

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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MEETING REPORT OF THE ADVISORY GROUP MEETING OF 22 JANUARY 2008, JAKARTA, INDONESIA

Office of the Advisory Group Chair

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

First Meeting 2008

22 January 2008

The Grand Hyatt Jakarta (Ballrooms A&B)
Jakarta, Indonesia

MEETING REPORT

*Second Draft
As of 3 March 2008*

Welcome and Introduction

The meeting started at 4:20 pm. Participants included members and staffers of the ABAC Finance and Economics Working Group, a number of other ABAC members and staffers, and representatives from the Asian Development Bank (ADB), the ADB Institute, the Inter-American Development Bank (IDB), the International Finance Corporation (IFC), the International Monetary Fund (IMF), the Philippine Central Bank (BSP), the Monetary Authority of Singapore (MAS), the Australian Foundation for Development Cooperation (FDC), the International Cooperation Development Fund, Chinese Taipei (ICDF), the Pacific Economic Cooperation Council (PECC) and Infrastructure Partnerships Australia. The Advisory Group Chair, Dr. Jeffrey L.S. Koo, presided over the meeting.

In his opening remarks, the Chair welcomed the participants and gave an overview of the agenda items for discussion. He acknowledged the presence of representatives from participating public and private sector institutions, and thanked the meeting hosts, ABAC Indonesia, for the hospitality and efficient preparations for the meeting.

2008 Work Program

The Advisory Group Coordinator, Dr. J.C. Parreñas, presented a *summary of the work of the Advisory Group in 2007*, which included (1) the First APEC Public-Private Sector Forum on Bond Market Development, which was held in Melbourne on 7-8 May; (2) the Advisory Group's 2007 report, which was submitted to ABAC for endorsement and annexed to ABAC's report to the APEC Finance Ministers; and (3) two regular meetings, the first in Seattle on February 28, 2007 and the second in Tokyo on May 30, 2007.

The Advisory Group dealt with a number of issues in 2007, which included (1) the development of local currency bond markets (including the development of the region's domestic credit rating industry); (2) measures to strengthen and develop banking systems (including Basel II implementation, governance, financial consumer protection and cross-border insolvency and informal workouts); (3) regional cooperation to promote financial stability; and (4) strengthening SMEs' capacity to access formal finance. In addition, the Advisory Group held initial discussions on infrastructure investment as a possible new area of work.

The Coordinator also presented the proposed *2008 Work Program* of the Advisory Group. The proposed Work Program consists of 5 projects, which include (1) a workshop on improving the policy environment for commercially sustainable microfinance, to be held in Jakarta on January 23; (2) the Second APEC Public-Private Sector Forum on Bond Market Development, to be held in Cusco in July; (3) coordination of private sector participation in the 4th SEACEN-ABAC-ABA-PECC regional public-private dialogue on Basel II implementation and related banking issues, to be held in Kuala Lumpur in summer; (4) enhancing the environment for public-private partnership in infrastructure in

developing APEC economies; and (5) enhancing the quality of financial information available to investors and regulators to promote financial stability in APEC.

The Advisory Group will also develop its 2008 report to APEC Finance Ministers. This report, to be finalized in August, will incorporate the results of the above-mentioned projects as well as of discussions during the meetings of the Advisory Group and present recommendations to APEC Finance Ministers on how to accelerate progress in the following areas: (a) development of corporate bond markets; (b) implementation of Basel II and strengthening banking systems in the region; (c) promoting financial stability through enhanced financial information; (d) promoting public-private partnership in infrastructure; and (e) developing robust institutions, legal and regulatory frameworks for microfinance. The Advisory Group will also consider whether there are capacity-building issues related to greenhouse gas emissions trading that need to be included in its report.

Ms. Lotte Schou-Zibell, Senior Economist at the ADB Office of Regional Economic Integration, mentioned that the discussions at the Melbourne bond market forum were very useful. She briefed the participants on the various regional initiatives to develop bond markets and the role of ADB. ADB is currently providing technical and research assistance to the Asian Bond Market Initiative (ABMI) under the ASEAN Plus Three framework.

Under the APEC Finance Ministers' Process, capital market themes for discussion in 2008 include (in addition to the APEC Public-Private Sector Forum on Bond Market Development) promoting issuer and investor diversity, developing an enabling market environment such as infrastructure for local currency bond markets and learning from recent developments in global capital markets.

Under the ABMI, four working groups are currently supporting bond market development through joint regional studies, consultation with market participants, policy dialogues and regional conferences. These working groups are organized according to specific areas of focus: new securitized debt instruments, credit guarantee and investment mechanisms, foreign exchange transactions and settlement issues and rating systems. An Ad-Hoc Support Team supports the work of these groups.

ADB has been recently undertaking a number of activities in support of the ABMI, among which are: (1) organizing the Asia Bond Clearing and Settlement Conference (April 2007) and the Investing in Asian Bonds Conference (November 2); (2) a technical assistance project on developing new debt instruments for infrastructure financing; (3) a technical assistance project to promote securitization of loan credit and receivables; (4) continuing improvement of the Asian Bonds Online website; (5) preparation of a medium-term roadmap for ABMI; (6) local currency bond issuances in Hong Kong, Kazakhstan, Malaysia, the Philippines and Singapore; and (7) continued publication of the Asia Bond Monitor.

Under the Executives Meeting of East-Asia Pacific Central Banks (EMEAP), two Asian Bond Funds (ABF) have been launched. Ms. Schou-Zibell updated meeting participants on the ongoing review of the ABF project and identification of areas of further work, such as the adoption of international standards and best practices for investor protection, enhancing cross-border recognition of products and intermediaries, withholding and capital gains taxes, investor education, and improving transparency in pricing and in compiling indices and their determinants.

It was agreed that the Coordinator will seek the collaboration of the ADB and the IDB in preparing and developing the report of the Cusco bond market forum.

The Advisory Group approved the 2008 Work Program as proposed. (See Annex A.)

Second APEC Public-Private Sector Forum on Bond Market Development

The Coordinator made a presentation on the Second APEC Public-Private Sector Forum on Bond Market Development. He explained the background of the Forum, which was launched after the APEC Finance Ministers during the 2006 meeting in Hanoi welcomed a proposal submitted by ABAC that the Advisory Group, together with ABAC, facilitate in-depth discussions with individual economies on how the public and private sectors can collaborate to develop their respective bond markets, with special attention to corporate bond markets.

The central objective is to hold a dialogue among interested economies, private sector market players and experts from international public and private sector organizations, aimed at identifying aspects in the policy and regulatory areas which could be addressed by authorities to enhance the environment for bond market development, and in particular, corporate bond issuance. The dialogues also aim to identify capacity building initiatives, including public/private partnerships to build an environment conducive to bond market development.

The Advisory Group and ABAC, in cooperation with the Australian Treasury, organized the first Forum on 8 May 2007 in Melbourne, back-to-back with the Second Senior Finance Officials Meeting (SFOM II). This first forum, which focused on the bond markets of Indonesia, the Philippines and Vietnam, was successfully concluded. Following a review of these results, the Advisory Group and ABAC endorsed the holding of subsequent forums in conjunction with the APEC Senior Finance Officials' Meeting.

The second Forum will be held in Cusco, Peru in July 2008 (exact date to be announced). Its focus would be the bond markets of Chile, Mexico and Peru. These three economies would be requested to (a) arrange for senior policy makers and regulators responsible for key aspects of their respective bond markets' development to participate in the Forum; and (b) collaborate with the Advisory Group and ABAC in developing the program and identifying participants of the Forum.

Participants will include the following: (a) participants from the above-mentioned 3 economies; (b) participants from other interested APEC economies, including those attending the Senior Finance Officials' Meeting; (c) participants from the Advisory Group (including ABAC); (d) representatives from the IDB and other multilateral development and international financial institutions; and (e) key experts and representatives from investment banks, institutional investors, fund managers, rating agencies and other relevant private sector organizations, to be selected and invited by the organizers.

With respect to the format, officials or regulators from each of the three economies would make a presentation on (a) the current situation of their respective markets, (b) the measures being planned or undertaken, (c) the challenges, and (d) possible areas of cooperation with the private sector, followed by inputs from the other participants, an open discussion and a summary by the respective session chairs.

The results of the Forum will be reported to the APEC Senior Finance Officials Meeting (SFOM). A complete report will be prepared and submitted to the APEC Finance Ministers before their 2008 meeting. The office of the Advisory Group Chair will be responsible for drafting the conference report, in collaboration with Advisory Group participants and relevant officials from the three economies.

In response to the presentation, Mr. Hiroshi Toyoda, Special Advisor for Asia at the IDB, noted the relevance of the bond market forum to its work, in particular in connection with improving the attractiveness of corporate bonds and structured products to investors. Ms. Schou-Zibell called the attention of participants to the most recent issue of the Asia Bond Monitor, which is published by the ADB. Mr. Akira Ariyoshi, Director of the IMF Regional Office for Asia and the Pacific, mentioned that the IMF is currently preparing a paper on the development of capital markets that will be of interest to participants in the Cusco bond market forum.

The Chair directed the Coordinator to take participants' comments into consideration in finalizing the program, and encouraged participants who are available to participate in and help ensure the success of the Cusco bond market forum.

Public-Private Partnership (PPP) for Infrastructure Development

Dr. Masahiro Kawai, Dean of the ADB Institute, briefed the participants on the ADBI's program on infrastructure development, which is a major focus of its research and capacity-building activities. Under its research program, ADBI launched in 2007 a flagship study on "Infrastructure and Regional Cooperation," which seeks to explore key issues and the challenges of infrastructure development in Asia, including its role in regional cooperation. The study will identify the needs of the region in terms of policies and best practices, in particular with respect to (1) trade and logistics, (2) policies

and institutions, (3) financing and savings mobilization in Asia, and (4) transnational infrastructure networks.

Two publications are planned for 2008. One, on infrastructure and trade in Asia, will explore the virtuous cycle of infrastructure investment, trade expansion and economic growth in developing Asia. Another, on the role of infrastructure in reducing trade costs, will include case studies that focus on different aspects of trade-related infrastructure.

Under ADBI's capacity-building program, a workshop on "Strengthening Private Sector Participation and Investment in Physical Infrastructure" was held to discuss challenges related to the development of an enabling environment, legal and regulatory frameworks and PPP for infrastructure development, with the participation of senior officials involved in infrastructure development in 23 developing ADB member economies, investment banks, rating agencies and PPP financial and legal advisors. Participants identified a number of priority policy actions that need to be addressed to encourage greater private participation and investment in infrastructure.

A PPP workshop series is currently being developed, which involves domestic and regional workshops that will be co-organized by ADB and various development agencies. It is intended that these workshops will provide an interactive setting for governments to engage with the private sector and assist in identifying and implementing reforms to facilitate private sector engagement and support the development of potential infrastructure projects. The experiences, international best practices and policy reforms discussed in these workshops will be compiled in a publication that will be widely disseminated to strengthen the PPP enabling environment and support acceleration of policy reforms.

Mr. Garry Bowditch, Executive Director of Infrastructure Partnerships Australia, referred participants to a PECC publication entitled "Meeting the Region's Infrastructure Needs: Guidelines for Effective Public-Private Partnerships." The publication contains voluntary guidelines for effective PPP and a synthesis of recommendations to stakeholders at each stage of PPP developed by PECC.

In his presentation, Mr. Bowditch suggested the establishment of a regional infrastructure dialogue (RID) to (1) build confidence and mandate for governments to invest in infrastructure; (2) enrich the vision for a long-term infrastructure plan that will secure long-term prosperity and underpin social stability; and (3) champion a pragmatic agenda for early action based on genuine partnership with business and communities.

Such an infrastructure dialogue could (1) provide a seamless relationship and place for quality dialogue among government, private sector and community interests in infrastructure; (2) sharpen "national interest" and planning capabilities for infrastructure requirements; (3) promote best practice governance arrangements within government and the private sector; and (4) demystify the role of the private sector and its capability to deliver public policy outcomes and bring forward financing solutions.

Mr. Bowditch suggested that the Advisory Group further explore a number of related issues: (1) the primary objective of a regional infrastructure dialogue as part of the APEC agenda; (2) how APEC could assist governments with capacity-building in infrastructure policy and planning; and (3) what role the private sector could play in the dialogue, considering the importance of strong practitioner perspectives and critical reviews of procurements options such as PPPs.

ABAC Co-Chair Mark Johnson, who is also chairman of the Australian Gas Light Company, expressed his endorsement of a regional infrastructure dialogue as a timely proposal. Noting that ADBI is developing a comprehensive inventory of what is happening in the field in the region, he made three observations: (1) Infrastructure PPP is a new field that is not yet very transparent; an RID would help to make the process more transparent, reduce uncertainty on the part of the private sector, and improve understanding of the process on the part of the public sector. (2) It would help address the challenge of limited skills, particularly in the financial analysis of projects and negotiation of appropriate frameworks. (3) The RID is a structure that could be linked to the ADBI's initiative, which is of great importance in promoting infrastructure PPP in the region.

Ms. Beris Gwynne, Independent Consultant, Global Development Collaborative, likewise expressed her support for the RID proposal, given the fact the early promise of infrastructure PPP has not yet been significantly realized. She noted the challenges that need to be overcome, in particular negative attitudes in government, the private sector and communities formed by some unfortunate experiences in the past. She pointed to the importance of dealing with PPP at a more macro level, citing the case of infrastructure to provide water, which is dealt with by different agencies and not in an integrated way in various cases.

Ms. Gwynne underscored the importance of political leadership in establishing PPP projects, particularly with respect to promoting transparency and good governance, strengthening the capacity of governments to run PPP projects, promoting a more rational approach to project design, enhancing public communications and consultations, and promoting sustainability. Given that clarifying objectives and promoting a shared prosperity agenda is key to overcoming current challenges, she noted that the RID would be useful in increasing awareness of the importance of infrastructure development and the role of PPP, compiling experiences and capitalizing on what already exists to provide a menu of options. To promote confidence and trust in the process, it is important that the RID be organized by an independent party.

Mr. Ken Waller, senior advisor to ABAC Australia, noted that infrastructure PPP should occupy a place in APEC's agenda and particularly in the APEC Finance Ministers' Agenda. There is still much that private sector groups such as ABAC could contribute to addressing the complex issues involved, inasmuch as there is already a wealth of experience available. He noted that APEC could make an important contribution to promoting public confidence and trust in the process by focusing on facilitating political buy-ins by domestic constituents. As a way forward, he suggested the compilation of experiences and using this as a basis for developing recommendations to ministers on how to promote support from domestic constituents. In this context, the ADBI initiative and RID would be complementary.

Mr. Teng Theng Dar, ABAC Singapore member, added that it is important to see how technology can be more effectively harnessed for the success of infrastructure PPP and how this can be undertaken to maximize the benefits for small and medium enterprises in the region.

There being no further comments, the Chair thanked the presentors on behalf of the Advisory Group and, the commitment of participants to promoting a regional infrastructure dialogue being apparent, asked Mr. Waller and the Coordinator to work with participating institutions in bringing this issue forward during the coming weeks and to report back at the Advisory Group's next meeting.

Regional Financial Stability

Mr. Ken Waller introduced the subject by referring to a 2006 paper commissioned by ABAC and undertaken by Professor Kimball Dietrich of the USC Marshall School of Business on data requirements to support early warning systems and ameliorate the impact of adverse volatile capital flows. He suggested that the Advisory Group find a way forward to promote reliable data on financial flows, working with the IMF to frame a set of questions on important issues.

Mr. Akira Ariyoshi of the IMF noted that financial markets are developing faster than our understanding of these, as exemplified by the failure of regulators and markets to anticipate the degree of turbulence arising from the subprime crisis, which to a major extent was due to the lack of data. In trying to address this problem, it is important to carefully consider what kind of data would be useful and need to be collected. He noted the importance of international reporting standards, mentioning that the successful application of the IMF balance sheet approach to uncover mismatches in economies' balance sheets is contingent on the availability of the relevant data.

Mr. Ariyoshi reported that the IMF is currently undertaking work on improving data for bond markets in emerging and developing economies through the improvement of the relevant data base on these securities, and that a seminar to be held in Germany in a week's time would be useful in identifying which data are needed and where existing data bases can be expanded. He suggested that a similar work undertaken under the APEC umbrella in cooperation with the Advisory Group and ABAC could

be useful, as it would help identify private sector requirements and deal with issues such as reporting burdens and disclosure of proprietary information.

There was some disagreement on the priority that should be given to this undertaking, with some participants being of the opinion that dealing with current problems in the financial markets may require a different approach that needs to be thought out more carefully, and others saying that helping promote better data quality, particularly through this project, should be given a very high priority.

Mr. Worapot Manupipatpong, Director of Capacity-Building at ADBI, mentioned that a study is being done at ADBI on how to deal with capital flows, the conclusions of which could be shared with the other Advisory Group participants after its publication in May 2008. Mr. Eduardo Pedrosa, Secretary General of PECC, referred to the G7 Finance Ministers' concern about the development of best practices in sovereign wealth funds' disclosures, which could also be included for consideration under this subject.

At the end of the discussions, the Chair thanked Mr. Ariyoshi for his prepared comments and expressed his hope that the Advisory Group could further develop its cooperation with the IMF. He requested that in the meantime, Mr. Waller and the Coordinator collaborate with the IMF and other interested Advisory Group participants in identifying a way forward on this matter and to report progress at the next meeting.

Workshop on Improving the Environment for Commercially Sustainable Microfinance

The Coordinator briefed the participants on the workshop to be held the following day, January 23. The workshop aims to discuss how the policy environment for commercially sustainable microfinance can be improved and to generate proposals for policy reforms and capacity-building measures that can be undertaken by governments, public institutions and regional organizations, particularly APEC, in collaboration with the private sector. The Chair encouraged all participants to attend the workshop.

Public-Private Dialogue on Basel II Implementation and Strengthening Banking Systems.

Mr. Kenneth Waller referred participants to the conclusions and recommendations from the Report of the Public-Private Sector Dialogue on Strengthening Financial Architecture in the Asia-Pacific Region, held on July 11-12, 2007 in Singapore, which has been circulated as part of the meeting papers and is attached to this Meeting Report as Annex B. This third dialogue between financial regulators and the private sector was jointly organized by the South East Asian Central Banks (SEACEN) Research and Training Center, ABAC, the Asian Bankers' Association and PECC. Mr. Waller advised the participants on the preparations being undertaken for the fourth dialogue, which will be held in August 2008 in Kuala Lumpur.

Next meeting

The Chair announced that the next regular meeting of the Advisory Group will take place in conjunction with the 2nd 2008 meeting of ABAC in Moscow, Russian Federation. The Advisory Group meeting has been scheduled from 9:00 to 11:00 am on Wednesday, May 14, 2008 at the Hotel Cosmos Moscow.

Adjournment

There being no other matters to discuss, the Chair thanked the participants, as well as ABAC Indonesia and the staff for the excellent preparations, and declared the meeting adjourned at 6:10 pm.

MEETING REPORT ANNEX A

Advisory Group on APEC Financial System Capacity-Building 2008 WORK PROGRAM

BACKGROUND

The Advisory Group on APEC Financial System Capacity-Building was established at the time of the APEC Finance Ministers' Meeting in Phuket, Thailand in 2003, at a meeting jointly organized by the APEC Business Advisory Council (ABAC) and the Pacific Economic Cooperation Council (PECC). The Advisory Group was created with three major goals in mind: (a) to harness expertise in international public and private sector institutions to collaborate with the APEC Finance Ministers in developing capacity-building programs to strengthen and develop the region's financial systems; (b) to promote public-private sector collaboration in capacity-building efforts; and (c) to ensure greater synergy among ongoing capacity-building activities and facilitate identification of capacity-building gaps through exchange of information.

OBJECTIVES OF THE 2008 WORK PROGRAM

Following are the objectives of the 2008 Work Program of the Advisory Group:

- To undertake, as a collaborative project involving participating organizations, the coordination of the Second APEC Public-Private Sector Forum on Bond Market Development
- To develop specific proposals on capacity-building that can be endorsed to the APEC Finance Ministers, particularly in areas where public-private partnership would be helpful
- To identify possibilities of collaboration among participating organizations and between public and private sectors
- To exchange information and updates on current initiatives by participating organizations and promote greater synergy among them

MEETINGS IN 2008

The Advisory Group will have its regular meetings on the following dates and venues:

- **Regular meeting (First): January 22, 2008, Jakarta, Indonesia**

To finalize the work program, prepare the agenda for the Second Forum on Bond Market Development, undertake initial discussions of key issues under the work program and identify steps to develop work on these issues until the next regular meeting.

- **Regular meeting (Second): During the period May 12-14, Moscow, Russian Federation** (*exact date yet to be announced*)

To report on the results of completed activities, discuss preparations for the Second Forum on Bond Market Development and discuss proposals on capacity-building.

- **Regular meeting (Third): During the period August 2-6, Hangzhou, China** (*exact date yet to be announced*)

To finalize the report on completed activities and finalize proposals on capacity-building to be forwarded to the APEC Finance Ministers.

ACTIVITIES IN 2008

A. PROJECTS

1. Workshop on the development of a commercially sustainable microfinance industry, Jakarta, 23 January 2008

The Advisory Group is working with ABAC to organize this workshop, which will be a half-day event to be held in conjunction with the January 21-24 ABAC meeting in Jakarta. The objective of this workshop is to generate proposals for policy reforms and capacity-building measures that can be undertaken by governments, public institutions and regional organizations, particularly APEC, in collaboration with the private sector, to improve the environment for the operation of MFIs, increased flow of funds through banks and capital markets and appropriate provision of public support.

2. Second APEC Public-Private Sector Forum on Bond Market Development, Cusco, July 2008

At their meeting in Hanoi on 7 September 2006, APEC Finance Ministers welcomed a proposal submitted by ABAC that the Advisory Group facilitate in-depth discussions with individual economies on how the public and private sectors can collaborate to develop their respective bond markets (with special attention to corporate bond markets). These discussions will take the form of a series of one-day sessions, each focused on three or four developing member economies' bond markets.

The central objective will be a dialogue among interested economies, private sector market players and experts from international public and private sector organizations, aimed at identifying aspects in the policy and regulatory areas which could be addressed by authorities to enhance the environment for bond market development, and in particular, corporate bond issuance. The dialogues would also aim to identify capacity building initiatives, which might include public/private partnerships to build the environment conducive to bond market development.

The Australian Treasury hosted the first Forum on 8 May 2007 in Melbourne, back-to-back with the Second Senior Finance Officials Meeting (SFOM II), focusing on the bond markets of Indonesia, the Philippines and Vietnam. The Second Forum will be hosted by the Ministry of Finance of Peru in Cusco, with the suggested date of July 2008 (exact dates to be announced), as part of the APEC Senior Finance Officials' Meeting (SFOM). It will focus on the bond markets of Peru, Mexico and Chile, but will also discuss international and regional capacity-building efforts and public-private sector collaboration.

Participants will include the following: (a) participants from the above-mentioned 3 economies; (b) participants from other interested APEC economies, including members of the Senior Finance Officials' Meeting; (c) participants from the Advisory Group; and (d) key experts and representatives from investment banks, institutional investors, fund managers, rating agencies and other relevant private sector organizations, to be selected and invited by the organizers.

Officials or regulators from each of the three economies would make a presentation on (a) the current situation of their respective markets, (b) the measures being planned or undertaken, (c) the challenges, and (d) possible areas of cooperation with the private sector, followed by inputs from the other participants, an open discussion and a summary by the respective session chair. The office of the Advisory Group Chair will be

responsible for drafting the conference report, in collaboration with Advisory Group participants and relevant officials from the three economies.

3. The 4th SEACEN/ABAC/ABA/PECC regional public-private dialogue on Basel II implementation and related banking issues, Kuala Lumpur, July 2008

The Advisory Group, together with ABAC, PECC, ABA and SEACEN, has supported this dialogue over the past three years by providing suggestions on the program and speakers from within its network. Participants in this dialogue will include senior representatives from SEACEN member central banks and banking supervisory bodies, key regulatory bodies in the wider Asia-Pacific, international and regional financial institutions, the BIS, the Asian financial industry and experts from academe, research and consultancy. Aside from Basel II issues, the dialogue also touches on financial stability, financial consumer protection, and insolvency issues.

4. Enhancing the environment for public-private partnership in infrastructure in developing APEC economies.

The Advisory Group is currently discussing with various institutions the possibility of collaborating on this project, including research and involvement of government officials, private sector experts and representatives of the investor community.

5. Enhancing the quality of financial information available to investors and regulators to promote financial stability in APEC.

The Advisory Group has discussed the results of a study that was commissioned to address lingering concerns in the region about volatile short-term capital flows (especially those associated with HLIs), the growing use of derivatives and the lack of data on these items that are available to emerging market officials and regulators. The Advisory Group agreed with the conclusions of the study, which recommended capacity-building to help governments improve data on the non-bank financial sector; the development of investor relations services units and industry surveillance units for interested economies; and the development of a code of conduct for statistical agencies in the region to promote market confidence. The Advisory Group will consider possible initiatives that would help address challenges in this area.

B. 2008 REPORT ON FINANCIAL SYSTEM CAPACITY-BUILDING

This report, which will be finalized in August 2008, will incorporate the results of the above-mentioned projects as well as of discussions during the meetings of the Advisory Group and present recommendations to APEC Finance Ministers on how to accelerate progress in the following areas: (a) development of corporate bond markets; (b) implementation of Basel II within the region; (c) promoting financial stability through enhanced financial information; (d) promoting public-private partnership in infrastructure; and (e) developing robust institutions, legal and regulatory frameworks for microfinance. The Advisory Group will also consider whether there are capacity-building issues related to greenhouse gas emissions trading that need to be included in its report.

DELIVERABLES AND TIMETABLES

The above activities are geared toward the following deliverables:

1. Successful completion of the Second APEC Public-Private Sector Forum on Bond Market Development

2. A complete report on the conclusions of the Forum (*to be submitted to the APEC Finance Ministers before their 2008 meeting – through ABAC as well as any other channel*)
3. 2008 Report on Financial System Capacity-Building in APEC (*to be submitted to the APEC Finance Ministers before their 2008 meeting – through ABAC as well as any other channel*)