

19 July 2012

Mr. Anton Siluanov

Chair, APEC Finance Ministers' Meeting &
Minister of Finance
Russian Federation

Dear Minister Siluanov:

On behalf of the APEC Business Advisory Council (ABAC), we are honored to share with APEC Finance Ministers our views on the key challenges facing our region today.

A year on since our last report, the global economy is entering an era of greater uncertainty as it continues to struggle with the legacy of the Global Financial Crisis and the escalating turmoil in the Eurozone. Economies in the region have proven vulnerable to liquidity and credit constraints. Coupled with these financial constraints, the region's emerging markets remain significantly dependent on trade and, thus, stand to suffer heavily from the consequences of another serious downturn in Europe and North America and further consumption contractions in our region. It is imperative that all economies continue with the process of monitoring excessive market volatility to ensure stable capital flows.

We believe that collaboration between the public and private sectors is a key element that can ensure the success of the following initiatives. The formation of the Asia-Pacific Financial Forum (APFF) provides a forum through which we can design, build, connect and maintain sound, effective and efficient financial systems in our region.

Asia-Pacific Financial Forum. ABAC proposes convening an Asia-Pacific Financial Forum as a framework for enhanced regional public-private collaboration that can complement ongoing initiatives to help the region develop its financial markets. Considering that further discussions are needed on the concrete way forward, especially on how the APFF can add value, complement and not unnecessarily duplicate other ongoing regional initiatives, ABAC recommends that discussions be held at a symposium in early 2013. This symposium will seek to develop an agenda for enhanced public-private sector collaboration to promote the development, convergence and connectivity of markets in the region and promote the development of global financial regulatory standards that are compatible with the region's needs. It is proposed that the symposium provide the foundation including a working agenda supporting the objectives of the Finance Ministers' Process. This agenda would support, enhance and assist in the development of the region's ideas and ideals, without duplicating the work of other institutions.

Promoting financial inclusion. With growing constraints on public resources, mobilizing private resources to serve financial needs of low income households and small enterprises has become ever more important. ABAC urges Finance Ministers to develop a multi-year agenda for financial inclusion linked with ongoing efforts by the G20 and international financial institutions, focused on assisting member economies build their capabilities in providing a favorable

environment for expanding access to finance for households and small businesses. We recommend that this multi-year agenda include public-private collaboration in developing robust and sustainable frameworks for financial literacy, financial identity, consumer protection and cross-border microfinance, as well as intensive capacity building for policy makers and financial regulators and supervisors to help them develop and implement effective and proportionate regulatory frameworks for financial inclusion, including legal architecture for secured lending.

Active participation in the Asia-Pacific Infrastructure Partnership (APIP). Structures that enable parties to frankly and objectively discuss complex matters facing each economy can contribute to better understanding of the issues and risks they face and conducive environments for private financing of infrastructure. In 2010, ABAC initiated the Asia-Pacific Infrastructure Partnership (APIP) dialogues to bring together high-level officials and private sector experts from a wide range of relevant fields. ABAC calls on Finance Ministers to continue supporting the APIP Dialogues and encourages all member economies and the private sector to continue and further expand these dialogues in 2013.

Catalyzing angel and venture capital. ABAC recommends effective programs to support angel and venture capital. ABAC urges Finance Ministers to help provide an enabling legal and regulatory environment for the entire chain of financial activities that support companies across various stages of innovation, including angel investors in the early stages, venture capital in the middle, and private equity, commercial and investment banks and institutional investors such as pension funds in the latter stages, as well as exit mechanisms.

Expanded use of emerging market currencies. With emerging markets' growing economic importance, their currencies will play more important roles in global and regional markets. Promoting the internationalization of their currencies could help accelerate financial and economic development in the region, reduce foreign exchange risks, and contribute to economic growth and recovery. ABAC recommends that APEC promote the expanded role of emerging markets' currencies in trade and investment flows, in view of their potential to become anchors in times of global financial and economic turmoil.

Promoting high-quality financial information. The outbreaks of global financial crisis and the European sovereign debt crisis have highlighted the problems in the current international credit rating system. This crisis exposed limitations in credit ratings and financial information. To efficiently allocate capital, sound decision making is based on the availability of quality financial information. Credit rating systems are an important component of the capital markets, and a useful tool to accelerate financial market development. Financial reporting standards are also a crucial element of financial systems. Such standards need to be formulated in a way that avoids unnecessarily adverse impacts on certain sectors of the economy.

ABAC supports a considered approach to the implementation of the International Financial Reporting Standards (IFRS) that incorporates impact analysis of certain provisions, such as for lease accounting and insurance contracts, particularly their impact on SMMEs and further dialogue among key standards-setters, regulators and the business community.

ABAC recommends the development of policy and regulatory environments that are conducive to addressing conflict of interests, appropriate regulatory use of external ratings, promotion of competition and the development of a sound domestic credit rating industry in the region.

Establishing a regional funds management passport regime. We welcome ongoing efforts made by finance officials and regulators to develop the Asia Region Funds Passport (ARFP). We welcome closer collaboration with finance officials in further developing this work, particularly in the identification of a possible time frame for implementing a pilot ARFP.

In conclusion, we recognize that the above challenges confronting our region will require long-term policy initiatives and structural reform, in addition to coordinated action by governments in addressing financial issues in our region. We look forward to our dialogue in Moscow, where we hope to discuss the issue of financial stability and the facilitation of public-private collaborative approaches to promoting balanced, inclusive, sustainable, innovative and secure growth across the Asia-Pacific region.

Yours sincerely,



Ziyavudin Magomedov
ABAC Chair 2012