

## 2010 ABAC Report to APEC Finance Ministers

### Executive Summary

The APEC Business Advisory Council (ABAC) is pleased to present its report and recommendations for the year 2010 to the APEC Finance Ministers. This year, ABAC focuses its efforts on delineating growth strategies which are balanced, inclusive, sustainable, innovative and secure. ABAC also endorses the 2010 Report of the Advisory Group on APEC Financial System Capacity-Building, which is the result of its collaboration with major international institutions and contains valuable ideas and recommendations that are also reflected in the various parts of this report that relate to capacity-building.

#### 1. PROMOTING STRONGER GROWTH

##### Promoting regional integration through sub-regional financial integration

- Promote regional financial integration to mitigate vulnerability to financial contagion from outside the region. Advance CMIM as a platform to enhance financial stability in the APEC region.
- Consider further improvements in CMIM's disbursement mechanism to enhance its effectiveness, in particular, by changing the 20 % threshold of the IMF support program compliance.
- Strengthen the regional macroeconomic surveillance through AMRO.

##### Encouraging Islamic finance

- Enhance the market awareness of Islamic finance, and increase the capacity of professionals and scholars to drive growth. Establish and develop regional educational and training institutions in the economies which can function as a hub of the Islamic finance in the region.
- Remove such impediments as tax treatment for domestic/cross-border transactions (stamp duty, mark-ups and treatment of profit and deposits) with enhanced collaboration among domestic tax authorities, central banks and Ministries of Finance (MOFs). Maintain regulatory frameworks, including rules and procedures, for Islamic financial products.

##### Promoting infrastructure public-private partnership

- Launch an Asia-Pacific Infrastructure Partnership (APIP) as a pathfinder initiative to bring together private sector, government and multilateral development institutions to facilitate the growth of infrastructure PPP in the region.

### Developing bond and equity markets

- Develop wholesale securities markets open only to professional investors (with less strict disclosure rules than those designed to protect retail investors), to encourage the expansion of the issuer base, including foreign issuers. Individual economies could establish such arrangements and eventually collaborate to develop regional arrangements for securities settlement, removing barriers to entry and undertaking further steps to create a regional professional securities market.
- Collaborate between government and regulatory officials and market players to reduce barriers to cross-border settlement. The public sector should take the lead in addressing barriers related to tax, foreign exchange controls, investor registration, omnibus accounts and quotas. The private sector should lead efforts to address barriers related to messaging formats and pre-matching. Both public and private sectors should collaborate in addressing barriers related to cash controls, physical certificates, securities numbering and settlement cycle.
- Promote the use of foreign securities as eligible collateral throughout the region to enable major domestic and foreign financial institutions and investors to participate in cross-border collateral markets. In these markets, bonds can be actively used as collateral in money market transactions or traded in repurchase agreements, contributing toward more liquid bond markets. Existing arrangements can be considered as starting points in developing new bilateral arrangements, with a view toward a region-wide system.
- Continue collaborative efforts among governments, regulatory agencies, credit rating agencies and market players to promote region-wide convergence of accounting standards, disclosure regimes and corporate governance practices toward robust global standards.
- Establish a pathfinder initiative to introduce a funds passport scheme. Such a scheme is intended to facilitate the distribution of collective investment funds complying with a widely agreed common set of fund investment guidelines across participating jurisdictions. It should be designed to provide superior standards of retail investor protection and regulation compared to non-qualifying funds. Development of the common set of guidelines under which funds can apply for distribution across participating economies will need to be accompanied by efforts to address related regulatory and tax barriers as well as currency issues. In particular for corporate bond markets, efforts should be made to first strengthen the enabling framework – including common rating standards, availability/transparency of issuer information, bankruptcy codes, etc. – before additional funds are introduced to pursue the already limited supply of bond, driving spreads even lower and possibly distorting the capital allocation process. Investors will clearly benefit from a strong legal, policy and regulatory framework.

## 2. ENSURING MORE SUSTAINABLE GROWTH

### Advancing regulatory reform

- Maintain close consultation and dialogue with the private sector to determine any threshold of important ratios, including but not limited to, capital and leverage. Review and evaluate the impact of new regulations on costs of doing business.
- Consider possible withdrawal effects in introducing a capital buffer. ABAC believes it extremely difficult to adjust the size of capital in accordance with economic cycles. Thus, ABAC is of the opinion that careful thought must be given to the intersection of reserve and capital for addressing potential losses.
- Regulate activities beyond risk taking capabilities of financial institutions. Strengthen financial institutions' risk monitoring capabilities and financial standing.
- Undertake capacity building efforts to help financial regulators in developing economies strengthen supervisory capabilities and in effectively adapting the Basel framework to fit local conditions and business models.
- Ensure consistency between G20 regulatory reform outcomes and regional efforts to develop liquid capital markets and efficient financial services.

### Adopting International Financial Reporting Standards ("IFRS")

- Establish a task force to discuss studies on smooth introduction of IFRS to ensure appropriate communication among IASB, APEC and ABAC.
- Establish clear guidelines to avoid arbitrary treatment, in calculating the fair value of non-financial information and financial products, in particular illiquid assets, for example, Level 3 assets in accordance with IFRS 7.
- Consider the costs of marking-to-market each loan extended by the financial sector and maintain close dialogue with the private sector when implementing forward looking provisioning as proposed in IAS 39.
- Coordinate diligently with the private sector in introducing changes which may have significant impact on companies' P/L statements (for example, IAS 19 on pension accounting).

### Finance the environment

- Establish a set of high level principles in a policy framework, including the following; a recommitment to reduce subsidies on fossil fuel use; a preference for tax credits or fiscal subsidies to promote private applied research and development in energy technology and the promotion of alternative energy sources; in designing regulatory regimes governments ought to consult with industry.

- Introduce incentives and regulations to provide sufficient cash flows for renewal energy projects. The host governments should maintain strong and viable commitments to maintain these incentive programs.
- Introduce credit enhancement for the power purchaser from the host governments or IFIs. Also, measures need to be introduced to increase efficiency and liquidity of financial markets or to fill in the funding gap.

### **3. ACHIEVING MORE BALANCED GROWTH**

#### Expanding SMME access to finance

- Launch an SMME (Small, Medium, Micro Enterprise) Finance Initiative focused on helping APEC economies develop properly structured credit information systems and legal frameworks for expanding SMMEs' access to finance.
- Support business developments of SMMEs by offering some credit enhancement in the form of credit guarantees, and by introducing better regulatory framework to facilitate financial and international activities of SMMEs.
- Introduce an efficient, exclusive and transparent registry of security interests and a reliable valuation system so that the creditor can determine with certainty prior liens, and their own relative lien priority, and move in quickly to foreclose and liquidate the collateral to pay for the loan when the loan defaults. Implement the collateral law to recognize a large variety of assets as collaterals in addition to land and buildings to secure the loan. Provide more opportunities for "Debtor-in-possession" financing.

#### Enhancing social safety nets

- Implement social security policies with the purpose of raising relevant insurances, basic pensions of enterprise retirees and minimum living standard in accordance with unique characteristics of each economy such as aging population, diversification of employment types, and acceleration of urbanization.
- Introduce an adequate pension system on a funded basis. APEC member economies should conclude necessary agreements to facilitate pension systems that will enable sufficient labor mobility within the region.

#### Promoting financial inclusion

Launch an APEC Financial Inclusion Initiative under the APEC Finance Ministers' Process as proposed by ABAC and the Advisory Group on APEC Financial System Capacity Building in 2009.