



# The Advisory Group on APEC Financial System Capacity-Building

**A Public-Private Sector Initiative**

Document: AGFSCB 27-019

Draft: **FIRST**

Source: AGFSCB Chair

Date: 25 May 2007

Meeting: Tokyo, Japan

## **Second Meeting 2007**

30 May 2007, 4:00 – 6:00 pm

Sakura (B2 Floor), The Prince Park Tower

Tokyo, Japan

## **AGENDA ITEM 2**

### **PAPER 2-A**

**Meeting Report of the Advisory Group Meeting of 28**

**February 2007, Seattle, USA**

*Office of the Advisory Group Chair*



# The Advisory Group on APEC Financial System Capacity-Building

**A Public-Private Sector Initiative**

## **First Meeting 2007**

28 February 2007

The Grand Hyatt Seattle (Menzie's Suite, 6<sup>th</sup> Floor)  
Seattle, U.S.A.

## **MEETING REPORT**

*First Draft*

*As of 28 March 2007*

### **Welcome and Introduction**

The meeting started at 8:10 am. Participants included members and staffers of the ABAC Finance and Economic Working Group, a number of other ABAC members and staffers and representatives from the Organization for Economic Cooperation and Development (OECD) and the Pacific Economic Cooperation Council (PECC). The meeting was chaired by Mr. Yasuo Kanzaki, Co-Chair of the Advisory Group, in lieu of Dr. Jeffrey Koo, Advisory Group Chair.

In his opening remarks, the ABAC Chair and previous Advisory Group Chair, Mr. Mark Johnson, introduced the new Advisory Group Chair and Co-Chair, Dr. Koo and Mr. Kanzaki, respectively. In his remarks, Mr. Johnson underscored the importance of the Advisory Group in the context of both ABAC's work and the APEC Finance Ministers' process. The ABAC FEWG Chair (and US ABAC representative), Mr. Michael Phillips, welcomed the participants on behalf of the hosts.

### **2007 Work Program**

The previous Advisory Group Coordinator, Mr. Kenneth Waller, presented a review of the 2006 work program. The new Advisory Group Coordinator, Dr. J.C. Parreñas, presented the proposed 2007 Work Program of the Advisory Group. The proposed Work Program consists of a project (the *First APEC Public-Private Sector Forum on Bond Market Development*, discussed in detail below) and the development of a report to APEC Finance Ministers. The Report will aim to put forward specific capacity-building proposals in a number of key areas, which are as follows: (1) development of bond markets; (2) implementing Basel II and strengthening risk management; (3) strengthening governance in financial systems; (4) strengthening the frameworks for cross-border insolvency and informal workouts in the region; (5) promoting financial stability, especially with respect to volatile capital flows; and (6) enhancing SMEs' capacity to access formal finance.

Discussions focused on how to enhance the Advisory Group's contributions to the APEC Finance Ministers' process. *The Advisory Group then approved the 2007 Work Program as proposed. (See Attachment A.)*

### **First APEC Public-Private Sector Forum on Bond Market Development**

The Advisory Group Coordinator made a presentation on the Forum. This is a major project that the Advisory Group is being requested to undertake as proposed by ABAC to the APEC Finance Ministers in Hanoi and agreed to by the latter. The Forum is a series of dialogues to promote public-private sector collaboration in developing local currency bond markets, with special emphasis on corporate bond markets. The first Forum, which will focus on the Indonesian, Philippine and Vietnamese bond markets, will be hosted by the Australian Treasury on May 8, 2007 in Melbourne, Australia. The Advisory Group has been requested to develop the program and coordinate the

participation of key experts from the public and private sectors, including relevant international and regional organizations.

Conveying the views of the Australian Treasury, which will be hosting the Forum, Mr. Kenneth Waller commented that the deepening of capital markets is a major theme of this year's APEC Finance Ministers' Meeting; thus the Forum fits very well into the Australian Treasury's agenda for APEC 2007. The results of the Forum will be absorbed in the work of the Senior Finance Officials. It is also hoped that the success of the first Forum will lead to its continuation in the coming years as part of a medium-term agenda to support the developments of capital markets in the region.

Dr. William Witherell, Senior Advisor for Finance of the OECD, presented the OECD's experience with the peer review process in promoting capital market development. Among possible models that APEC could adopt in its work of promoting bond market development and integration is the Asian Roundtable for Corporate Governance. APEC must also take note of key factors that will determine the effectiveness of a peer review approach, which include value sharing, mutual trust, commitment to the process by all participants and credibility.

The Advisory Group agreed to further develop the program and coordinate the participation of key experts from the public and private sectors, including relevant international and regional organizations.

### **2007 Report of the Advisory Group to the APEC Finance Ministers**

The Advisory Group undertook initial discussions on a number of key issues, for the purpose of developing specific proposals on capacity building that can be endorsed to the APEC Finance Ministers. The discussions were divided into several major areas.

#### ***A. Bond market development***

The Advisory Group Coordinator updated the participants on the current state of play of bond market development initiatives in the region, and ideas for moving forward in 2007. In discussing the state of play, the Coordinator mentioned the various initiatives of regional organizations to strengthen and develop local currency bond markets and to promote their integration through facilitation of cross-border investment and issuance. An overview of the previous work of ABAC was also given, including the report and recommendations of the 2004 Taipei and 2005 Tokyo bond market conferences and the general principles for effective bond market development cooperation approved by ABAC in 2006.

The First APEC Public-Private Sector Forum on Bond Market Development that will be held in Melbourne on May 8 will be a key initiative for 2007. It is expected that the forum will identify key policy reforms and capacity-building initiatives (particularly involving public-private partnership) to accelerate the deepening of bond markets in three economies – Indonesia, the Philippines and Vietnam – as well as generate further ideas on regional cooperation for bond market development. The results and recommendations of this forum will be reported to ABAC FEWG at its next meeting in Tokyo, for discussion and endorsement to the APEC Finance Ministers.

On behalf of PECC, Dr. David Hong of Chinese Taipei PECC presented the conclusions and recommendations from the PECC symposium on business and cooperation opportunities in regional bond market development, held on 29 November 2006 in Washington, DC, USA. The symposium highlighted a number of key issues, including the challenge of enhancing market liquidity in developing economies, the importance of improving legal frameworks and enforcement, the need to increase the diversity of investors, issuers and instruments, the emergence of Asian bonds as a core asset class, and the benefits to be gained from enhanced trans-Pacific cooperation.

Mr. Hoang Van Dung of ABAC Vietnam presented the conclusions of the conference *Promoting the Development of Credit Rating Industry in the Asia-Pacific Region* that was jointly organized on 12 June 2006 in Hanoi by the Asian Bankers Association, ABAC, Vietnam Chamber of Commerce and Industry (VCCI) and Vietcombank. The conference report highlighted the

importance of training of credit rating analysts to enhance technical competence and expertise, building the network of domestic credit rating agencies in the region and undertaking a continuing study on common rating practices, methodologies and policies among domestic CRAs.

During the discussions, participants raised a number of issues. One is how the Advisory Group may follow through on the conclusions of these conferences, particularly in terms of capacity-building ideas. Another is how the Advisory Group may formulate recommendations in a way that will catch the attention of Finance Ministers and other key policy makers. Participants agreed to look at concrete capacity-building initiatives that could support the development of the region's domestic credit rating industry, and discuss these at the next meeting of the Advisory Group in Tokyo.

### ***B. Implementing Basel II and strengthening risk management and governance in banking systems, financial consumer protection and legal frameworks***

Mr. Ken Waller presented the conclusions and recommendations from the Report of the Public-Private Sector Dialogue on the Implementation of Basel II and Developments in Banking and Supervision in the Asia-Pacific Region, which was held on 8-9 August 2006 in Kuala Lumpur, Malaysia. This second dialogue between central bankers and the private sector was jointly organized by the Southeast Asian Central Banks' (SEACEN) Research and Training Centre, ABAC, the Asian Bankers' Association and PECC. Preparations are under way for a third dialogue, to be held on 11-12 July in Singapore.

The report highlighted the urgent need to undertake regional capacity-building activities involving public-private sector partnerships with key objectives in mind. Among these objectives are the development of best practices for supervisory colleges, assistance to developing economies in implementing Basel II, improving coordination in dealing with cross-border issues, developing a financial consumer protection framework and a platform for cooperation in this area, and the development and implementation of policies and regulations to promote good corporate governance in banking systems.

The discussions centered on a number of issues. One is the continuing efforts of developing APEC member economies to implement Basel II, such as through the strict implementation of roadmaps. Participants pointed to the inadequate availability of data as a major problem. Participants also highlighted the role of banks' boards of directors in ensuring the successful implementation of Basel II, and the need to create greater awareness of its importance.

### ***C. Regional financial stability***

Professor Kimball Dietrich of the USC Marshall School of Business presented a summary of the findings of a study commissioned by ABAC in 2006 on improving the quality of information on international capital flows, aimed to support early warning systems and ameliorate the impact of adverse volatile capital flows. The presentation focused on a number of recommendations related to capacity-building. With respect to official data, the study recommended the development of a code of conduct for statistical agencies to increase market confidence, the establishment by authorities of agencies that can provide investor relations services, holding of discussions of economies' Public Information Notices (PINs) after the conduct of IMF surveillance, and greater support for the IMF's Special Data Dissemination Standard (SDDS) as well as its balance sheet approach with special emphasis on improving data from the non-bank financial sectors of participating economies. With respect to the activities of hedge funds and derivatives trading, the study recommended that economies concerned about these activities set up industry surveillance units that can become sophisticated observers of the market using multiple data sources.

During the discussions, participants noted the importance of emphasizing that capital flows volatility is only one part of the problem facing emerging economies. It is important to keep in mind that efforts should focus on key underlying factors, such as the quality and coherence of macroeconomic policy, and that capital restrictions do not fundamentally address the volatility of capital flows.

#### ***D. Strengthening SMEs' capacity to access formal finance***

Mr. Hoang Van Dung of ABAC Vietnam presented the conclusions and recommendations of a survey on SMEs' access to formal finance conducted by Vietcombank and the Central Institute for Economic Management (Hanoi) for ABAC in 2006. With respect to government and business associations, the study recommended that governments focus on non-discriminatory policies, simplify procedures, improve the financial regulatory environment and accounting standards, promote dissemination of information on alternative sources of formal finance, promote training for SMEs to access venture capital, equity and over-the-counter markets, maintain properly managed guarantee schemes focused on supporting SMEs during the early stages of business development, establish rating agencies, seek technical support from donors to facilitate SME development especially in accounting standards and preparation of business plans, and encourage business associations to promote SME networks and advocate SMEs' concerns. With respect to commercial banks, the study recommended that banks properly acknowledge the significance of SMEs, provide credit ratings for SMEs, strengthen their capacity for SME credit evaluation, and participate in corporate guarantee schemes to facilitate SME access to bank credit. With respect to SMEs, the study proposed that SMEs learn to properly prepare business plans and access alternative sources of equity finance, more actively disclose relevant information, and enhance their own linkages with counterparts and banks.

In the ensuing discussions, participants commented on a number of issues. One is that government credit guarantees are useful, but should be considered as a last resort, after commercial possibilities have been explored. A second issue is related to SMEs' lack of collateral acceptable to banks, which may be addressed through reforms of laws governing collateral, in line with those of developed economies, such as the inclusion of movable properties. Another issue is the need to address SME development in a comprehensive way, where improving access to formal finance should go hand in hand with efforts to improve SMEs' access to markets and technology.

#### **Consideration of possible work on remittance systems, anti-money laundering and combating the financing of terrorism**

The Advisory Group discussed whether there is added value that can be brought by the Advisory Group on the APEC Finance Ministers' medium-term strategic agenda with respect to remittance systems (formal and informal), anti-money laundering and combating the financing of terrorism. It was agreed that the Advisory Group will continue to monitor these issues as they are dealt with by relevant international agencies, endorse the work that APEC is undertaking on countering money laundering and terrorist finance, and discuss at the next meeting in Tokyo what other agencies are doing with respect to these issues.

#### **Next meeting**

The Chairman announced that the next regular meeting of the Advisory Group will take place in conjunction with the 2<sup>nd</sup> 2007 meeting of ABAC in Tokyo. The Advisory Group meeting has been scheduled from 4:00 to 6:00 pm on Wednesday, May 30, 2007 at the Tokyo Prince Hotel Park Tower in Tokyo, Japan.

#### **Adjournment**

There being no other matters to discuss, the Chairman declared the meeting adjourned at 11:30 am.