2008 REPORT
On Capacity-Building Measures to Strengthen and Develop Financial Systems

The Advisory Group on APEC Financial System Capacity-Building

Preparation of 2008 Report

- Annual report of Advisory Group
- Endorsed by ABAC to APEC Finance Ministers
- Based on inputs from Advisory Group participants
  - Meeting discussions (2008: Jakarta+Moscow)
  - Advisory Group workshops/forums
  - Papers from Advisory Group participants
Report Outline

• Summary of recommendations
• Main body of report
  - Introduction
  - Financial inclusion through microfinance
  - Local currency bond markets
  - Infrastructure PPP
  - Regional financial stability
  - Credit reporting systems
  - Risk management and governance in banking systems

I: Financial Inclusion/Microfinance

• Changing landscape (profitability, links to formal financial sector, scope of services)
• Potential to address financial exclusion
• Need for enabling environment
• Recommend: Launch of financial inclusion initiative by APEC Finance Ministers - consider conclusions of Advisory Group Jakarta Workshop
II: Local currency bond markets

- Summary of conclusions of the Advisory Group’s 2nd Public-Private Sector Bond Market Forum (Cusco, July 2008)
- **Recommend:** *APEC Finance Ministers to endorse conclusions of the Forum and its continuation, with 3rd Forum in Singapore in 2009*

III: Infrastructure PPP

- **Key issues:**
  - Role of capital markets
  - Political risk and governance structures
  - Acceptance of private sector role
  - Need for capacity-building for official sector
  - Role of multilateral institutions – software, role as investors
III. Infrastructure PPP

- Considerable activity on infrastructure PPP
  - Recent examples in region: ADBI, PECC, APEC SFOM discussions
- Potential APEC role
  - **Recommend: APEC Finance Ministers to support establishment Regional Infrastructure Dialogue - officials, private sector, relevant international institutions**

IV. Regional financial stability

- 2006 ABAC study on HLIs, derivatives - recommended steps to improve quality of data on private financial flows, make them available to regulators/market participants
- Impact of sub-prime, current economic conditions on financial markets - underscores relevance of these recommendations
IV. Regional financial stability

• Report notes current developments (reviews of financial regulations, FSF actions, situation of EMs in the region, uncertainties, financial innovations challenging capacity or regulators

• Discussions among ABAC/Advisory Group with ADBI and IMF on further work.

IV. Regional financial stability

• **Recommend**: APEC Finance Ministers support public-private collaboration to improve understanding of financial markets, collection/dissemination of data on private financial flows, officials’ involvement in work of ABAC/Advisory Group/IMF/ADBI
V. Credit reporting systems

• Focus on role of credit bureaus
• Structure of credit reporting:
  - Full-file vs. negative-only: Full-file is better
  - Comprehensive vs. segmented: Comprehensive is better
  - Public vs. private: need for private to complement public

Recommend: APEC Finance Ministers to consider measures to promote full-file comprehensive reporting to credit bureaus that effectively address privacy, identity and confidentiality concerns
VI. Risk management and governance in banking systems

- Based on conclusions of 3rd dialogue (July 2007) between financial regulators and financial industry in the region:
  - Qualitative positive changes in financial systems, but need for further enhancement in risk management and governance
  - Importance of fundamental issues

- Current situation of Basel II implementation:
  - Banks undertaking organizational changes to implement Basel II are benefiting
  - In Pillar II implementation, recognition of need to fully understand risks that vary from one bank to another
  - Because of Pillar III requirements, growing support for accounting standards convergence
  - Need for greater coordination among regulators and between regulators and banking industry
VI. Risk management and governance in banking systems

- Key issues for improving bank governance
- Need to address consumer interests
- Support for promoting regional insolvency and informal workout arrangements

• Value of public-private dialogue

• **Recommend: APEC Finance Ministers support continued participation of banking regulators in the dialogue**