



**Asia-Pacific
Economic Cooperation**

**APEC POLICY SUPPORT UNIT
2008 ANNUAL REPORT**

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Establishment

In September 2007 APEC Ministers agreed to establish a Policy Support Unit (PSU) attached to the APEC Secretariat. The unit, to be funded by voluntary contributions, was to provide analytical capacity, policy support and assistance in coordinating related capacity building for APEC' trade, investment and economic reform agenda and related Economic and Technical Cooperation (ECOTECH) activities.

The underlying aim in establishing a PSU was to offer the potential for APEC fora to elevate the quality of their deliberations with access to tailor-made analytical work and provide for greater follow-up of initiatives intersessionally.

In March 2008, Senior Officials approved a paper setting out APEC Policy Support Unit Governance Arrangements (the governance arrangements), implementing the Ministers' agreement to establish the PSU. The governance arrangements provide the foundations for the PSU and set out its structure, functions and processes. Below is a short summary of their key elements.

Governance arrangements

Structure

The PSU comprises the Board and the Manager and staff. The Board, on behalf of the Senior Officials Meeting (SOM) provides strategic guidance to the PSU by:

- setting and approving the forward work plan, taking into account the directions from SOM, the Committee on Trade and Investment (CTI), the Economic Committee (EC) and Senior Finance Officials Meeting (SFOM);
- discussing research priorities, research proposals and economic and technical cooperation initiatives, taking into account APEC's priorities and the requirements of the relevant APEC fora;
- providing guidance to the PSU Manager on work to be undertaken, including timeframes for completion or delivery of the work;
- approving PSU's annual funding/budget, consulting the Budget and Management Committee where appropriate; and
- approving the PSU's annual report.

The Board is constituted as:

- representatives from each of the current, immediate past and next host economies (often referred to collectively as the 'troika');
- a representative of each major donor; and
- the APEC Executive Director, PSU Manager, and chairs of the CTI, EC and SFOM in an ex-officio capacity.

The Chair of the Board is the current SOM chair. The representative of the next host economy is the Vice-Chair. Members have agreed that where a member economy is

nominally entitled to more than one representative on the PSU Board, due to being both a troika member and a major donor, that economy would only send a single representative to sit on the board.¹ PSU Board decisions are to be made by consensus.

The PSU Manager implements the principal objectives of the PSU and ensures that its work programme is undertaken in a timely manner. The PSU Manager is responsible for the day-to-day operations of the PSU including management of its work program, budget, staff performance and procurement of consultants.

The PSU Manager also seeks approval from the PSU Board when changes are required to the PSU's work program or budget and is accountable to the board for the work program. The PSU Manager will regularly report on its activities to the Executive Director of the Secretariat and keep relevant fora informed of progress in undertaking tasks.

Functions and processes

The PSU's key function is to assist APEC member economies in economic and structural reform, trade and investment liberalisation and facilitation and energy and related ECOTECH policies by:

- undertaking analytical work or commissioning research for consideration by APEC committees;
- preparing policy dialogue papers for APEC committees;
- designing and implementing capacity building programs;
- evaluating progress in implementation of policy measures; and
- identifying high level policy principles and best practice.

Many of these functions are carried out by the PSU undertaking projects. The PSU uses a dynamic and flexible process for selecting projects that does not include formal project rounds. Projects are submitted to the PSU Board to be included in the PSU work program. These may arise from directions from APEC fora or as the result of a recommendation from the unit itself. The board then considers proposed projects and includes them in the work program, taking into account directions from APEC fora, APEC's priorities and resource implications.

While the PSU Board directs the PSU's work program and budget, the unit itself is responsible for research conclusions and publications submitted to committees or economies.

Review

The operation of the PSU will be reviewed in 2010 to determine whether the PSU should continue operations beyond 2010 and if so, in what form.

Appointment of PSU Manager

Immediately following the adoption of the governance arrangements, the PSU Board commenced a competitive selection process for a PSU Manager. The position was advertised

¹ See 2008/SOM1/SUM, Summary Record - First Senior Officials' Meeting 2008

in order to ensure an open process with the best pool of candidates available. Candidates were short-listed and interviews were conducted in May 2008. Following this process Mr Philip Gaetjens was selected to be the PSU Manager and prior to his commencement, was invited to attend SOM II and was also able to attend SFOM, both in Peru.

Mr Gaetjens commenced work as PSU Manager on 1 August 2008, signaling the beginning of the PSU's substantive and operational activities.

The year in review

Commencement, staff recruitment and PSU work program

As with any start-up, many activities in 2008 were necessarily focused on developing and implementing the structures and processes necessary for the PSU to undertake its substantive work. This work commenced with the PSU Board and PSU Manager having their first full meeting in August 2008 on the sidelines of SOM II. The meeting agreed to focus the PSU's initial work on two matters:

- recruitment of PSU staff; and
- preparation of the PSU's first work program.

A draft staffing structure and position descriptions were developed soon after, allowing staff recruitment to commence. By the end of August advertisements for Senior Analysts were publicized and an Administrative Executive was appointed in September. The PSU also let a consultancy to develop a staff management framework to guide the PSU's staff management policies as the team grew and began to take on more work. The aim of the consultancy was to establish a robust and good practice framework as a foundation for people management in the PSU. To achieve this aim, the consultant was asked to:

- put forward a framework for the capabilities expected of PSU employees that could be applied to different job levels in the PSU and form a basis for determining work levels and remuneration;
- provide guidance on how this capability framework within the PSU could be used for recruitment, staff development, performance management and career development processes and activity in the PSU; and
- identify best practice approaches to people management and providing guidance on their application within the PSU.

In September 2008, the PSU's forward work program was developed, in consultation with APEC Committees. The PSU Board and the concluding SOM endorsed the forward work program in November. The work program reinforced that the PSU was still in its infancy by reaffirming the priority of staff recruitment. However, it also set out the first substantial set of projects PSU was to undertake.

2008 projects

Even though much of the PSU Manager's focus in 2008 was administrative, the PSU also commenced a number of substantive policy and research tasks. They are summarized below.

Trade and structural reform background paper

Within days of the PSU Manager commencing, the PSU was able to provide a background paper for the Ministerial Meeting on Structural Reform, held in Melbourne on 3-5 August 2008. The paper 'The Links between Trade, Investment and Structural Reform' outlined the re-inforcing nature of at-the-border and behind-the-border economic reforms using evidence from a range of APEC economies.

Improving food supply chains

In response to a request from the SFOM held in July 2008, the PSU issued a request for proposals for this project in December 2008. The aim of this project is to make a policy contribution to the development of secure and sustainable food production systems in the APEC region, and efficient regulatory, logistical, distribution and marketing arrangements. To achieve this aim, the project will seek to address a number of specific objectives, including:

- identifying any behind-the-border structural impediments in the food supply chain;
- examining how these impediments interfere with market systems and their effect on food prices and food security;
- offering suggestions on how structural impediments in the food supply chain could be reduced;
- describing the efficiency gains and benefits from addressing these impediments, with a view to identifying priority policy approaches; and
- providing a set of recommendations for APEC finance ministers to consider as possible policy actions to address structural impediments.

Meetings attended

In order to familiarise himself, assess APEC Committee priorities, provide input to discussions from a policy and analytical perspective and to report on PSU activities, the PSU Manager attended the following meetings in 2008:

- the Structural Economic Reform Ministerial meeting (SRMM) held in Melbourne, Australia – August;
- SOM III, including EC and CTI meetings held in Lima, Peru – August ;
- the APEC 2009 Symposium held in Singapore – October;
- FMM and related meetings held in Trujillo, Peru – November.

Future work program

In 2009, the PSU is accelerating its work program with the commencement of the following projects.

The practical benefits of structural reforms

This project focuses on structural reforms occurring in a selection of APEC economies since the introduction of the Leaders' Agenda to Implement Structural Reform (LAISR). It will examine the transport, energy and telecommunications sectors to identify structural reforms undertaken and analyse data to measure changes in:

- service quality;
- cost;
- prices; and
- red tape reduction for businesses and consumers.

The aim of the project is to provide tangible measures of beneficial impact of structural reform and to contribute to APEC's work in assessing the impact of the LAISR initiative.

Reviews of institutional frameworks and processes for structural reform

To contribute to the Economic Committee's task of further developing a process of voluntary reviews or self-review of economies' institutional frameworks that support structural reform, the PSU commenced work on establishing a role for itself in the reviews. This will assist in building and maintaining effective institutions to support reform efforts. Work will continue in 2009 on this topic.

TFAP II assessment

This project involves developing a methodology for the measurement of TFAP II key performance indicators. The methodology will then be implemented to provide a rigorous assessment of the extent to which the goal of achieving a further five percent reduction in transaction costs by 2010 has been met. The PSU expects to deliver a report to CTI in 2009.

IFAP methodology and select key performance indicators

This project involves developing a methodology for the measurement of IFAP key performance indicators. The methodology will then be implemented to provide a rigorous assessment of the extent to which the following goals have been met:

- strengthening regional economic integration;
- strengthening the competitiveness and sustainability of economic growth of APEC's member economies;
- expanding prosperity and employment opportunities in the APEC region; and
- making further progress toward achievement of the Bogor Goals.

The PSU expects to deliver a report to CTI by the end of 2009.

Appointment of staff

The PSU will expand in 2009. By mid-year the unit will include up to ten staff comprised of the following levels:

- PSU Manager;
- Senior Analysts
- Analysts and Advisors;
- Researchers, and
- Administrative Executive.

About the PSU

PSU Board members in 2008 were:

Ambassador Gonzalo Gutierrez, Peru	PSU Board Chair SOM Chair Host economy Representative
Mr Ravi Menon, Singapore	PSU Board Vice-Chair Next Host Economy Representative
Mr David Spencer, Australia	Immediate Past Host Economy Representative Major Donor Representative
Mr Makoto Shiota, Japan	Major Donor Representative

Ex officio members:

Ambassador Juan Carlos Capuñay, Peru	APEC Executive Director
Mr Philip Gaetjens	PSU Manager
Ms Elizabeth Chelliah, Singapore	CTI Chair
Professor Bob Buckle, New Zealand	EC Chair
Mr Javier Kapsoli Salinas, Peru	SFOM Chair

PSU Board attendees in 2008 were:

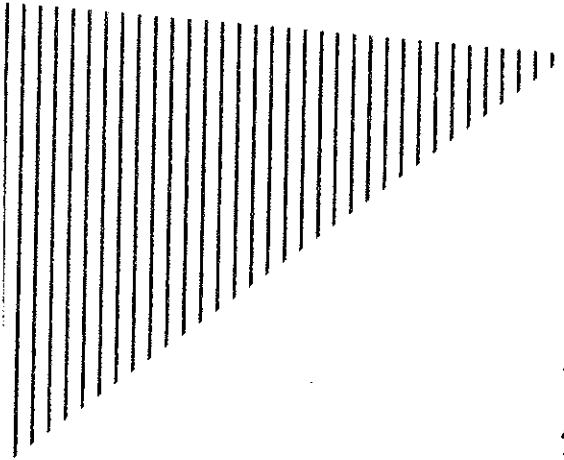
Mr Alberto Gonzales – Peru	Representing SOM Chair
Mr Luis Quesada – Peru	Representing SOM Chair

The PSU staff in 2008 was:

Mr Philip Gaetjens	PSU Manager (1 August -)
Ms. Athena Chang	Administrative Executive (15 September-)

Directions given by Ministers, SOMs and the PSU Board

None



APEC Policy Support Unit

Annual Financial Statements
31 December 2008
Ernst & Young LLP

APEC Policy Support Unit

General Information

Auditors

Ernst & Young LLP

Bankers

DBS Bank Limited

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APEC Policy Support Unit

**Independent Auditor's Report
To the Members of APEC Policy Support Unit (PSU)**

We have audited the accompanying financial statements of APEC Policy Support Unit (the "PSU"), which comprise the balance sheet of the PSU as at 31 December 2008, the income and expenditure account and the cash flow statements for the financial period then ended, and a summary of significant accounting policies and other explanatory notes.

PSU Director's responsibility for the financial statements

The PSU Director is responsible for the preparation and fair presentation of these financial statements in accordance with Singapore Financial Reporting Standards. This responsibility includes devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss account and balance sheet and to maintain accountability of assets; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

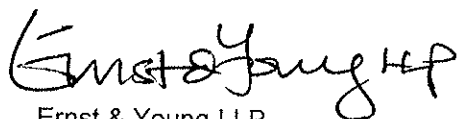
Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the PSU Director, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements of the PSU are properly drawn up in accordance with the Singapore Financial Reporting Standards, and so as to present fairly, in all material respects, of the state of affairs of the PSU as at 31 December 2008 and of the results and cash flows of the PSU for the financial period ended on that date.



Ernst & Young LLP

Public Accountants and
Certified Public Accountants

Singapore
14 July 2009

APEC Policy Support Unit

Balance Sheet
As at 31 December 2008

	Note	2008 S\$
ASSETS		
Non-current asset		
Plant and equipment	4	5,150
Current assets		
Other receivables		2,428
Prepayments		120
Cash and cash equivalents	5	2,136,532
		<u>2,139,080</u>
Total assets		<u>2,144,230</u>
LIABILITY		
Current liability		
Accrued expenses		34,044
Net assets		<u>2,110,186</u>
REPRESENTING		
Accumulated fund	6	2,110,186
		<u>2,110,186</u>



Philip G Gaetjens
Policy Support Unit Director

Singapore
14 July 2009

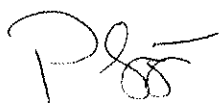
The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

APEC Policy Support Unit

Income and Expenditure Account

For the financial period from 1 August 2008 (date of project commencement) to
31 December 2008

	Note	1.8.2008 - 31.12.2008 S\$
Income		
Members' contributions	7	2,231,074
Administrative expenditure (Page 4)		(120,888)
Surplus for the financial period		<u>2,110,186</u>



Philip G Gaetjens
Policy Support Unit Director

Singapore
14 July 2009

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

APEC Policy Support Unit

Income and Expenditure Account

**For the financial period from 1 August 2008 (date of project commencement) to
31 December 2008**

	1.8.2008 - 31.12.2008 S\$
Administrative expenditure	
Auditor remuneration	4,500
Bank charges	123
Central Provident Fund contribution	2,506
Depreciation of plant and equipment	330
Other expenses	1,099
Office and building maintenance	8,515
Wages and salaries	17,308
Travel	82,622
Telecommunication	1,549
Stationery and printing	1,441
Other staff costs	895
	<hr/> 120,888 <hr/>

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

APEC Policy Support Unit

Cash Flow Statements

For the financial period from 1 August 2008 (date of project commencement) to 31 December 2008

	1.8.2008 - 31.12.2008 S\$
Cash flows from operating activities:	
Surplus for the period	2,110,186
Depreciation of plant and equipment	330
Adjusted surplus for the period	<u>2,110,516</u>
Changes in working capital:	
Increase in other receivables and prepayments	(2,548)
Increase in accruals	34,044
Net cash flows from operating activities	<u>2,142,012</u>
Cash flows from investing activity:	
Purchase of plant and equipment	(5,480)
Net cash flows used in investing activity	<u>(5,480)</u>
Net increase in cash and cash equivalents	2,136,532
Cash and cash equivalents at beginning of the financial period	-
Cash and cash equivalents at end of the financial period (Note 5)	<u>2,136,532</u>

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

1. Corporate information

The Asia-Pacific Economic Cooperation Secretariat (the "Secretariat") is a body corporate established in the Republic of Singapore under the International Organisations (Immunities and Privileges) Act. The principal place of operations of the Secretariat is located at 35 Heng Mui Keng Terrace, Singapore 119616.

The APEC Policy Support Unit (PSU) became active in August 2008 as a new function within the Secretariat with a mandate to provide a policy and research capability to assist in the implementation of APEC's ongoing regional economic integration agenda. It currently focuses on behind-the-border (structural) economic reforms and at-the-border trade policy reforms; both of which contribute to increase living standards in APEC economies and the enhancement of trade and investment amongst them. It is funded differently from the Secretariat under arrangements as set out in the APEC PSU Governance Arrangements.

The principal activities of the APEC Policy Support Unit (PSU) include the following:

- (a) undertaking analytical work or commissioning research for consideration by APEC committees;
- (b) preparing policy dialogue papers for APEC committees;
- (c) evaluating progress in implementation of policy measures; and
- (d) identifying high level policy principles and best practice.

The principal place of operations of the PSU is located at 29 Heng Mui Keng Terrace, #09-01, Singapore 119620.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements of the PSU have been prepared in accordance with Singapore Financial Reporting Standards (FRS).

The financial statements have been prepared on a historical cost basis and are presented in Singapore Dollars (SGD or S\$).

2.2 Adoption of new and revised FRS with effect from 1 January 2008

The PSU has adopted all new and revised FRS and INT FRS that are mandatory for financial year beginning of or after 1 January 2008. The adoption of these FRS and INT FRS has no significant financial impact to the Secretariat.

2.3 Future changes in accounting policies

At the date of authorisation of these financial statements, certain new standards, amendment and interpretations to existing standards have been issued but not yet effective. The PSU has not early adopted any of these pronouncements.

The new standards, amendments and interpretation, where applicable, are expected to have no material impact to the financial statement in the period of initial applications.

2. Summary of significant accounting policies (continued)

2.4 Functional and foreign currency

(a) Functional currency

The management has determined the currency of the primary economic environment in which the PSU operates i.e. functional currency, to be SGD. Contributions received and project expenditure incurred are primarily influenced by fluctuations in SGD.

(b) Foreign currency transactions

Transactions in foreign currencies other than SGD are treated as transactions in foreign currencies and are recorded at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at balance sheet date. Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the balance sheet date are recognised in the income and expenditure account.

2.5 Plant and equipment

All items of plant and equipment are initially recorded at cost. The cost of an item of plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the PSU and the cost of items can be measured reliably.

Subsequent to recognition, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation is provided on all plant and equipment at the following rates calculated to write off the cost of each asset on a straight-line basis over its estimated useful life.

Office furniture and equipment	-	3 years
Computers	-	3 years

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of fixed assets.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the assets is included in the income and expenditure account in the year the asset is derecognised.

2. Summary of significant accounting policies (continued)

2.6 Impairment of non-financial assets

The PSU assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment assessment for an asset is required, the PSU makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflow that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flow are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognised in the income and expenditure account as 'impairment losses' or treated as a revaluation decrease for assets carried at revalued amount to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for that same asset.

2.7 Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for sale financial assets, as appropriate. Financial assets are recognised in the balance sheet when, and only when, the PSU becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The PSU determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

The PSU classifies the following financial assets as loans and receivables:

- (a) Cash and cash equivalents
- (b) Other receivables

2. Summary of significant accounting policies (continued)

2.8 Impairment of financial assets

The PSU assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in the income and expenditure account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in the income and expenditure account.

2.9 Derecognition of financial assets and liabilities

(a) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when the contractual rights to receive cash flows from the asset have expired.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that has been recognised directly in equity is recognised in the income and expenditure account.

(b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income and expenditure account.

2.10 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank and fixed deposits that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. The accounting policy for this category of financial assets is stated in Note 2.7.

2. Summary of significant accounting policies (continued)

2.11 Other receivables

Other receivables are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated under Note 2.7.

An allowance is made for uncollectible amounts where there is objective evidence that the PSU will not be able to collect all amount due. Further details on accounting policy for impairment of financial assets are stated in Note 2.8.

2.12 Financial liabilities

Financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Financial liabilities are recognised on the balance sheet when and only when the PSU becomes a party to the contractual provisions of the financial instrument.

Gains and losses are recognised in the income and expenditure account when the liabilities are derecognised as well as through the amortisation process.

2.13 Employees benefits

(a) Defined contribution plan

The PSU makes contributions for some employees to the Central Provident Fund (CPF) scheme in Singapore, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as compensation expenses in the period in which the related service is performed.

(b) Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. The estimated liability for leave is recognised for services rendered by employees up to balance sheet date.

2.14 Leases

Operating leases

Leases where the lessor effectively retains all the risks and benefits of ownership of the leased item are classified as operating leases.

Operating lease payments are recognised as an expense in the income and expenditure account on a straight-line basis over the lease term.

2.15 Income recognition

Contributions from member economies and interest income are recognised on an accrual basis.

Interest income is recognised on a time proportion basis using effective interest method.

2.16 Income tax

The PSU is a new function within the Secretariat which is exempted from tax liability in respect of its income generated from its principal activities by virtue of the provisions of Section 11(1) of the Singapore Income Tax Act, Chapter 134.

3. Significant accounting judgements and estimates

The preparation of the PSU's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses, and disclosures made. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amount of the asset or liability affected in the future.

3.1 Judgements made in applying accounting policies

Management is of the opinion that judgements made in the process of applying the PSU's accounting policies have no significant effect on the amounts recognised in the financial statements.

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of plant and equipment

The cost of plant and equipment is depreciated on a straight-line basis over their useful lives, which are estimated by the management to be within three years. Changes in the expected level of usage, and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amount of the PSU's plant and equipment at the balance sheet date is disclosed in Note 4 to the financial statements.

(b) Impairment of loans and receivables

The PSU assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the PSU considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

APEC Policy Support Unit

Notes to the Financial Statements - 31 December 2008

4. Plant and equipment

	Office furniture and equipment S\$	Computers S\$	Total S\$
Cost			
At 1 August 2008	–	–	–
Additions	1,530	3,950	5,480
At 31 December 2008	1,530	3,950	5,480
Accumulated depreciation			
At 1 August 2008	–	–	–
Charge for the financial year	127	203	330
At 31 December 2008	127	203	330
Net carrying amount			
At 31 December 2008	1,403	3,747	5,150

5. Cash and cash equivalents

	2008 S\$
Cash at bank	636,532
Fixed deposits	1,500,000
	<u>2,136,532</u>

The fixed deposits bear interest ranging from 0.19% to 0.25% per annum. Fixed deposits are made for varying periods of between 1 day and 30 days depending on the immediate cash requirements of the PSU.

6. Accumulated fund

	2008 S\$
At 1 August 2008	–
Surplus for the financial year	2,110,186
At 31 December 2008	<u>2,110,186</u>

7. Members' contributions

	1.8.2008- 31.12.2008 S\$
Australia	1,627,474
Japan	603,600
	<u>2,231,074</u>

8. Financial risk management objectives and policies

The PSU is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, interest rate risk, liquidity risk and foreign currency risk. The PSU reviews and agrees policies and procedures for the management of these risks, which are executed by the Director, PSU. It is, and has been throughout the current financial period, the PSU's policy that no derivatives shall be undertaken. The PSU does not apply hedge accounting.

The following sections provide details regarding the PSU's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

Credit risk

The carrying amount of other receivables and cash and cash equivalents represent the PSU's maximum exposure to credit risk. No other financial assets carry a significant exposure to credit risk.

Interest rate risk

The PSU's exposure to market risk for changes in interest rates to the PSU's fixed deposit portfolio. This is managed by rollover of the fixed deposits over a short period of less than one month.

Liquidity risk

Liquidity risk is the risk that the PSU will encounter difficulty in meeting financial obligations due to the shortage of funds. The PSU's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The objective is to monitor and maintain a level of cash and bank balances deemed adequate by the management to fund the PSU's activities and mitigate the effects of fluctuations in cash flows.

The PSU targets for available funds in the form of surplus liquidity and aims at maintaining flexibility in funding by maintaining receipt of contributions of funds from member economies and expenditure.

Foreign currency risk

The PSU has insignificant exposure to foreign exchange risk arising from cash flows from anticipated transactions and financing arrangements denominated in foreign currencies.

8. Financial risk management objectives and policies (continued)

Fair values

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

Financial instruments whose carrying amounts approximate fair values

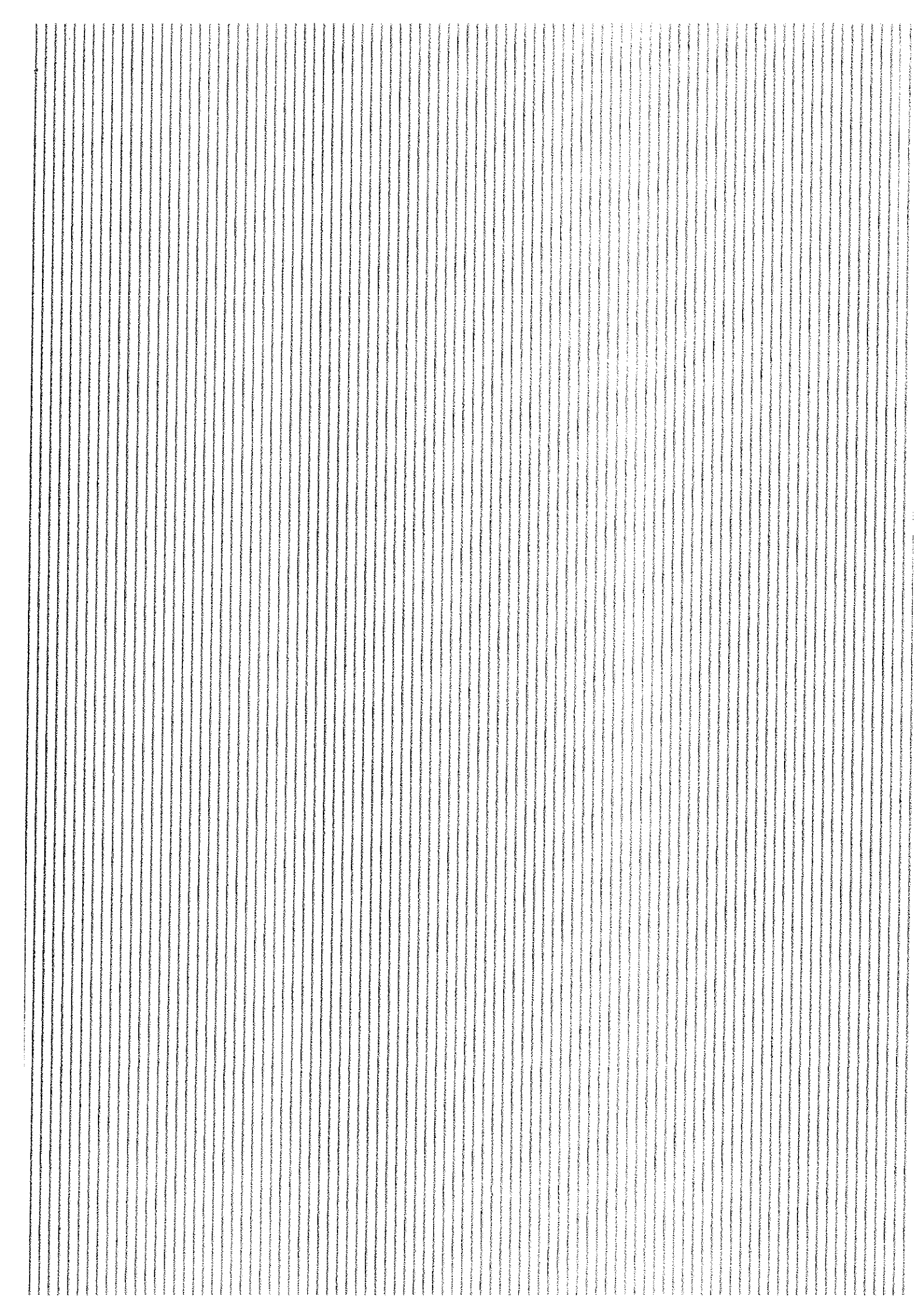
Management has determined that the carrying amounts of cash and cash equivalents, other receivables and other payables, based on their notional amounts, reasonably approximate their fair values because these are mostly short term in nature.

9. Comparative figures

These being the first set of financial statements for the PSU, there are no comparative figures.

10. Authorisation of financial statements

The financial statements for the financial period ended 31 December 2008 were authorised for issue by the PSU Director on 14 July 2009.





**Asia-Pacific
Economic Cooperation**

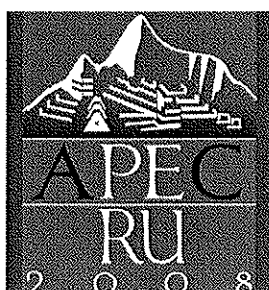
2008/ISOM1/003

Agenda Item: 4

APEC Policy Support Unit Governance Arrangements

Purpose: Consideration

Submitted by: Australia



First Informal Senior Officials' Meeting

Lima, Peru

2 March 2008

APEC POLICY SUPPORT UNIT GOVERNANCE ARRANGEMENTS

Background

APEC's trade and economic orientation, pan-Pacific membership and non-binding nature make it an ideal forum for exchanges on trade and economic policy reform and cooperation. The work to underpin these exchanges is largely undertaken by individual committee chairs and members. The APEC Secretariat is small and its capacity to undertake evaluation and research, prepare policy papers and support the chairs of APEC fora is limited.

The Committee on Trade and Investment (CTI), Economic Committee (EC) and Senior Finance Officials Meeting (SFOM) are responsible for driving APEC's core work on trade and investment liberalisation and facilitation and economic policy reform. The CTI and its sub-fora have typically relied on the resources of a small number of members to drive their work programs – supplemented by access to project funding for specific workshops or activities. A similar situation applies to SFOM. The EC has reoriented its work program to reflect the Leaders Agenda to Implement Structural reform (LAISR). While the EC has developed a sound work program for LAISR neither it nor the Secretariat has the research or policy development capacity to effectively implement it. Nor does the Secretariat have the capacity to provide advice and support to economies seeking to implement policy reform.

Chairs of committees and sub-fora are expected to shoulder a heavy proportion of the workload. The fact that the vast majority of participants in APEC have other responsibilities makes it difficult for them to devote extra resources to APEC. These constraints are exacerbated in smaller economies and act as a deterrent for representatives of smaller economies to seek to Chair APEC fora. More professional resources are needed to assist the CTI, EC and SCE to implement their agendas.

Ministers agreed in Hanoi in 2006 that APEC's resources needed to be increased substantially to meet contemporary demands. In September 2007 APEC Ministers agreed to establish an APEC Policy Support Unit (PSU) to provide analytical and evaluation capacity and assist in coordinating related economic and technical cooperation for the development

and implementation of APEC's trade, investment, economic reform and energy policy agenda.

Objective and Scope of Work of the PSU

The PSU will assist APEC member economies in economic and structural reform, trade and investment liberalisation and facilitation and energy and related ECOTECH policies by:

- undertaking analytical work or commissioning research for consideration by APEC committees;
- preparing policy dialogue papers for APEC committees;
- designing and implementing capacity building programs;
- evaluating progress in implementation of policy measures; and
- identifying high level policy principles and best practice.

Other areas of work may be considered subject to consistency with directions set by SOM and the advice provided by the Board (see below) and availability of resources. Any capacity building activities should take account of the work of the Secretariat's Project Management Unit. The work undertaken by the Policy Support Unit would be determined by the relevant APEC fora, with SOM's endorsement, taking into account members' views.

The PSU will be staffed by a number of professionals. The specific size of the PSU will be determined on the basis of its financial resources and its tasks, as endorsed by SOMs. As well as in-house work (e.g. policy dialogue papers) the PSU will manage technical work commissioned from external consultants. The PSU will draw on expertise in international and regional institutions and member economies, including APEC Studies Centres. The PSU will also be tasked to provide and coordinate assistance and analysis to individual economies on economic policy issues if there is demand for this and sufficient resources are available.

The PSU offers the potential for APEC fora to elevate the quality of their deliberations with access to tailor-made analytical work and provides for greater follow-up of initiatives intersessionally. Put simply, the PSU will provide greater horsepower to APEC's work on trade and investment and economic policy issues.

Governance regime

Objective: Implement a structure that will ensure the PSU fulfils its intended functions and satisfies its various stakeholders by producing quality output that has APEC “ownership”.

- 1) The work undertaken by the PSU will reflect APEC’s priorities as set out by the statements of Leaders and Ministers. Specific activities will be selected on the basis of consensus by the relevant APEC fora – particularly EC, CTI and SFOM – with SOM’s endorsement.
- 2) Where specific APEC priorities are being pursued at the SOM level, SOM may seek a contribution from the PSU. Such decisions by SOM would be made on the basis of consensus.
- 3) A Board will be formed to provide work program advice and broad operational oversight of the PSU, including long-term strategic guidance. The Board will ensure that the work and expenditure plans of the PSU remain consistent with APEC’s priorities, as established by Leaders and Ministers. The Board will regularly report the outcomes of its meetings to SOM for approval.
- 4) The Executive Director of the Secretariat will have administrative oversight of the PSU.
- 5) The Manager of the PSU will be responsible for managing its workload, overseeing its day-to-day activities and supervising PSU staff.
- 6) In the course of its work the PSU will maintain close lines of communication with Program Directors in the Secretariat. Program Directors will retain their current roles as secretaries to committees and sub-fora.
- 7) The PSU Manager will keep relevant (i.e. tasking) fora informed of progress in undertaking tasks.
- 8) The PSU Manager will regularly report on its activities to the Executive Director of the Secretariat.

- 9) All completed projects undertaken by the PSU will be conveyed to the responsible committee and will only be released publicly with the approval of the committee and SOM, as per standard APEC practice on publications (i.e. on the basis of consensus).
- 10) The Board will prepare an annual report to SOM for endorsement, outlining its financial performance, activities, outcomes and long-term work plan.
- 11) The Board will report the outcomes of its meetings to the SOM and the SOM Chair will brief the Board on SOM deliberations and decisions concerning the PSU..

Establishment of the PSU

- 1) The PSU will consist of:
 - a) the Board; and
 - b) the Manager and staff of the PSU

Structure of the PSU Board

Objective: The Board to provide effective guidance and direction to the PSU.

- 1) The Board will comprise representatives from the current, immediate past and the next host economy and from each major donor. The Executive Director, PSU Manager, and Chairs of the CTI, EC and SFOM will attend Board meetings in an ex-officio capacity. Other Chairs of APEC fora can be co-opted as appropriate.
- 2) The SOM Chair will be Chair of the Board and the official from the following year's APEC host economy will be Vice-Chair.
- 3) "Major donor" is defined as:
 - a) An economy which has contributed over US\$400,000 of the budget to the PSU in the current or most recent calendar year; or
 - b) An economy that demonstrates that it has made in-kind contributions of equivalent value to (a).

Functions of the PSU Board

- 1) The functions of the Board are:
 - a) On behalf of SOM provide strategic guidance to the PSU;
 - b) Set and approve the forward work plan, taking into account the directions from SOM, CTI, EC and SFOM, by:
 - i) discussing research priorities, research proposals and economic and technical cooperation initiatives, taking into account APEC's priorities and the requirements of the relevant APEC fora;
 - ii) provide guidance to the PSU Manager on work to be undertaken, including timeframes for completion or delivery of the work;
 - c) Approve PSU's annual funding/budget, consulting the Budget and Management Committee where appropriate;
 - d) Approve the PSU's annual report.

- 2) The Board should plan to meet in the margins of the APEC SOMs and/or at the Secretariat in Singapore to discuss and approve decisions relating to the above
 - a) A simple majority of Board members will constitute a quorum;
 - b) If the Chair is not available, Board meetings will be chaired by the Vice-Chair of the Board;
 - c) Board meetings can take place on a virtual basis (teleconference or videoconference) if necessary;
 - d) Decision-making of the Board will be by consensus.

- 3) While the Board maintains decision-making powers on the PSUs work program and budget, the PSU maintains responsibility for research conclusions and publications submitted to committees or economies.

Function of the PSU Manager

- 1) The PSU Manager will be responsible for the day-to-day operations of the PSU including management of its work program, budget and procurement of consultants.

- 2) The PSU Manager will implement the principal objectives of the PSU and ensure its work programme is undertaken in a timely manner.
- 3) The PSU Manager will seek approval from the Board when changes are required to the PSU's work program or budget.
- 4) The PSU Manager will prepare a concise half-year evaluation report for the Board on work undertaken and expenditure and commitments.
- 5) The PSU Manager will be accountable to the Board for his/her performance in carrying out the work program.
- 6) The PSU Manager will be accountable to the Executive Director on administrative and day-to-day issues.
- 7) The PSU Manager will consult the Executive Director in respect of relations with external clients where the PSU is acting on behalf of APEC.

Selection of the PSU Manager

- 1) The Board will be responsible for selecting the PSU Manager, and SOM is the final body to approve such selection
- 2) The PSU Manager will be expected to have appropriate research and/or bureaucratic experience, including at the management level, and strong interpersonal and cross-cultural skills.
- 3) The PSU Manager will be employed for a fixed term under a professional employment contract
- 4) Internationally competitive remuneration and conditions will be offered in order to attract appropriate candidates.

PSU staffing and terms of employment

- 1) The PSU's staff will be based at the APEC Secretariat in Singapore and will be employed for fixed terms under professional employment contracts (i.e. not employed permanently).
- 2) Staff will be hired at internationally competitive rates. The Board and PSU Manager will maintain oversight of a transparent, merit-based hiring process – which could be managed by an appropriate recruitment company.
- 3) Candidates will be citizens of APEC member economies. The objective of the recruitment process will be to employ the best person for the vacancies available, regardless of nationality. There is no need to have a quota system.
- 4) Government, IFI and academic experience will be highly regarded.
- 5) The PSU Manager will be responsible for overseeing staff performance and contracts.
- 6) The PSU Manager will implement staff performance agreements with each staff member, based on realistic performance indicators. The agreements will provide the basis for biannual formal discussions with each staff member on their performance.

Consultants

- 1) The Board can engage consultants to perform services for the PSU such as technical, specialised or intensive work or work that would be better undertaken externally due to cost, resources or other operational factors.
- 2) The Board should approve the budget for each project but may delegate to the PSU Manager responsibility to engage consultants on a project-by-project basis.

Annual reports

- 1) The PSU Board and Unit must, as soon as practicable in each calendar year, prepare and submit to SOM a report on the PSU's operations during that calendar year.

- 2) A report must include the following:
 - a) information about the PSU's activities and outcomes;
 - b) particulars of all directions given by Ministers, SOMs and the Board;
 - c) financial performance; and
 - d) outlook and thoughts on forward work agenda.

Branding

- 1) The PSU will be identified as part of the APEC architecture and branded accordingly.

Review

- 1) The operation of the PSU will be reviewed in 2010. This review shall determine whether the PSU should continue operations beyond 2010 and if so, in what form.
- 2) In the event that the decision is made to dissolve the PSU, unspent funds will be returned to donors and SOM will decide how to allocate outstanding work and/or functions.