

AGENDA ITEM 8

FOURTH MEETING OF THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY BUILDING, KUALA LUMPUR, 3RD AUGUST 2005

REVIEW OF ABAC'S RECOMMENDATIONS TO APEC LEADERS AND FINANCE MINISTERS ON CAPACITY BUILDING IN THE REGION'S FINANCIAL SYSTEMS

Background

In this year's report to Leaders ABAC FWG proposes to include the following references concerning the Advisory Group in a general introduction headed Strengthening Financial Systems:

"The Advisory Group established by ABAC and PECC promotes capacity building initiatives through public and private partnerships, to strengthen the institutional capacities of public and private agencies. We request Leaders' endorsement of our capacity building measures to promote safer and more secure financial systems"

Under specific recommendations to promote capacity building initiatives to strengthen the region's financial systems and capital markets, we propose to Leaders that they:

- endorse the role of the Advisory Group on APEC's financial sector capacity building and provide budget support for the involvement of financial system regulators in capacity building initiatives
- endorse proposals to broadly disseminate ways to promote good governance in public and private financial institutions, measures to encourage the flow of remittances through formal financial systems, and ABAC/APG initiatives to combat the movement of terrorist funds through financial systems as well as combating money laundering and corruption

In related recommendations to strengthen and deepen the region's financial systems we propose that Leaders:

- give priority to promoting international best standards and practices in Financial sectors, and in particular to Basel 2 in banking, and converge to International accounting standards
- promote regional bond markets

ABAC will provide a more detailed report and an accompanying letter to APEC Finance Ministers on its work in 2005. An extract from that report is attached.

Issues

The central objectives in promoting capacity building in APEC economies are :

- ensuring wide dissemination of particular initiatives
- ensuring Leaders and Ministers and officials know of, endorse and participate where appropriate in any initiatives
- ensure key recommendations and proposals emanating from a particular initiative are appropriately implemented
- ensuring adequate funding is provided in the budgets of emerging markets to allow regulators and officials from those markets to participate in capacity building initiatives

Recommendations

- note and endorse ABAC's advice and recommendations to Leaders and Finance Ministers as outlined above and in the attachment
- consider and advise on how best to achieve the objectives noted above

Coordinator

20th July 2005

EXTRACT FROM DRAFT OF ABAC 2005 REPORT TO APEC FINANCE MINISTERS

"7. Supportive capacity building initiatives

Strengthening and deepening regional financial systems involves not only reforms to liberalise financial markets and promoting investment and competition, but also a commitment to implement best international standards and practices of supervision and regulation in financial sectors and to improve governance in both public and private financial institutions. These measures complement liberalisation and competition and create the conditions for system stability and economic growth. ABAC strongly supports capacity building aimed at meeting these objectives – by raising the skills base and knowledge of regulatory supervisors and of members of private financial institutions; specifically by :

- supporting the implementation of Basel 2 in the banking system;
- promoting the development of domestic and regional bond markets;
- training APEC regulators in supervision of the life insurance and pensions sectors;
- improving security in financial systems to counter money laundering and terrorist financing activities;
- promoting good governance in financial systems; and
- promoting remittances through formal financial sectors under appropriate supervisory arrangements

The activities of the joint ABAC and PECC Advisory Group on APEC Financial System Capacity Building are variously supported by the World Bank, the IMF, the ADB, BISD and the AFDC. More recently, ABAC has cooperated with the ABA, the Chilean Bankers' Association, the ADBI and SEACEN in promoting specific symposiums and training programs. Some training is sponsored at the economy specific level (for example by the Australian APEC Study Centre at Monash University), others involve academic and professional support organised through PECC. Ministers should be aware that the network of support groups is widening and, as a consequence, more effective partnerships are developing between the private sector and public sector agencies.

Current and planned major public/private sector initiatives are described in Appendix I to this report.

Recommendations

- support ABAC capacity building initiatives by:
 - direct involvement where appropriate by APEC Finance Ministers and officials in training initiatives and relevant symposiums;
 - ensuring adequate funding is available to meet the costs of the involvement of regulators and policy officials from emerging APEC

economies so that they can participate in relevant symposiums and training programs;

- endorsing the current program of work as outlined in the Appendix to this report

APPENDIX

Specific Capacity Building Initiatives

- a) a conference jointly sponsored by ABAC, PECC, ADBI on developing bond markets, held in Tokyo, on 21/22nd June; the recommendations are included under 5 of this report
- b) { ABAC supported an APEC symposium on anti-corruption and transparency held in Seoul, 1/2nd September – recommendations to Ministers will/have been Provided to Ministers}
- c) ABAC/PECC/ABA is to sponsor a major symposium in Melbourne on 19th October 2005 in conjunction with the Annual Meeting of the Asian Bankers' Association; the symposium is aimed at promoting good corporate governance and transparency in APEC financial institutions
- d) ABAC and PECC sponsored with the SEACEN (South East Asia Central Bankers Training Institute) a public/private dialogue involving regulators and bankers and International organisations which considered cross-border issues arising from the Implementation of Basel 2, and emerging new banking regulatory supervisory issues
- e) ABAC participated in the APEC Policy Dialogue on remittances held in Bangkok on 26/27th May; ABAC endorses the objective of encouraging remittance payments into the formal payments system to improve security over those flows and to reduce costs to people remitting funds
- f) ABAC is developing with the Asia Pacific Group and international financial agencies a training program which would involve private sector experts in training regulatory officials from emerging markets in the supervision of laws and regulations to counter money laundering and terrorist funding
- g) ABAC participated in the PECC Finance Forum held as part of PECC's 16th Council Meeting, in Seoul, 5/7th September.