

**Ninth APEC Finance Ministers' Meeting
Joint Ministerial Statement
Los Cabos, México
September 5-6, 2002**

I. Introduction

1. We, the Finance Ministers of APEC, met in Los Cabos, México, along with representatives of the International Monetary Fund, the World Bank, the Asian Development Bank and representatives from the private sector.
2. With the approach of the first anniversary of the terrorist attacks of September 11, 2001, we discussed the importance of our efforts to combat the financing of terrorism and money laundering. We also focused our discussions on examining ways to strengthen global and APEC regional economic growth; advance fiscal and financial reforms; and improve the allocation of domestic savings for economic development.

II. Macroeconomic Challenges and Policy Responses

3. We recognize that the majority of indicators suggest that the global economic recovery is underway. The current recovery in APEC economies has been supported by robust consumer spending and intra-regional trade. Nevertheless, uncertainties regarding the strength and pace of the expansion remain.
4. Although most APEC economies are enjoying stronger economic performance, some still face structural, fiscal and financial challenges. To increase growth and improve living standards, we are committed to a sound macroeconomic and financial environment and promoting good corporate governance to strengthen investor confidence, elements necessary to create a conducive environment for an efficient and innovative private sector.
5. Ministers emphasized the importance of promoting a more open multilateral trade system to reinforce global economic recovery, and reaffirmed their pledge to reject the use of protectionism and their commitment to abide by multilateral rules.

III. Ninth APEC Finance Ministers Process' Policy Themes

A) Combating the financing of terrorism and money laundering

6. We remain committed to disabling the financial networks of terrorists and have released an action plan to combat the financing of terrorism. We will work cooperatively with the UN, the IMF, the World Bank, FATF and other relevant international and regional bodies to promote the adoption, implementation, and assessment of international standards to combat terrorist financing and money laundering. We welcome the decisions of the IMF and World Bank to add the FATF 40 recommendations for anti-money laundering and the eight special recommendations (FATF 40 + 8) to the areas on which the Reports of the Observance of Standards and Codes are prepared. We call on the IMF and Multilateral Development Banks to provide technical assistance, in coordination with the UN, FATF, FATF-style regional bodies and donor nations, to economies that need help in implementing these international standards.
7. We note the importance of preventing terrorists from misusing alternative remittance systems and non-profit organizations, including charities, as a source of or mechanism to move funds. We welcome the work of the FATF on charities and of one of the regional FATF-style bodies on alternative remittance systems and encourage continued work on these issues. We ask our officials to evaluate ways of discouraging improper use of alternative remittance systems. We will increase our efforts to investigate and prosecute money launderers and terrorist financiers. We welcome the efforts of FATF and of one of the regional FATF-style bodies to expand their activities to include combating terrorist financing. We encourage these bodies to examine the use of bulk cash in facilitating money laundering and the financing of terrorist activities. We support the work of the international information-sharing body of Financial

Intelligence Units and encourage enhanced international information sharing among financial and enforcement authorities.

B) Advancing pending fiscal and financial reforms

8. Prudent fiscal management will help maintain macroeconomic stability, lower interest rates and higher economic growth. We are committed to continue working towards prudent and transparent fiscal management, including avoiding significant structural fiscal deficits and enhancing the efficiency of public expenditure.
9. We recognize that more open, better regulated, transparent and deeper financial systems promote higher and more sustainable rates of growth. We need to continue strengthening the soundness and efficiency of financial systems and improve their capacity to stimulate growth and withstand economic shocks, particularly through better credit culture and risk management. We recognize that the further strengthening of banking supervision, market disciplines and corporate governance in the financial system, based on sound legal systems and accounting standards and practices, are essential to promote efficient financial systems. We emphasized that close observance of international standards and codes remains a useful reference to guide economies in promoting financial stability.

C) Improving the allocation of domestic savings for economic development.

10. Adequate levels of savings are an essential foundation for economic stability and growth. In addition, in a globalized economy, the key to sustainable long-term economic growth is to channel both domestic and foreign resources into their most productive forms of investment. Therefore, it is essential to put in place the institutional framework and structural reforms that allow the most efficient allocation of savings.
11. We agree that financial sector liberalization supported by a strong supervisory and regulatory framework, has an important role to play in enhancing competition in the financial sector, widening the options available to hedge against risk, and fostering the allocation of savings to the most productive investments. We encourage APEC economies to carry out appropriate steps to promote more openness, diversity and competitiveness in their financial markets, including through the development of regional bond markets.

IV. Building stronger foundations for sustainable growth in the APEC region

12. We welcome the substantial progress made by APEC members in deepening domestic reforms and implementing initiatives to prevent and manage effectively international financial crises. In this regard, we welcome the progress made by policy initiatives under the APEC Finance Ministers' Process in contributing to healthy financial and corporate sector in this region. We also encourage participation in the Reports on Observance of Standards and Codes (ROSCs) and Financial Sector Assessment Programs (FSAPs) as ways of strengthening domestic financial systems. We note the recent developments in regional financial cooperation among the ASEAN+3 countries, including significant progress in the Chiang Mai Initiative, efforts to enhance policy dialogue in the region, monitoring of capital flows and early warning system.
13. We note that IMF quotas should adequately reflect developments in the international economy.

V. Other issues

14. We welcome the opportunity to have a dialogue with the APEC Financiers' Group (AFG) on the public and private sector actions against the financing of terrorism and on the promotion of corporate governance in the financial sector. We also appreciate the reports by: the APEC Business Advisory Council (ABAC) on their work in relation to the efforts aimed at strengthening regulation and supervision of the banking sector; the Pacific Economic Cooperation Council (PECC) on the Finance Forum recommendations to ensure financial stability in the region; and the APEC Economic Committee (EC) on the results of the Micro

Banking Development Regulation and Supervision Symposium that took place last July in Mexico City.

15. We would like to thank the people and Government of Mexico for the hospitality extended to all delegations and the excellent arrangements they have made to make the ninth APEC Finance Ministers' Meeting a success. We will meet again for the 10th APEC FMM in Phuket, Thailand, on September 4th-5th, 2003.

Progress Report on the Policy Initiatives under the APEC Finance Ministers' Process

I. Voluntary Action Plan for Supporting Freer and More Stable Capital Flows (VAP):

As part of the series of initiatives to strengthen financial markets under Part 2 of the VAP, a Policy Dialogue on the theme of Strengthening Market Disciplines in the Financial Sector was held in Hong Kong between 29 and 31 July. It was chaired by New Zealand, Chile and Thailand, and was attended by 19 of the 21 APEC economies, with participation from the IMF, World Bank and BIS. The theme of market disciplines was chosen in recognition that well-functioning markets have a strong role to play in strengthening the incentives for financial institutions to prudently manage their risks. A paper summarizing the key points to emerge from the Policy Dialogue has been prepared and was tabled at the Deputies' and Finance Ministers' meetings in Los Cabos. Consideration is now being given to the possible theme(s) for a policy dialogue or other initiative under Part 2 of the VAP in 2003.

II. Financial Regulators Training Initiative:

APEC Finance Ministers endorsed the Financial Regulators Training Initiative in May 1998 aimed at strengthen capacities of training programs of financial regulators in the region. Supported by the ADB, which established a secretariat in November 1998, the initiative has been steered by two advisory groups respectively for banking and securities regulators. Over 2-years period beginning in 1998, the Initiative developed guidelines and processes for training and a number of training programs for trainers as well as 4 regional programs were delivered. These programs have provided training to training managers from 19 economies covering in excess of 500 participants. The technical support was provided by the Federal Reserve to whom all the economies show their appreciation.

At the 7th APEC Finance Ministers' Meeting (AFMM), Ministers extended the initiative for two more years. The Phase II Action Plan was endorsed by both regulators advisory groups in November 2000. Under Phase II, for bank regulators, training programs focused on bank analysis and examination and market risk. Special modules were organized in these on integrated supervisory structures and methodologies, money laundering and regulators risk based on site supervision models. Materials on these courses are now available on CD-ROMs and videos. A web site for the APEC Financial Regulators Training Initiative is available. The web site address is: <http://www.adb.org/apec>.

For securities regulators, courses and study materials have been prepared for structure and operations of capital markets, financial products, and enforcement or securities regulation and investigation. In 2001, in addition to regional training programs, national dedicated programs were organized for Indonesia, P.R. China, and the Philippines. The advisory groups banking and securities regulators met in September 2001 to evaluate progress in Phase II of the Training Initiative and its strategic direction for the remaining period until the Initiative's expiry in October 2002. The APEC Finance and Central Bank Deputies' Meeting endorsed the continuation of the APEC Financial Regulators Training Initiative, with ADB as the secretariat, till October 2003. The Meeting also welcomed Chinese Taipei's proposal to provide training resources for banking supervisors to better prepare for the Basel II Accord.

III. Managing Regulatory Change in Life Insurance and Pensions:

The life insurance industry has become an important component of financial systems in many APEC economies, and there is great potential for further growth. In addition, the private pension industry is poised to become an important part of savings in the region. This initiative, led by Australia, focuses on prudential supervision of the life insurance and pension industries, its goal being to encourage well-functioning industries in the region.

With solid support received from regional regulatory authorities, the private sector, and the ADB, this initiative runs for three years and includes 3 symposia and 6 training courses for middle to senior level regulators. The first symposium was held in Manila on 23-24 November, 2000. The first three training programs were held in Melbourne, on 5-17 March and 16-27 July, 2001 and, 11-22 March, 2002. The second annual symposium was held in Beijing on 8-9 November, 2001 and brought together senior

life insurance and pension regulators from the participating economies. The third annual symposium for the MRC program will be held in New Delhi, India on 6-8 November, 2002.

IV. Strengthening Corporate Governance in the APEC region:

In their 2001 meeting, Ministers agreed to continue the work on this initiative, which was carried forward in 2002 by Mexico, Australia, the Republic of Korea and the Philippines through the development of a Policy Dialogue on "Strengthening Corporate Governance in the Financial Sector". The policy dialogue took place in Hong Kong on 1-2 August, 2002. Ministers welcome the conclusions of the Policy Dialogue and agree that solid and strong financial systems largely depend on sound macroeconomic policies but also on complementary and mutually determinant good public and private financial sector governance. Ministers welcome the future publication by Mexico of the results of this exercise.

As part of this initiative, Australia will lead a pathfinder on Corporate Governance in 2002. A formal proposal for the Pathfinder will be developed prior to the December 2002 Technical Working Group Meeting and a report on progress will be provided to Finance Ministers at their 2003 meeting.

V. Insolvency Law:

This initiative, launched as part of broader context of corporate governance, aims to raise awareness of the importance of establishing and implementing strong insolvency regimes in the region. Under this initiative, a symposium named "Insolvency systems in Asia: an efficiency perspective" was held in Sydney on 29-30 November, 1999. Indonesia hosted the second seminar of the Forum for Asian Insolvency Reform in Bali on 7-8 February, 2001 which focused on five main issues: the establishment of a well-functioning insolvency system, the role of judges, the independence of judges, the establishment of specialized courts and, the role of out-of-court settlement.

Thailand will host the 2nd Forum on Asian Insolvency Reform during the 16 and 17 of December of 2002 in Phuket. The agenda will cover 6 main issues, including informal workouts, approaches and frameworks, the interaction of corporate governance and insolvency, the cross border informal workouts, conversion of informal workouts to formal workouts, role of regulators in informal workouts, and restructuring techniques for financial and operational restructuring.

VI. APEC Privatization Forum:

The initiative, adopted the 6th AFMM and led by Thailand, covered many issues stemming from privatization, including competition policy, regulatory reform, capital market improvements, employee relations and corporate governance. Since then, the Forum has hosted three successful Annual Events. The Fourth Forum has been tentatively scheduled for December 2002 in Bangkok, Thailand. In response to the requests from delegates from member economies at the 3rd APEC PF meeting in Chinese Taipei in June 2001, planning commenced on inaugurating a program of regional roundtables, whereby member economies within the region can focus on specific issues of interest. The first of these workshop/roundtables was hosted by the Ministry of Finance, Vietnam and held in Hanoi. The topic of roundtable was 'Mobilizing Private Finance for Infrastructure'. The roundtable was funded by the Public Private Infrastructure Advisory Facility (PPIAF), with the cooperation of the Bangkok Office of the World Bank and was held between 22 and 24th May 2002. It included delegates from Chinese Taipei, Philippines, Thailand and Vietnam as well as many representatives from Vietnamese line ministries. In addition PPIAF, a multilateral fund based at the World Bank, sponsored delegates from Lao PDR and Cambodia. Presenters with extensive experience in this area from the United Kingdom, Partnerships Victoria, PERC in Sri Lanka and CCPSP in the Philippines presented a 2-day training workshop for Technical Officials from each participating economy followed by a round table on the final-day for high-level officials. A discussion panel followed each session of presentations where attendees were able to ask questions or make comments on particular issues. Apart from presentations, delegates to the roundtable received an interactive CD-ROM containing information, studies and examples of Private Participation in Infrastructure, as well as toolkits for specific sectors aimed at educating high-level policymakers on the issues involved in Private Participation. Further consultation between the APEC PF secretariat and Latin American economies is underway to hold a similar Regional Forum in South America during 2003.

VII. APEC Initiative on Fighting Financial Crimes:

At the 7th AFMM, Finance Ministers agreed that APEC should play a significant role in fighting against financial system abuse. Co-chaired by the United States and Thailand, a working group was established with the goal of strengthening anti-money laundering regimes in the region by identifying areas in which international bodies and agencies can provide the necessary training and technical assistance to enable jurisdictions to comply with international standards. Based on responses to an Asia-Pacific Group on Money Laundering (APG) self-assessment survey, the group identified three main areas for training and technical assistance (TTA) for APEC to promote: Financial/Regulatory TTA, Legal Infrastructure TTA, and Financial Investigations TTA. More recently, the working group has focused its efforts on encouraging all APEC economies to complete the Financial Action Task Force's (FATF) self-assessment questionnaire on terrorist financing. In addition, pursuant to this initiative, the secretariat for the Financial Regulators' Training Initiative is developing an anti-money laundering component to be included in the basic curriculum. The initiative on Fighting Financial Crimes has terminated during this cycle, and will lead the way to a new project on Alternative Remittance Systems, which will be developed next year.

VIII. Electronic Financial Transactions Systems:

At the 7th AFMM, the Ministers endorsed the establishment of the APEC Working Group on Electronic Financial Transactions Systems (WG). The WG, co-chaired by Hong Kong, China and Japan, held six meetings, including consultation with private sector representatives. It drew on the work done by other relevant international fora, and reviewed a wide range of issues on the development of electronic marketing and delivery of financial services, as well as electronic payment and settlement of financial transactions.

The WG conducted two surveys with relevant authorities and private sector entities of member economies. Based on the responses to such surveys, an interim report was issued to present the current state of e-finance development in the APEC economies and to identify issues for further development of e-finance in the region. The interim report was submitted to the 8th AFMM.

To facilitate detailed examination of the issues and the formulation of recommendations for promoting e-finance in the APEC member economies, six member economies (Brunei Darussalam; Hong Kong, China; Korea; Malaysia; Singapore; and Thailand) conducted case studies to share their experience and expertise in the development of e-finance in their respective economies. In addition, Japan initiated a small-scale survey to identify policy issues on consumer protection in cross-border e-finance. Based on these case studies and the small-scale survey, the WG concluded in June 2002 a final report, with recommendations on regulatory issues, payment issues and consumer protection in cross-border e-finance. The final report has been submitted to this 9th AFMM for adoption.

IX. APEC Future Economic Leaders Think Tank:

This initiative, launched by Australia at the 11th APEC Finance Ministers Technical Working Group Meeting in Beijing in December 2000, aims at developing effective networks and promoting the exchange of ideas among the next generation of economic policy leaders. The Think Tank does not have a formal policy advisory role, but will report to Finance Ministers on the outcomes of its regular seminars focusing on economic issues of importance to the region.

The inaugural session was held in Sydney on 1-4 August, 2001. The participants were middle-ranking to senior APEC officials from government financial institutions such as Departments or Ministries of Treasury, Finance, Central Banks and Regulatory Agencies who have been identified as people that are likely to play a significant future leadership role in their respective economies and institutions. One of the main themes of the first Think Tank was the advent of the new economy and the issues and challenges it raises for APEC members, including corporate and economic governance. Ministers noted the submission of a strategic framework for financial and economic crisis prevention in the Asia-Pacific region stemming from the Think Tank discussions. The second Think Tank considered the topic of "Regional Cross-Border Debt and Equity Markets: A Regulatory of Market Based Approach". Representatives from both the private and public sector participated in this Think Tank.

Think Tank participants produce a report on their discussion and findings which is presented to Finance Ministers each year.

X. APEC Finance and Development Program:

The 8th AFMM endorsed the collaborative initiative of APEC Finance and Development Program proposed by P.R. China. The initiative aims to strengthen capacity building among APEC members in matters relating to finance and development, and in particular to implement the strategic objectives of APEC Finance Ministers' Process to promote sustainable and broad-based growth in the APEC region, and to develop stable and efficient financial markets. The World Bank joined P.R. China as the co-chair of the program.

The overarching theme of AFDP has been identified as Improving Financial Inter-mediation for Economic Growth, Development and Stability, and priorities will be given to three core areas: Capital Market Development, Finance for Small and Medium-sized Firms, and Cross Border Finance and Economic Development. The AFDP will mainly focus on training, and will provide 2-4 training sessions or workshops each year. The initiative will also provide financial support to around 10 research projects in the three-year period in order to provide reference for policy makers in the region. There will be one forum every year to allow timely exchange of views and dissemination of research results.

The 2002 annual forum for APEC Finance and Development Program was held in Beijing on May 26 as the launching event of the Program. The first workshop on Strengthening Corporate Governance and Financial Institutions was held in Shanghai on August 5-8 back to back with ADB's Regional Seminar on Supervision of Market Intermediaries and Risk Management. Research plan is also under preparation.

XI. Development of Securitization and Credit Guarantee Market:

The new initiative, co-chaired by Hong-Kong, China; Korea and Thailand was endorsed at the 9th APEC Finance Ministers' Meeting Process in Los Cabos in September 2002. The new initiative aims to promote understanding and awareness of the importance of securitization and credit guarantee to bond market development in the region and to assist APEC economies to identify and take concrete steps to remove impediments to the development of securitization and credit guarantee market. The action oriented initiative would facilitate experience sharing among economies that are interested and committed in making the change.

It is envisaged that the initiative would be implemented through (i) organizing policy dialogues and workshops which would provide good opportunities for APEC economies to learn from each other; and (ii) the provision of experience sharing programmes to APEC economies in identifying impediments and developing detailed action plans.

APEC Action Plan on Combating the Financing of Terrorism

We, the Finance Ministers of the Asia Pacific Economic Cooperation Economies, remain fully engaged in the fight against the funding of terrorism and commit to reinvigorating our efforts on this issue. We endorse a comprehensive approach to preventing the funding of terrorism, including improved international cooperation and a greater focus on means of financing terrorism outside of the mainstream financial system.

Cut off Access for Terrorists to the International Financial System

- We, the APEC economies, subject to our respective domestic institutional arrangements, will freeze the assets of terrorists and their supporters without delay, and prevent them from accessing the international financial system. Each economy is encouraged to fully implement current laws on freezing terrorist assets and to ensure compliance and consistent reporting and to continue to improve its laws on freezing the assets of terrorists to ensure that no funds escape its financial system.
- We call for enhanced cooperation on designations of targets of regional interest. APEC economies will cooperate to identify and freeze the assets of terrorists and terrorist supporters.

Implementation of International Agreements and Standards

- Each APEC economy will continue to implement as soon as possible the relevant United Nations (UN) Security Council Resolutions, particularly UNSCR 1373 and 1390, as well as the UN Convention for the Suppression of the Financing of Terrorism and to report to the UN Counter-Terrorism Committee on all progress made on these initiatives.
- We encourage all APEC economies to implement the FATF's Special Eight Recommendations on terrorist financing and respond to the FATF Self-Assessment Questionnaire. We support the work of FATF in this area, in particular to the development of guidance notes on the implementation of the Special Eight Recommendations.
- We welcome the important recent decisions by the IMF and the World Bank to undertake comprehensive assessments of economies' adherence to the FATF 40 + 8 recommendations on fighting money laundering and terrorist financing, consistent with their respective mandates. We welcome the program of the IMF and the World Bank to begin conducting integrated and comprehensive assessments of efforts to combat money laundering and financing of terrorism, in consideration of the specific situation of each member.

Oversight of Alternative Remittance Systems and Non-Profit Organizations

- We recognize that hawala and other alternative remittance systems provide a valuable service in some areas, but remain concerned that they not be misused by terrorists and their supporters. We call upon our officials, in consultation with the IMF and the Multilateral Development Banks (MDBs), to identify and report back to us on the economic, structural and regulatory factors in the formal financial sector that encourage the use of alternative remittance systems.
- We welcome the recommendations developed by one of the regional FATF-style bodies on alternative remittance systems and underground banking systems. We call upon this group to develop best practices on alternative remittance systems.
- We support the efforts to combat the financing of terrorism shown in the Abu Dhabi Declaration on hawala issued May 16, and support regulating and monitoring hawala to ensure that terrorists and their followers do not abuse them.
- We will undertake to protect non-profit organizations and well-meaning donors from having their funds misused to support terrorists. We encourage FATF to develop best practices for preventing the abuse of charitable institutions by terrorists.

Law Enforcement Actions and Information Sharing

- Each APEC economy commits to criminalizing the financing of terrorism, as called for under the UN Convention for the Suppression of the Financing of Terrorism. This includes the willful

provision and collection of funds, directly or indirectly, with the intention or knowledge of the intention to use those funds to carry out terrorist acts.

- Each APEC economy will increase its efforts to investigate and prosecute money launderers and terrorist financiers. We will work cooperatively to improve our ability to detect and target bulk cash movements that facilitate money laundering and terrorist financing, and to utilize cross-border cash laws, and commit to enhanced coordination.
- Each economy will establish a financial intelligence unit (FIU) or its equivalent as soon as possible in accordance with relevant international standards and take steps to enhance information sharing with other FIUs.

Technical Assistance

- We welcome FATF's efforts to identify economies worldwide for follow-up assessment and technical assistance. We call on the IMF and the MDBs, in consultation with the United Nations, to provide such assistance, in coordination with regional FATF-style bodies and donor nations, to avoid duplication.
- We call on regional financial institutions to become more involved in regional initiatives on terrorist financing and to provide technical assistance to improve economies' legal abilities to prevent the funding of terrorism.
- We commit to collaborate in the provision of technical assistance to economies worldwide that need help in developing and implementing necessary policies, laws, regulations, and institutions to combat terrorist financing and money laundering.

Expanding Efforts

- We fully support private sector initiatives such as the Wolfsberg Statement on the Suppression of the Financing of Terrorism and endorse cooperation between financial institutions and governments. The fight against the financing of terrorism requires the active participation of both financial intermediaries and the public sector. We urge financial supervisors and regulators around the world to continue to ensure their financial sectors are not abused by terrorists. In this context, we will intensify our efforts to deprive terrorist financiers access to our financial system by ensuring the ability of financial institutions to identify their customers. We attach importance to the need to improve practices and transaction for effective customer identification. To this end, we call on FATF to continue its work to enhance the 40 Recommendations in this area.
- We recognize that continued success in the fight against terrorist financing requires the close cooperation and commitment of the broad international community. We call upon regional and multilateral bodies, including Association of South East Asian Nations Regional Forum and the Pacific Islands Forum, to endorse this Action Plan and commit their own members to improving their efforts to fight terrorist financing. We therefore encourage all economies worldwide to join us in taking these measures.