangkok.

The Coordinator gave the following summary of the informal discussion:

- Participants commented positively on the US Treasury Concept Discussion Note (Pathways to Financial Inclusion). In particular, various participants indicated support for and keen interest in collaborating with initiatives related to community-based government/private collaboration, capacity building for financial authorities, outreach for policy makers, tapping the potential contribution of public-owned banks, agent management and financial inclusion in remittance markets/guest worker populations.
- There was also support among participants for the idea that APEC can make substantial contributions to global (including G20) financial inclusion efforts through research that would contribute to improved measurement, including data and agreement on definitions, as well as promoting aid effectiveness.
- Participants noted that there are various possible synergies with the options in the Discussion Note, including ongoing work on micro-savings and micro-insurance, sharing of best practices, capacity-building and training program for regulators, macro-level programs for regulators, promoting adoption of inclusive policies related to financial identity and credit reporting, promoting support for expanding the reach of microfinance in rural areas and strengthening the role of public banks.
- APEC can add value to ongoing processes utilizing two important advantages – the strong involvement of the private sector and its capacity to involve and mobilize multiple agencies across a broad front to deal with cross-cutting issues.
- One issue to consider is possible identification of activities to contribute to APEC’s vision of regional economic integration, e.g., facilitating cross-border remittances to support regional talent management, moving toward a region-wide credit information regime to support mobility and financing of MSMEs.
- Coordination with G20 can be ensured through the involvement of institutions that play a lead role in the G20 financial inclusion initiative: AFI, CGAP, Australian Treasury and US Treasury.

The Coordinator mentioned that these conclusions will be reported to officials at the next APEC Senior Finance Officials Meeting in Tokyo on September 21, which will start preparing the official launch of the initiative at the Finance Ministers’ Meeting in Kyoto this coming November.

The Coordinator informed the Advisory Group of an invitation from ADB Institute to co-organize a conference on financial inclusion in Shanghai on October 20-22. Participants will include senior regulators involved in financial inclusion. He mentioned that the Advisory Group has been requested to organize the session on Financing SMMEs and proposed collaborating with the Asia-Pacific Credit Coalition in using this session to discuss the proposed SME Finance Initiative with regulators.

The Coordinator updated the Advisory Group on the publication of the report of last year’s financial inclusion workshop, which was endorsed in Taipei. The ADBI is now preparing its publication and has agreed to provide 300 copies free of charge when it comes out within the next couple of months. The manuscript is an edited version of the report that the Advisory Group approved in Danang last year.

The Advisory Group endorsed the Sapporo Forum report on financial inclusion, which will be incorporated in one document together with the bond market forum. The Advisory Group also endorsed the proposed October 20-22 financial inclusion forum proposed by ADB Institute in Shanghai, as well as the publication of the edited draft of the 2009 Tokyo financial inclusion forum, which will be undertaken by ADB Institute

Report on the 6th SEACEN/ABAC/ABA/PECC Public-Private Dialogue for the Asia-Pacific Region, Manila, Philippines, 15-16 June 2010; and Capacity-Building for Regulatory Reforms in APEC

The Advisory Group Coordinator presented the summary of the dialogue. He reported that it was held in Manila last June 15-16. It was well-attended, with over 80 people from central banks, IMF, ADB,

BIS, financial industry associations, commercial banks and research institutes. The two-day event focused on how to reconcile the parallel processes going on at the global level and at the regional level. The Coordinator highlighted the following key points from the discussions.

- First, while a certain measure of recovery has occurred, Asian governments and businesses are aware of the fragile state of the global economy, and businesses remain very cautious. Risks to financial markets are again on the rise, especially with huge fiscal imbalances and continued banking sector weaknesses in developed economies.
- Second, current regulatory reform efforts need substantial improvement – improvement in terms of avoiding fragmentation and protectionism, in terms of adequate consultation with industry and in terms of being founded on robust impact analysis. Asian regulators and bankers, in particular, feel that conditions in this region, including prevailing business models, tax and accounting systems and the depth of capital markets, have not been sufficiently taken into account by global reform initiatives.
- Third, there is anxiety about the potential for divergence between the G20 reform process and regional efforts to promote liquid and efficient financial markets. For instance, some measures are expected to reduce market liquidity and increase costs of financial services. One way to deal with this issue is by establishing a regional financial forum for discussion and coordination of regulatory reforms involving the private sector.
- Fourth, rules are meaningless without good supervision. There was much support for the view that it is better to flexibly deal with some key issues through supervisory review or a package of measures rather than through globally uniform regulation of capital. Consequently, there is a great need to focus on improving supervisory capacity in the region's emerging markets, in terms of giving supervisors adequate resources and authority and sound organizational frameworks.
- Fifth, a lot of work remains to be done in certain areas – in particular corporate governance, developing financial sector safety nets, including frameworks for liquidity support, crisis management policies and deposit insurance, and increasing financial inclusion. Economies can benefit from the work of the IMF and other international institutions and existing best practices and experiences in the region.
- Finally, the dialogue highlighted two important implications for developing economies in the region. First is a greater need for capacity-building for regulatory agencies, and second is the need for a regional financial forum to ensure that global and regional processes are consistent and mutually supportive.

Mr. Waller updated the Advisory Group on capacity-building activities in APEC undertaken by the Australian APEC Study Center. He advised participants on two programs being proposed to build APEC capacities in investment and finance and invited interested participants to actively participate. The first is a symposium and a training course focused on enhancing investment flows by reducing risk in private investment in APEC economies. The second is a symposium and training course focused on enhancing financial policy and regulatory capacities to implement reforms in response to the global financial crisis. He also reported on a completed capacity building initiative held in Shanghai on June 7-11, 2010, entitled “Implementing Financial System Regulatory Reforms in the Region following the global financial crisis.”

The Advisory Group noted the summary of the Manila dialogue with financial regulators, endorsed and encouraged participation in the capacity-building programs undertaken by the Australian APEC Study Center, and noted the presentation of the Australian APEC Study Center on the completed capacity-building initiative.

Infrastructure Public-Private Partnership

The Chair referred participants to the paper on the forum on infrastructure PPP to be co-organized by ABAC, ADB and JBIC, in cooperation with the Japanese Ministry of Finance in Yokohama on 7 November 2010.

Mr. Ken Waller presented a paper on the Asia-Pacific Infrastructure Partnership. He noted that at the last meeting of the Advisory Group in May in Taipei, the Group endorsed suggestions on the structure, governance and operation of a secretariat for the Asia Pacific Infrastructure Partnership, to be developed by the Australian APEC Study Centre at RMIT University. The suggestions provided for transitional arrangements to support the development of the APIP during a period until support for a secretariat could be established, and leaving open the prospect of the ADB or some other institution taking on the role if the concept does gain broad support over the next couple of years.

Mr. Waller reported that since the Taipei meeting, the coordinating group has been giving further thought to the role and purpose of an APIP, seeing it as essentially a political process that could help governments determine the right questions to address when they are considering public policy investment and the use of private capital in the process; better understand the factors that might best contribute to a value for money business model for governments, and the ingredients in a business model that are most likely to attract private capital. He suggested that APIP be designed to help ministers and senior officials develop a strategic approach to PPPs, to consider PPPs in a holistic way and to help in making good policy choices. Under such an approach, an APIP could support governments in: identifying and evaluating critical PPP development objectives and priorities.

In the context of these considerations, it was suggested that APIP consider a structure with two-tiers, each tier of equal importance but requiring somewhat different skills and experiences of the private sector. Accepting the need for some differentiation in the strategies of APIP in dealing with policy and strategic issues associated with PPPs with that of advising on practical commercial issues relating to design, contracts, implementation and management of PPPs, a two-tier structure could recognise the somewhat different qualities required of each tier.

A first tier panel should comprise a group of people who between them can demonstrate: (a) experience and deep knowledge of PPPs and their role and priority in infrastructure development; (b) commercial high level leadership and decision-making experience; and (c) capacity to distinguish between business and public policy objectives. A second tier group would be composed of a group of people with the following qualities: (a) experience in PPP design, implementation and management of PPPs in economic and social infrastructure sectors; (b) legal and financial involvement in PPP contracts; (c) experience in advising governments and agencies on managing risks in PPPs; (d) experience as an academic or senior IFI representative in advising governments and agencies on PPPs.

In addition, it was suggested that a specific panel could be constructed of APIP representatives with the qualities identified under either of the two-tiers, depending on the objectives of the discussion with a particular economy or economies, or it could reflect a combination of skills from both tiers. The composition of a panel should be a matter for discussion with the APIP chair and private sector members of the APIP taking into account the interests of economies who agree to participate in a dialogue with the APIP.

Mr. Waller also reported on the workshop organized by the Australian Treasury in Melbourne on 3-6 August 2010, with officials from infrastructure PPP-related agencies in the region and business and IFIs. He mentioned that the Advisory Group Chair participated as a panelist. Mr. Waller reported on his discussions with officials from various developing APEC member economies, and noted their positive response to the establishment of a forum of high-level exchange between ministers and the private sector.

Mr. Jean-Pierre Verbiest underscored the usefulness of putting together an information platform on infrastructure PPP, which could help economies put together appropriate policy frameworks for PPP. He noted that such a platform could help in sharing varying experiences within the region, and in designing strategies to attract investors.

The Advisory Group endorsed the revised proposals on the Asia-Pacific Infrastructure Partnership discussed by Mr. Waller in the paper, which focused on establishing structures for private sector to provide advice to governments on both strategic and practical levels as well as the ABAC-ADB-JBIC Private Infrastructure Finance Forum to be held in Yokohama on November 7.

SMME Finance

The Advisory Group Coordinator updated participants on the latest developments. He noted that based on the Advisory Group's previous discussions, the results of the Japan Chamber's APEC survey of SMEs, and discussions with APEC officials, it can now be confirmed that there is strong support for the two issues identified as crucial for SMME Finance, which are credit information and legal framework for secured lending. He suggested that the Advisory Group now go ahead with the idea of an APEC SME Finance Initiative with focus on these two issues.

A good indication of APEC senior officials' interest in the Advisory Group's work on SME finance has been their invitation for the Advisory Group to provide experts to discuss these themes in an APEC seminar that will take place in Sendai on September 21. He mentioned that Mr. Clark and Dr. Varghese have kindly agreed to present the Advisory Group's proposals in this seminar.

Dr. Varghese and Mr. Clark commented on proposals for an SMME Finance Initiative, referring to the meeting paper circulated by PERC and APCC.

With respect to legal infrastructure for secured lending, key issues that need to be addressed in various member economies are the following:

- Absence of exclusive security interest registry, giving rise to the "hidden lien" problem
- Voidable conversion/preference
- Unclear perfection rules for certain types of collateral, such as movables, receivables and goodwill
- Absence of blocked account security precedence
- Untested debtor-in-possession process
- Treatment of floating charges or absence of such concepts
- Lack of broad licensing authority for commercial lending.

An APEC initiative to improve and harmonize standards for perfection and enforcement of security interests in collateral, as part of a system for developing a robust commercial finance market, would promote innovative financial products, enhance overall liquidity for the SME sector, and advance the goal of financial sector inclusion and sustainable growth. In addition to facilitating financing for SMEs, a harmonized approach would promote regional investment and trade in financial services in the APEC region. Such an initiative could focus on the following activities:

- A survey of key enablers of financing availability
- Developing model elements of an APEC or region-wide code of security interest creation, perfection and enforcement, which could include clear perfection rules, broad coverage of collateral types, exclusivity to eliminate the "hidden lien" problem, and provisions for debtor-in-possession financing.
- A model treatment of floating charges/accounts receivable financing
- Establishment of a public-private dialogue to validate improvements
- An APEC checklist for statutory/regulatory implementation
- Promoting broad licensing authority for commercial finance, such as non-bank financial company charters

With respect to credit information, key implementation issues are (i) what path to the development of a regulatory framework works best for differing types of economies, (ii) which avenues to establishing a financial identity are most effective for a given reporting system, and (iii) how and when non-financial data should be engaged in the early development of a credit reporting regime. Progress in tackling these issues would benefit from systematic examination. Many economies, especially emerging economies face challenges in implementation and may also need to consider factors, such as alternative data, upfront and in ways that developed economies have not had to consider. Examination of these issues can help assure that the well-established lessons can be acted upon effectively as these issues go to the heart of many implementation questions.

In this context, APEC would benefit from a number of steps that would help better address some of these outstanding issues and help policy makers engage implementation of credit reporting reform. The steps comprise research and educational efforts targeting senior financial ministry officials, including:

- Workshops on including bank data, non-bank data, non-financial information, including public and governmental data
- A survey and policy dialogue on approaches to establishing financial identity, especially in ways that assist financial inclusion,
- Training seminars on approaches to developing a regulatory framework, including issues of implementation, regulatory enforcement, consumer rights and legal frameworks for commercial credit reporting for SMME financing.

There is no ‘one-size fits all’ approach. Rather, an APEC effort to develop not a model bill, but detail elements of a model bill and present the framework for developing model regulation would assist economies in their efforts to develop their financial infrastructures. Any implementation effort would begin with policymaker education, as policymakers are increasingly drivers of the development of an information sharing system.

The Advisory Group endorsed the proposed APEC SMME Finance Initiative, focusing on credit information and legal framework for secured lending.

2010 Advisory Group Report on Capacity-Building Measures to Strengthen and Develop Financial Systems

The Coordinator presented the draft 2010 Advisory Group Report. The recommendations of the report were presented as follows:

- The Advisory Group welcomes the launch of an APEC financial inclusion initiative under the APEC Finance Ministers’ Process and calls on APEC member economies, multilateral institutions and the private sector to collaborate in the successful implementation of this initiative.
- The Advisory Group urges APEC to undertake an SME Finance Initiative that focuses on developing properly structured credit sharing information systems and improving legal infrastructure to promote SME finance.
- The Advisory Group recommends that APEC undertake a pathfinder initiative in cooperation with ABAC and the Advisory Group and involving interested member economies, to promote an Asia-Pacific Infrastructure Partnership (APIP), bringing together public and private sectors and multilateral institutions.
- The Advisory Group recommends that APEC Finance Ministers and Senior Finance Officials undertake discussions with a view to compiling a package of measures to bring the development of the region’s capital markets to the next level. We recommend that these discussions focus on (a) development of wholesale securities markets exclusively for professional investors; (b) regional public-private sector collaboration mechanisms to reduce barriers to cross-border settlement; (c) use of foreign securities as eligible collateral throughout the region; (d) ways to accelerate the region-wide convergence of accounting standards, disclosure regimes and corporate governance practices; and (e) establishment of a pathfinder initiative to introduce a regional funds passport scheme.
- The Advisory Group recommends that APEC Finance Ministers support capacity-building measures to help emerging markets in the region improve financial supervisory capacity, calibrate local conditions to global standards, promote the adoption of proven tools such as scorecards to strengthen corporate governance, and strengthen financial sector safety nets (including frameworks for liquidity support, sound crisis management policies and procedures and deposit insurance firms’ governance and strategies).
- The Advisory Group proposes that APEC Finance Ministers support the development of a robust regional financial architecture, including a regional forum of financial regulatory authorities and the financial industry to address regulatory issues in light of the region’s needs, review the relevance and impact of global reforms on the region, and ensure that development of global standards take into account market practices and market infrastructure in the region.

Participants suggested that wording on SME finance be updated to include micro-enterprises (SMME finance) and that the report include a reference to capacity-building activities involving the Advisory Group. Subject to these modifications, the draft report was approved.

Chair's Closing Remarks

The Chair delivered his closing remarks and announced that the next meeting will take place in Yokohama during the ABAC meeting in November, and that 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 declared the meeting adjourned at 4:15 pm.