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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

V. Credit reporting systems

- ***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

VI. Risk management and governance in banking systems

- 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***

