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Reshaping APEC for the Asian Pacific Century  
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Session 6 – Financial Issues in APEC

***The importance of better governance***

Ken Waller, Senior Advisor, ABAC Australia Secretariat



## 1. Governance

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- Macquarie Dictionary
  - government; exercise of authority/control : method or system of government or management
  - starts at the top
  - reflects “well known concepts of behaviour based on good sense, duty, integrity and probity” - Glenn Stevens, now Governor RBA (Melbourne symposium, Oct 06)



## 2. Governance – financial systems

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- efficient, competitive and prudentially sound financial systems critical to:
  - promote savings and investment
  - effective risk management and returns for risk
  - capital allocation
  - economic growth and prosperity

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## 3. Banking and other financial sectors

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- better governance and risk management central pillars of Basel II – now a risk-based approach to banking supervision
- similar approaches in insurance, securities, pensions and superannuation
- and understanding risk management increasingly an obligation on consumers

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## 4. Imposes serious obligations

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- on boards and management of financial institutions
- on governments and their regulatory/supervisory agencies
- on shareholders and consumers of financial services
  - obligations underpinned by enforceable legal requirements and/or market disciplines

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## 5. Governance, and better governance – APEC

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- a structural reform agenda issue in the Economic Committee
- Finance Ministers' agenda – in the context of “deepening and strengthening the region’s financial systems”
- a constant theme for APEC Business Advisory Council (ABAC)

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## 6. APEC's approach

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- post Asian financial crisis - clear need to deepen and strengthen financial markets
  - promote best international practices and standards in financial sectors
  - benchmark actual standards against international standards
  - capacity building for policy makers, financial supervisors, financial firms

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## 6.1 APEC's approach

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- strongly supported by the private sector – ABAC
- public/private dialogues – increase understanding and awareness of modern risk-management and governance
- incremental and purposeful

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## 7. Threats from corporate failures

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- failures not confined geographically  
all economies – all systems
- responses have varied – Sarbanes/Oxley and “black letter” in the US vs Principles based approach in Australia/Europe
- useful, broadly based principles have universal appeal – OECD/ADB/World Bank – made major contributions

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## 8. APEC – limitations/strengths

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- voluntary and non-binding
  - allows constructive approach to governance issues
  - all members humbled by experiences of failures
  - responses differ across jurisdictions
  - respect for differences
  - a useful focus on sound governance principles
  - capacity building to support change and reform

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## 9. Current developments in APEC economies

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- implementing Basel II - banking
- Colleges of Supervisors to handle cross-border implementation
- risk management supervision in insurance and other non-bank sectors
- deeper consultation between rule-making bodies and smaller economies
- IFIs – governance changes to reflect economic power of the region

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### 9.1 Current developments in APEC economies

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- pressure for more critical analysis by IFIs on data on hedge funds and HLIs
  - focus is understanding potential impact of rapid changes in financial flows
- Financial System Assessment Programs
  - APEC economies are signing up

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## 10. Assessment – getting better

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### Better

- supervisory systems in place – in some economies
- capitalised banks in the region
- macroeconomic policy frameworks
- understanding of good governance principles and risk management processes in financial institutions

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## 11. But no room for complacency

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- Hackneyed - but valuable IMF terminology
- resilience of systems can only be really tested in bad times – they will inevitably dawn
- no risk-proof system and nor should there be
- governance – always under scrutiny and improvement – and central to structural reform

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## 12. Governance in APEC – Priorities

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- reinforce thinking – principles not ideology
- governments and their agencies – subject to transparency and accountability
- not solely a “developing country” issue – but one all members constantly confront
- humility and good principles – arrogance has no place

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### 12.1 Governance in APEC – Priorities

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- financial systems
  - **governmental level**
    - promote structural reform – competition policy and governance deeply relate
    - promote FSAP assessments
    - review supervisory agencies' governance – benchmark against best practices
    - continuing support for sound macro policies

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## 12.2 Governance in APEC – Priorities

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- financial systems
  - **corporate level**
    - adoption and implementation of best international standards and practices
    - incentive systems to encourage sound and professional management to reflect shareholder and customer interests

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## 13. Governance in APEC – Strategies

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- pivotal to structural reform agenda and central to success of APEC
- deepen reach to and involve private sector and industry associations
- develop effective public/private partnerships to educate
- develop a cohesive and collegiate approach to regional capacity building to enhance human resources – public and private sectors

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## 14. Why the need to get better governance?

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- to meet complex financial/economic/social challenges
  - demographics
  - convergence and integrated economic structures
  - handling new technologies
  - growing customer aspirations
  - securing investment, jobs and economic growth.