

Mr. Luis Carranza  
Minister of Economics and Finance  
Peru

Dear Minister Carranza,

The APEC Business Advisory Council (ABAC) met in Moscow on May 12-14 to discuss the most critical issues pertinent to the regional business community. The current credit market contraction and its implications on the regional economy were at the forefront of our dialogue, and spurred intense and dynamic debate.

ABAC has responded to the global credit contraction precipitated by the U.S. sub-prime mortgage crisis by resolving on several recommendations to finance and economics policy makers. In transmitting these points to you, we acknowledge that self-regulation amongst private sector financial institutions was deficient, and exacerbated the current financial market turmoil.

ABAC recommends:

1. Improvement in confidence in the credit and capital markets through consistent monetary policies and liquidity mechanisms. Ministries of finance and central banks should align consistent regulatory, fiscal and monetary policy across the region.
2. Ministries of Finance and financial market regulatory bodies should immediately begin to change the emphasis of regulation from entity-based to activity-based regulation. Steps have already been taken to initiate this type of change, but it will take many years to put new regulatory structures in place. In the meantime, activity-based regulation can be achieved through informal collaboration among the various regulatory bodies both within and across economies.
3. The principal remaining risk in the credit markets relates to the counterparty risk in the credit derivatives markets. This is because the risks inherent in credit derivatives result from a combination of high leverage, complexity of instruments, lack of price discovery, and lack of transparency as to the identity of counterparties.

To address these risks successfully, ABAC believes it is essential that high priority be given to coordinated action among the central banks and regulators within the region. The systemic risk economies face from the credit/liquidity contraction is serious and far from over. Ministries and central banks must take appropriate and timely measures in monetary policy to provide sufficient liquidity, while recognizing the risk of contributing to inflationary pressure, or later lead to overinvestment in insufficiently regulated sectors. Rapid communications, multi-lateral decision making and forceful and timely action by regulators and central banks will do much to mitigate remaining problems and will facilitate a rapid return to stability and liquidity in the APEC capital markets.

Sincerely,

Juan Raffo  
Chairman, ABAC 2008

Michael Phillips  
Chair, ABAC FEWG