



**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.

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

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

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

50 **II. GLOBAL AND REGIONAL ECONOMIC DEVELOPMENTS**

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

53 *Financial market crisis*

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

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

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

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

76 *Food and commodity prices*

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

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

88 **III. 15TH APEC FINANCE MINISTERS' PROCESS POLICY THEMES**

89 **1. Improving the quality of public expenditure**

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

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

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

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

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

110 **2. Reforming capital markets**

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

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

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

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

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

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

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

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

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

160 **IV. OTHER MATTERS AND THE VENUE FOR THE NEXT MEETING**

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

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

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

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

National Archives of Singapore

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

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

195 The most recent policy dialogue was a seminar held in Singapore in November
196 2007, co-hosted by New Zealand, Chile, Russia and Singapore, with financial
197 and technical support from the IFM and the World Bank. Discussion focused
198 on factors that could enhance the impact of pension and annuity markets
199 within a comprehensive savings policy. A summary of the proceedings was
200 presented to Finance Deputies.

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

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

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

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

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

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

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

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

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

237 The Japan Finance Corporation for Small and Medium Enterprises (Japan
238 Finance Corporation, Small and Medium Enterprise (SME) Unit, since October
239 1, 2008) and National Life Finance Corporation (Japan Finance Corporation,
240 Micro Business and Individual Unit, since October 1, 2008) jointly hosted the
241 5th Annual Meeting of APEC Financial Institutions Dealing with SMEs and the
242 Conference on “SME Finance: Its Diversity – Experience and Challenge in the
243 APEC Region” in Japan on 15 & 16 July, 2008. At the annual meeting, 13
244 signatory member institutions reported their activities and reaffirmed
245 strengthened cooperation for financial support of SMEs. At the conference,
246 following presentations, there was a fruitful discussion on the future vision of
247 SME finance in the APEC region.

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

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

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

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

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

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

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

272 The three-year Initiative on Ageing Issues in APEC (2007-09) is divided into
273 two primary subjects: "Financial Markets and Ageing" and "Public Finance and
274 Others in Ageing." The first part implemented under the theme of "Financial
275 Markets and Ageing" (2007-2008) constituted of three workshops and a high-
276 level seminar. Seven member economies including, China, Korea, New
277 Zealand, the United States, Chinese Taipei, Thailand, and ABAC, IMF, and
278 OECD participated in this initiative to derive policy recommendations to the
279 region. The results will be combined with the outcome of the second part of the
280 initiative "Public Finance and Others in Ageing" which will launch in November
281 2008. The final result, including policy recommendations regarding financial
282 markets, public finance and others in ageing issues in the APEC region will be
283 presented to the Finance Ministers at the 2009 FMM.

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

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

295 **11. Enhancing Risk management and governance in the region's banks** 296 **to implement Basel II (Australia, China, Vietnam)**

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

305 **12. Climate Change (World Bank, Australia)**

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

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

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

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