



**Asia-Pacific
Economic Cooperation**

2008 15TH APEC FINANCE MINISTERS' MEETING

JOINT MINISTERIAL STATEMENT

5-6 NOVEMBER 2008

TRUJILLO, PERU

I. INTRODUCTION

We, the finance ministers of the APEC economies, convened our 15th annual meeting in Trujillo, Peru on 5-6 November 2008 under the chairmanship of Mr Luis Miguel Valdivieso Montano, Minister for Economy and Finance of Peru. The meeting was also attended by representatives of the International Monetary Fund (IMF), the World Bank, the Asian Development Bank (ADB), the Inter American Development Bank (IADB), the Andean Development Corporation (ADC), and the APEC Business Advisory Council (ABAC).

We discussed extensively the turmoil on global financial markets from the perspective of both short-term immediate actions as well as longer term action for reform of the regulatory and institutional regimes for the world's financial sectors. We strongly endorse the recommendations of the Financial Stability Forum (FSF) and the G7 Finance Ministers and Central Bank Governors Plan of Action and their subsequent support by the IMFC and the G20 special session. We welcome the measures taken by economies and international organisations, to stabilize financial markets and ensure the smooth running of the real economy.

The current financial turmoil affects all our economies. We pledge to work collaboratively and to coordinate actions. We support the critical role of the IMF in assisting economies affected by this turmoil. We also agree to continue our active participation in the international financial policy dialogues and look forward to the forthcoming Summit on Financial Markets and the World Economy on 15 November 2008.

Our ongoing objective is to realise the APEC region's economic potential by drawing together the common interests of member economies and exploring opportunities for cooperation and capacity building. It is important that the work of finance ministers continues to be aligned with the broader APEC agenda and processes. The Regional Economic Integration Agenda represents one avenue to align this work.

In our discussions, we considered two policy themes, consistent with the Hanoi Medium-Term Agenda: results-based budgeting as an instrument to improve the quality of public expenditure; and capital market reform.

We are committed to financial sector development and reforms oriented to improve the competitiveness and efficient operation of markets. We welcome the outcomes of the Ministerial Meeting on Structural Reform and will continue to support the APEC Economic Committee's work in this area.

Prosperity within APEC economies, and globally, depends on maintaining our commitment to free and open trade and investment. An open and rules-based global trading system makes an important contribution to global growth and development. We will resist protectionist measures in all areas that could reverse the economic progress we have made over the last decade. We call for a prompt, ambitious, comprehensive and balanced conclusion to the WTO Doha Development Agenda negotiations.

II. GLOBAL AND REGIONAL ECONOMIC DEVELOPMENTS

During the year, APEC economies have had to deal with both the global financial crisis and high and volatile commodity prices.

Financial market crisis

The turmoil has created severe dislocations in broader credit and funding markets, impacting the global financial system and leading to decisive actions from governments and central banks. We discussed ways to respond to the turmoil, focusing on weaknesses in existing regulatory and supervisory frameworks, and drawing and acknowledging valuable lessons for APEC economies, particularly with regard to transparency and disclosure by financial institutions, risk management and the role of credit ratings.

We recognize that as financial systems deepen and become more complex, regulatory and supervisory tools must evolve. We welcome the recommendations of the FSF, and look forward to the findings of the G-20 Study Group on the credit market crisis; especially those relevant to our financial systems.

While the risks to the stability of the international financial system remain elevated, the pressures in wholesale funding markets are beginning to ease. The focus of global financial market risk now appears to have shifted from losses due to US sub-prime mortgage defaults and the associated seizure in credit markets, to the adverse impact from a more generalized slowdown in global economic activity.

We are determined to respond to any deterioration in our economies by taking all necessary measures quickly, decisively and responsibly. We recognize the need to put in place policies that will restore financial systems and support economic activity.

Food and commodity prices

Although commodity prices have fallen recently, we recognise that the level and volatility of food and commodity prices continue to place pressure on APEC economies. We therefore support the steps taken by the UN to tackle the global food crisis, the World Bank's New Deal on Global Food Policy, and the ADB's commitments to providing budgetary support to the hardest-hit APEC economies.

We also recognize that it is necessary to ensure that regulatory frameworks, transport infrastructure and logistics capability are able to support the efficient movement, handling and marketing of food commodities across the entire food chain. We therefore tasked the APEC Policy Support Unit to undertake research into behind-the-border impediments within food supply chains.

III. 15TH APEC FINANCE MINISTERS' PROCESS POLICY THEMES

1. Improving the quality of public expenditure

We discussed the ongoing challenge of handling fiscal risks, especially during the current financial crisis. A key long-term tool for managing public expenditure is results-based budgeting (RBB).

RBB aims to improve the efficiency and effectiveness of public expenditure by linking the funding of general government entities to the results they deliver.

We discussed our experience with RBB, recognising the importance of focusing on outcomes as opposed to inputs and introducing performance benchmarks into budget processes.

Preconditions for success involve establishing a strong financial management framework; strengthening the skills base to administer the RBB system; providing appropriate flexibility to line agencies; and ensuring transparent reporting arrangements are in place. For this process to succeed, budget data must be accurate and complete.

During the year, some principles were discussed in regard to the quality of public expenditure. These included: the importance of priority setting; having the flexibility and ability to change priorities; undertaking regular expenditure reviews; having accurate, comprehensive and benchmarked data collection at the beginning of the program; and maintaining proper accounting and reporting financial transactions. We also identified the importance of targeting expenditure as a key tool to achieve a better allocation of public resources.

2. Reforming capital markets

We focused our discussion on the reform of capital markets bearing in mind the current financial turmoil. Sound macroeconomic and taxation policies, legal and regulatory frameworks, market infrastructure, financial education, and strong transparency and disclosure standards all play critical roles in

supporting financial market development and, in particular, the broadening and diversification of the investor base.

Based on the recommendations of the FSF, financial supervisory frameworks, accounting standards and minimum capital requirements should be reviewed, and strong prudential standards should be applied to all significant financial institutions. To that end we encourage participation in the IMF/World Bank Financial Sector Assessment Programs (FSAP), taking into account the level and pace of development and the specific conditions of each member economy.

We commit to strengthening the legal, regulatory and institutional mechanisms to deal swiftly with distressed financial institutions. Extending policy efforts of APEC economies to develop capital markets, we strengthened our commitment to broadening and diversifying the investor base. Greater participation of specialised institutions such as pension funds, insurance companies, fund managers and securitisation originators is needed to provide depth and innovation in markets. We also acknowledge the importance of enlargement of local currency-denominated bond markets.

We acknowledge the important multilateral initiatives in the IMF and OECD on sovereign wealth funds (SWFs). We welcome the Generally Accepted Principles and Practices or "Santiago Principles" developed by the International Working Group on SWFs. These principles will help promote better understanding of SWF institutional and operational practices, reduce protectionist pressure, and contribute to global financial stability. We support the OECD Report by the Investment Committee on SWFs and the guidance provided to recipient economies on preserving and expanding an open environment for investments by SWFs.

By increasing the supply of long-term assets to institutional and retail investors, private financing of infrastructure can play an important role in developing capital markets and increasing the efficiency of financial market intermediation. Public-private partnerships (PPPs) are recognised as a means for meeting the infrastructure requirements of both emerging and developed APEC economies, and as a means of fostering the development of capital markets with alternative long-term financial assets.

APEC capacity building activities undertaken over the past two years have aided the development of the regulatory and fiscal frameworks needed to support the expansion in the use of PPPs.

We welcome a set of common principles that APEC economies may wish to use as a reference when formulating guidelines to developing well-functioning PPP markets. These principles cover issues such as property rights frameworks; adequate allocation of risks; establishing dedicated PPP units to manage any contingent liabilities created by PPPs, and develop robust quantitative and qualitative methods for identifying and assessing possible PPP projects; adopting a flexible, streamlined and transparent tendering processes; and

removing barriers to institutional investment in non-government debt and equity markets.

IV. OTHER MATTERS AND THE VENUE FOR THE NEXT MEETING

We appreciate the ADB's renewed efforts emphasized in Strategy 2020, Long Term Strategic Framework in Strategy 2020 which redirects the ADB's focus onto the region's three critical agendas: inclusive economic growth, environmentally sustainable growth, and regional integration.

We are committed to fighting corruption, money laundering, terrorist financing, and other criminal abuse of the financial system. In this regard, we will continue to aggressively work to implement international anti-money laundering and counter-financing of terrorism standards and to comply with relevant United Nations Security Council Resolutions. We support the Financial Action Task Force's new mandate to include responding to new threats which affect the integrity of the financial system, such as proliferation finance. We welcome APEC's work on securing remittances and cross border payments, detecting cash couriers and bulk cash smugglers, and preventing the terrorist abuse of non-profit organisations.

Climate change is one of the major international challenges with implications for both the environment and the global economy. We welcome and support the establishment of the Climate Investment Fund including the Clean Technology Fund and the Strategic Climate Fund, administered by the World Bank. We also support the climate initiatives of the ADB.

We thank Peru for hosting the APEC Finance Ministers' Process this year. We will meet again for our 16th meeting in Singapore in October 2009.

Annex - Review of Policy Initiatives

1. The Voluntary Action Plan (VAP) on Freer and More Stable Capital Flows: *The APEC Pensions and Annuities Markets Seminar* (Chile, New Zealand, Russia and Singapore in 2007)

Since its launch in 2000, this initiative has provided the framework for a range of policy dialogues for APEC economies to better understand and share experience on the benefits and risks associated with cross-border capital flows, policies needed to secure the benefits and reduce risk, an associated issues of implementation and regulation. Previous policy dialogues have addressed: Banking supervision (Mexico, 2001), Strengthening market disciplines in the financial sector (Hong Kong, 2002), Transparency in the financial sector; deposit insurance (Malaysia, 2004), Savings and capital market development (Vietnam, 2006).

The most recent policy dialogue was a seminar held in Singapore in November 2007, co-hosted by New Zealand, Chile, Russia and Singapore, with financial and technical support from the IFM and the World Bank. Discussion focused on factors that could enhance the impact of pension and annuity markets within a comprehensive savings policy. A summary of the proceedings was presented to Finance Deputies.

2. APEC Finance and Development Program (AFDP) (China and the World Bank)

With support from APEC member economies and international financial institutions, the Asia-Pacific Finance and Development Center (AFDC) has continued its efforts on capacity building in the fields of finance and development. By the end of September 2008, 4 forums, 8 seminars and 33 training workshops had been successfully organized by AFDP. More than 3500 people from 20 APEC member economies, comprising government officials, business practitioners and academic scholars, participated in these activities, including 554 of them participated in these events through the GDLN network.

3. Deepening Prudential Regulatory Capacity in Non-Life Insurance (Australia and the US)

This initiative is a training course for non-life insurance regulators in close collaboration with public and private sectors. A six-day intensive course was held in Melbourne, Australia, in September 2007. Australia's APEC Studies Centre organised the training course in coordination with the US & Vietnam. The core objectives of the training programme were to develop an awareness of the International Association of Insurance Supervisors Core Principles and their implications. The course covered the risks of non-life insurance, reinsurance, especially catastrophic risks, the need for strong corporate governance regimes, and the capacity of regulatory bodies.

4. APEC Future Economic Leaders' Think Tank (Australia)

The annual Future Economic Leaders' Think Tank was not held in 2008.

5. APEC Financial Regulators Training Initiative (FRTI) (US and the ADB)

The FRTI has made significant progress in achieving its objectives of strengthening content and management of domestic training programs in developing regional programmes for junior and mid-level banking supervisors and securities regulators. Since 2001 up to September 2008, the initiative has trained 2,297 participants. Each year eight seminars are given – four on banking supervision and three seminars for securities regulation seminars organized under the initiative. The AG members, at their last meeting on 19 September in Manila, Philippines unanimously voted to request the continuation of the initiative for another two years and discussed and agreed on the topics for training seminars for 2009.

6. APEC Financial Institutions Dealing with SMEs (Japan in 2008)

The Japan Finance Corporation for Small and Medium Enterprises (Japan Finance Corporation, Small and Medium Enterprise (SME) Unit, since October 1, 2008) and National Life Finance Corporation (Japan Finance Corporation, Micro Business and Individual Unit, since October 1, 2008) jointly hosted the 5th Annual Meeting of APEC Financial Institutions Dealing with SMEs and the Conference on “SME Finance: Its Diversity – Experience and Challenge in the APEC Region” in Japan on 15 & 16 July, 2008. At the annual meeting, 13 signatory member institutions reported their activities and reaffirmed strengthened cooperation for financial support of SMEs. At the conference, following presentations, there was a fruitful discussion on the future vision of SME finance in the APEC region.

7. Insolvency Reform: *Regional Network* (Australia)

Phase One of the insolvency reform workshop was implemented through the Forum on Asian Insolvency Reform (FAIR), held on 27-28 April 2006 in Beijing, China.

Phase Two of the initiative involves establishing a Regional Network on Asian Insolvency Reform to share information about reforms, capacity building and technical assistance initiatives for insolvency systems and related matters. In February 2008, the first network newsletter was published and the network website was launched. Arrangements are being made to hold the first meeting of network members in conjunction with the next FAIR in the first half of 2009.

8. Reform of Financial Sector: *Catalogue of Policy Experience and Choices* (Australia, Indonesia, China, Japan and Vietnam – Australia, Indonesia, China and ADB for Catalogue)

The initiative comprised three policy dialogue workshops held in the People’s Republic of China, Indonesia and Australia. A key outcome of the initiative was the development of a web-based information resource on financial sector reform, the ‘Catalogue of Policy Experience and Choices’. The catalogue is a secure, web-based information resource on financial sector reform experience for finance ministries, central banks and financial sector regulatory agencies in

APEC. It allows policy makers and regulators to draw upon the benefit of experience in developing and implementing financial sector reform in accordance with their individual circumstances. The official website went live on 30 April 2008 - <http://www.financialreform.apec.org>.

9. APEC Policy Response to Ageing issue (Korea, China and the US)

The three-year Initiative on Ageing Issues in APEC (2007-09) is divided into two primary subjects: "Financial Markets and Ageing" and "Public Finance and Others in Ageing." The first part implemented under the theme of "Financial Markets and Ageing" (2007-2008) constituted of three workshops and a high-level seminar. Seven member economies including, China, Korea, New Zealand, the United States, Chinese Taipei, Thailand, and ABAC, IMF, and OECD participated in this initiative to derive policy recommendations to the region. The results will be combined with the outcome of the second part of the initiative "Public Finance and Others in Ageing" which will launch in November 2008. The final result, including policy recommendations regarding financial markets, public finance and others in ageing issues in the APEC region will be presented to the Finance Ministers at the 2009 FMM.

10. APEC Public-Private Dialogue on Bond Market Development (ABAC)

This initiative identifies policy and regulatory aspects and capacity building initiatives to enhance the environment particularly for corporate bond issuance. The first forum was held in May 2007 and focused on bond market developments in three economies - Indonesia, Vietnam and the Philippines. The dialogue outlined major regional cooperation and capacity building initiatives. A Bond Market Forum was held in Cuzco on the 9th July 2008 focusing on public and private sector perspectives on the development of bond markets in the APEC region, and the challenges for capacity building and prospects for public private partnership. This series of dialogue will continue with other emerging economies in the period ahead.

11. Enhancing Risk management and governance in the region's banks to implement Basel II (Australia, China, Vietnam)

This initiative will provide training for senior policy makers and banking regulators from APEC developing member economies, in order to enhance risk management and governance practices in the region's banking systems, based on implementation of Basel II. The initiative will be a joint undertaking between Australia's APEC Finance Centre and the Asia Pacific Finance and Development Centre in Shanghai (AFDC). It is timely as it will also consider the handling of liquidity pressures confronting global banking systems. The workshop will be held in Shanghai in December, 2008.

12. Climate Change (World Bank, Australia)

This initiative is expected to provide critical information on the implications of climate change in key areas of concern to finance and other economic ministries, aiming to serve as a catalyst for greater regional discussion and cooperation in addressing climate change. It will also encourage greater

mainstreaming of climate change in finance ministries' agendas and set the stage for future operations on climate change issues both at regional and economy level (technical assistance, training, investment projects, policy lending etc.). It should help strengthen the formulation or implementation of adaptation and mitigation components in climate change strategies; improve dissemination and knowledge management and help build partnerships for knowledge sharing and action at economy, regional and global level.

13. Diversified and sound institutional investor base (Australia, Singapore and Malaysia)

Institutional investors are increasingly playing a key role in global financial markets. Comprising mainly pension funds, insurance companies and investment funds, they help provide depth and liquidity in the markets. Promoting and supporting the development of a well-capitalised, creditworthy and strong functioning institutional investor base is therefore a critical part of any financial market development strategy. The objective of this initiative is to provide technical training to government officers who are responsible for developing policy measures, reforming regulations and addressing key constraints that would help support the development of a diversified and sound institutional investor base in targeted APEC member economies.