

2 March 2001

## **Ongoing and Recent Work Relevant to Sound Financial Systems**

**Note by the Secretariat (with inputs from various bodies)  
22/23 March 2001 FSF Meeting**

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# 1 MACROECONOMIC MANAGEMENT AND SURVEILLANCE

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## 1.1 TRANSPARENCY IN MACROECONOMIC POLICIES

### 1.1.1 Fiscal Transparency

Agency: IMF

Objective: To encourage member countries to implement the IMF Code of Good Practices on Fiscal Transparency

Status: Ongoing (Target: April 2001)

The IMF is preparing a revised manual on fiscal transparency, drawing on the feedback received through a public consultative program from organisations and individuals involved in promoting improved fiscal management and transparency.

### 1.1.2 Transparency in Monetary and Financial Policies

Agency: IMF

Objective: To encourage member countries to implement the IMF Code of Good Practices on Transparency in Monetary and Financial Policies.

Status: Ongoing

A paper reviewing experience with the Code was issued to the IMF Executive Board in December 2000. A more detailed study may be issued as a staff working paper.

### 1.1.3 Data Transparency

Agency: IMF

Objective: To encourage subscription to the Special Data Dissemination Standard (SDDS) for countries with access to, or aiming shortly to have access to, international capital markets, and to assist subscribers in meeting the requirements of the standard.

Status: Ongoing

A paper is being prepared for the 4<sup>th</sup> review of data standards, which is expected to be discussed by the IMF Executive Board in July 2001.

### 1.1.4 Transparency of IMF Policies and Assessments

Agency: IMF

Objective: To enhance transparency of IMF policies and Fund-supported programmes.

Status: Completed (January 2001)

In August 2000, the IMF reviewed experience with its transparency policies since mid-1999 and agreed, in principle, to authorise publication of a broad range of documents to further enhance the transparency of the IMF's operations and the policies of its members. The Executive Board formally adopted a decision to implement these policies in January 2001. A set of principles for the IMF's publication policy was agreed and issued as a public statement ([www.imf.org](http://www.imf.org)). A review of the experience with the transparency policy will take place in 18 months.

## 1.2 DEBT AND RESERVE MANAGEMENT

### 1.2.1 National Debt Management and Reduction of Financial Risk

Agency: G-20

Objective: To study national debt management issues as a basis for further discussion on ways of reducing the risk of financial disruption.

Status: Ongoing

The G-20 agreed on the importance of measures to reduce countries' vulnerability to financial crises at the 1<sup>st</sup> G-20 Ministerial in Berlin in December 1999. At the 2<sup>nd</sup> G-20 Ministerial in Montreal in October 2000, G-20 Ministers and Governors agreed to implement the emerging international consensus on policies to reduce countries' vulnerability to financial crises, including through appropriate exchange rate arrangements, prudent liability management, private sector involvement in crisis prevention and resolution, and adoption of codes and standards in key areas including transparency, data dissemination, market integrity, and financial sector policy ([www.g20.org](http://www.g20.org)). In particular, they agreed that a comprehensive strategy to reduce vulnerability to financial crises requires attention to liability management, including effective management of public-sector liabilities, appropriate consideration of the external financial situation of the private sector, and effective and transparent financial sector regulation and supervision. G-20 Deputies are currently engaged in follow-up and preparations for the 2001 meeting of the G-20 Ministers and Governors.

### 1.2.2 National Debt Management Policies and Techniques

Agency: OECD

Objective: To improve understanding of government debt management policies and techniques.

Status: Ongoing (Target Autumn 2001)

A Working Party on Debt Management is studying risk management practices, debt composition and duration, and the implications of the use of electronic trading and communications systems for government securities markets.

### 1.2.3 Good Practices in Public Debt Management

Agency: IBRD, IMF

Objective: To develop guidelines for public debt management to assist countries in their efforts to reduce vulnerabilities.

Status: Ongoing (Target: Spring 2001)

Work is progressing on *guidelines on sovereign debt management* and 5 outreach sessions have been held. The revised guidelines will be discussed by the IMF and World Bank Boards in March 2001. (Draft guidelines on foreign exchange reserve management will also be available as background for the March discussion.) The guidelines are expected to be put forward to the IMFC for endorsement at the Spring 2001 meetings.

### 1.2.4 Guidelines for Foreign Exchange Reserve Management

Agency: IMF

Objective: To develop guidelines for foreign exchange reserve management to assist countries in their efforts to reduce vulnerabilities.

Status: Ongoing (Target: Fall 2001)

Work is progressing on draft guidelines for foreign exchange reserve management based on an earlier paper on sound practices that was discussed by the IMF Executive Board last year. Draft guidelines were circulated to a focus group in early March and will be discussed in a series of outreach meetings during Summer 2001.

### **1.3 DISCLOSURE OF DEBT, LIQUIDITY, AND RESERVE DATA**

#### **1.3.1 External Debt Statistics from the Debtor Perspective**

Agency: Inter-agency Task Force on Finance Statistics (BIS, IBRD, IMF, OECD and others)

Objective: To revise international guidelines on the measurement of external debt.

Status: Ongoing (Target: 2001)

The Inter-agency Task Force is revising the guidelines on external debt statistics included in the "Grey Book" published jointly in 1988 by the BIS, IBRD, IMF and OECD. The revised Guide will assist countries in compiling and disseminating these data as well as provide guidance on the analytical use of the data. Continuing the series that began in 2000, the draft Guide will be used at a number of regional seminars on external debt statistics (Latin America, March 2001; Africa, May 2001 and Middle East, September 2001). The document is expected to be published in 2001.

#### **1.3.2 External Debt Statistics and Capital Flows**

Agency: Inter-Agency Task Force on Finance Statistics (BIS, IBRD, IMF, OECD and others)

Objective: To identify gaps in external debt statistics and priorities for further work in the context of issues related to capital flows and risk management

Status: Ongoing

This work stems from the recommendations of the FSF Working Group on Capital Flows. Discussions have been held with users and compilers of external debt statistics to help identify data gaps. Work has been undertaken to identify the causes of differences in creditor- and debtor-side external debt statistics. As a result of this, some additional data, which in part explain the differences, have been disseminated. A report on reconciling discrepancies between data from the creditors' side (reported by the BIS) and that from the debtors' side is expected to be issued around end March 2001.

### **1.4 CAPITAL FLOWS**

#### **1.4.1 Orderly Sequencing of Capital Account Liberalisation**

Agency: IBRD, IMF, OECD

Objective: To promote the orderly sequencing of capital account liberalisation and study countries' experiences with controls on capital movements, including short-term capital flows.

Status: Ongoing

The IMF is preparing a paper on the relationship between capital account liberalisation and financial sector stability, based on lessons drawn from country experience, and is scheduled for discussion at a seminar in March 2001. As part of a co-operative project with the IMF, the OECD Secretariat is preparing a study on the experience of OECD Member countries with capital account liberalisation. A first paper will take stock of the results of accession and post-accession reviews of the recent OECD countries (Czech Republic, Hungary, Korea, Mexico, Poland, Slovak Republic) and will be tabled at the April meeting of the Committee on Capital Movements and Invisible Transactions (CMIT), the body in charge of the OECD Codes of Liberalisation.

## **1.5 ASSESSMENT OF FINANCIAL SYSTEMS AND IMPLEMENTATION OF STANDARDS**

### **1.5.1 Financial Sector Assessment Program (FSAP)**

Agency: IBRD, IMF

Objective: To assist in strengthening member countries' financial systems and thereby reduce the likelihood and/or severity of financial sector crises and cross-border contagion.

Status: Ongoing

The IMF and IBRD Executive Boards reviewed experience with the FSAP program in December 2000 and January 2001, respectively. The program received widespread support as a coherent and comprehensive framework in which to consider financial stability vulnerabilities. The collaborative approach among the IMF, World Bank, standard-setting bodies and national authorities was welcomed. In setting priorities for assessments, emphasis was placed on systemically important countries but it was also important to maintain a broad country coverage in the program. The Executive Boards agreed on voluntary publication of the FSSA and FSA reports (but not the underlying FSAP documents); the new publication policy would be applicable for assessments going forward. The staff will aim to undertake 24-30 FSAPs per year.

### **1.5.2 Reports on the Observance of Standards and Codes (ROSCs)**

Agency: IMF, IBRD

Objective: To provide a vehicle for assembling assessments of country practices in relation to international standards across a range of areas (including financial sector standards assessed in the context of the FSAP and those covering data dissemination, fiscal transparency, corporate governance, accounting and auditing) so as to facilitate assessment of vulnerabilities in domestic and international financial systems.

Status: Ongoing

The IMF and IBRD Executive Boards reviewed the experience with ROSCs in January and February 2001, respectively, drawing on three rounds of experimental case studies and an extensive outreach program to private market participants and other standard-setting bodies. The World Bank shares ownership of this project and Bank staff has begun preparing ROSC modules in the areas of corporate governance, accounting auditing, and insolvency regimes. By mid-February 2001, 90 ROSC modules have been completed for 35 countries. 69 ROSC modules have been published. These can be accessed at [www.imf.org](http://www.imf.org) and [www.worldbank.org/ifa](http://www.worldbank.org/ifa).

### **1.5.3 Implementation of Standards**

Agency: FSF

Objective: To explore issues related to promoting the implementation of economic and financial standards relevant for sound financial systems.

Status: Ongoing

The FSF's Follow Up Group on Incentives to Foster Implementation of Standards submitted its report in September 2000. At the Forum's request, the group has been asked to maintain a watching brief on implementation of the recommendations and to raise market awareness of international standards. A brief report on the group's work will be submitted to the FSF at its March 2001 meeting.

## 2 MARKET INFRASTRUCTURE AND FUNCTIONING

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### 2.1 CORPORATE GOVERNANCE

#### 2.1.1 Principles on Corporate Governance

Agency: IBRD, OECD

Objective: To improve the legal, institutional and regulatory framework for corporate governance in OECD and non-OECD countries.

Status: Ongoing

The OECD and IBRD continue a joint effort to use the OECD's principles of corporate governance as a basis for dialogue and consultation with developing and transitional countries. The IBRD has developed a template for assessments ([www.worldbank.org/ifa](http://www.worldbank.org/ifa)) and six assessment modules have been completed and a further 6 will be launched by July 2001. The IBRD and OECD are promoting dialogue on corporate governance reform through *Regional Corporate Governance Roundtables* (in Asia, Eurasia, Latin America and Russia). An African roundtable is planned with Commonwealth input. An intended outcome to this process is the development of a "white paper" for each region or country, which highlights strategy for reform using the OECD Principles as conceptual framework. The *Global Corporate Governance Forum* (GCGF) is being established following a December 2000 Donor meeting in Paris. The Steering Committee is expected to be formed in March 2001, and recruitment for its secretariat is underway. The Private sector Advisory Group and its task forces on Investor Responsibility, Audit/Accounting and Media has been established with an active work program mobilising private sector support for reform, initially in Brazil and Russia.

#### 2.1.2 Corporate Governance and Transparency

Agency: Joint Forum (BCBS, IAIS, IOSCO)

Objective: To study issues of common interest to the three financial sectors (banking, insurance, and securities) on (i) corporate governance, including fit and proper tests; (ii) the use of internal and external audit processes in the supervision of regulated entities and corporate groups containing regulated entities; (iii) outsourcing by firms of regulated functions and activities; and (iv) financial conglomerate structures that could impair effective supervision or otherwise be problematic. To develop guidance and principles in these areas, as appropriate.

Status: Ongoing (Target: Summer 2001)

Work is underway on items (i) and (ii). To this end, the working group has prepared a comprehensive and qualitative questionnaire to be answered by the respective supervisory authorities of each financial sector in all of the countries represented on the Joint Forum. These sectoral surveys are supplemented with a questionnaire covering listed company requirements, if relevant. Once the questionnaire is finished (mid March), it will be followed by country reports comparing and contrasting the situation each country, and finally, by a report to be discussed by the Joint Forum in July 2001.

#### 2.1.3 Misuse of Corporate Vehicles

Agency: OECD

Objective: To form an understanding on how corporate vehicles can be misused for illicit purposes; to identify and analyse the factors limiting the capacity of authorities to obtain, on a timely basis, information about the beneficial ownership and control of corporate vehicles and their ability to share this information with authorities domestically and

internationally; and to develop a menu of options that can be adopted by countries for obtaining and sharing such information.

Status: Ongoing (Target: Spring 2001)

Following a recommendation by the FSF Working Group on OFCs, the OECD Steering Group on Corporate Governance has undertaken the preparation of a report on the "Misuse of Corporate Vehicles for Illicit Purposes". A first draft of the report has been circulated to experts and it is expected to be finalised at a meeting on 22-23 March. The report would be then be considered for adoption at the OECD Ministerial in May 2001.

## 2.2 ACCOUNTING AND AUDITING

### 2.2.1 International Accounting and Auditing Standards

Agency: BCBS, IAIS, IOSCO, IBRD

Objective: To evaluate the International Accounting Standards (IAS) developed by the IASC and the International Standards (ISA) on Auditing issued by IFAC.

Status: BCBS: Ongoing

The BCBS has reviewed the international accounting standards that are of particular relevance banks' accounting. The resulting report to the G7 Finance Ministers and Central Bank Governors was issued in April 2000, which discusses in particular issues concerning IAS 39 on financial instruments ([www.bis.org](http://www.bis.org)). The BCBS is now taking close part of the IASC work on implementation guidance for IAS 39. The BCBS is also active in the IASC steering committee for updating IAS 30, the disclosure standard for banks. A BCBS subgroup has been formed to consider the issue of fair value accounting for financial instruments, a draft standard on which was issued by the IASC with other standard setters at the end of 2000. The BCBS Accounting Task Force is also working to update the BCBS guidance paper on loan accounting.

IAIS: Ongoing (Target: 2003)

The IAIS has submitted its comments on the IASC's proposals for insurance accounting. It is working with the IASC to enhance the consistency of supervisory financial reports and system efficiency and make the standards developed by the IASC also an IAIS standard.

IBRD:

The IBRD has developed a diagnostic template to assess national accounting and auditing practices using international standards as a reference point. The template is available at [www.worldbank.org/ifa](http://www.worldbank.org/ifa). Six pilot assessments are planned for the fiscal year 2001.

IOSCO: Completed (May 2000) see archive

IOSCO continues to monitor the IASC process with respect to international accounting standards

### 2.2.2 Internal Audit Standards

Agency: BCBS

Objective: To improve internal audit standards in banks.

Status: Ongoing

The BCBS issued a consultative paper on this topic in July 2000. More than 50 comment letters have been received and are now being analysed. The paper is expected to be finalised in July 2001.

### 2.2.3 International Audit Standards

Agency: BCBS

Objective: To provide information and guidance on how the relationship between bank auditors and supervisors can be strengthened to mutual advantage..

Status: Ongoing

The BCBS has jointly with the International Federation of Accountants (IFAC) prepared a draft revised audit statement *The Relationship between Banking Supervisors and Banks' External Auditors*. The draft was published for comment in February 2001 and is expected to be finalised before year-end 2001.

## 2.3 MARKET INFORMATION AND STATISTICS

### 2.3.1 Consolidated International Banking Statistics

Agency: BIS, CGFS

Objective: To improve the coverage, quality, and timeliness of the BIS consolidated creditor-based international banking statistics.

Status: Ongoing

The CGFS published *Report on BIS International Banking Statistics* in September 2000 ([www.bis.org](http://www.bis.org)). The information content of the BIS statistics relevant to the assessment of banks' credit exposures toward individual countries will be increased. The report calls for the statistics to be structured as to present data on an "ultimate" risk basis, while complementing the statistics with data on contingent facilities and off-balance sheet exposures. The compilers' group is developing detailed plans on the data series to be collected that would be issued by the end of 2001, and would be implementation by end-2004. The BIS is also working to enlarge the reporting area by inviting major emerging market economies to report the cross-border assets and liabilities of their banking systems.

### 2.3.2 Co-ordinated Portfolio Investment Survey

Agency: IMF

Objective: To use the co-ordinated Portfolio Investment Survey (CPIS) to close gaps in data on nonresident holdings of domestically issued securities.

Status: Ongoing (Target: end-2002)

About 80 major investing and other countries and offshore financial centres have agreed to participate in the second CPIS to be held in respect of end-2001. The CPIS collects data on the stock of countries' portfolio investment securities. Like the BIS international banking statistics, these creditor-source data provide a full geographic distribution of claims, thus providing the counterpart countries with information on their portfolio investment liabilities. The IMF has prepared a revised CPIS Guide and used it at 5 regional CPIS meetings that were held in January and February 2001.

### 2.3.3 Statistics for Analysing Financial Sector Soundness

Agency: IMF

Objective: To investigate indicators of the soundness of financial systems (Macro-Prudential Indicators (MPIs)) and develop strategies to encourage their compilation and dissemination. MPIs can be used by central banks and supervisory agencies to monitor the soundness of the financial system, by the IMF in surveillance work, and by the public.



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Status: Ongoing

Responses from 130 member countries to the *Survey of the Use, Compilation and Dissemination of Macprudential Indicators (MPIs)* have been received and are being incorporated into a paper for the IMF Executive Board.

### 2.4 DISCLOSURE AND MARKET TRANSPARENCY

#### 2.4.1 Disclosure of Risk Profiles by Financial Institutions

Agency: CGFS, BCBS, IAIS, IOSCO

Objective: To improve the disclosure of the risk profiles of financial institutions, including highly-leveraged institutions (HLIs).

Status: Completed: February 2001

The multi-disciplinary group (comprising representatives of the CGFS, BCBS, IOSCO, and IAIS) has undertaken a pilot study aimed at assessing the feasibility and utility of the proposed enhancements in disclosure practices. The final report was submitted to the parent committees in February 2001.

#### 2.4.2 Transparency in Secondary Markets

Agency: IOSCO

Objective: To assess the regulatory impact of changes affecting the trading of several financial instruments (including the emergence of alternative trading systems), particularly with respect to the critical element of transparency.

Status: Ongoing

A report will be prepared, which will examine: (i) the role of transparency, in light of recent market developments, in promoting the regulatory objectives of investor protection, and fair and efficient markets; and (ii) the practical relationship between transparency and market fragmentation, including related academic writings. This report will also raise options that might be considered by members to address transparency concerns in light of recent developments.

### 2.5 MARKET FUNCTIONING AND LIQUIDITY

#### 2.5.1 Development of Domestic Debt Markets

Agency: IBRD, IMF

Objective: To produce a comprehensive practitioner's handbook providing general guidelines on domestic public bond market development.

Status: Ongoing (Target: Spring 2001)

The first version of the handbook is now in its final editing stage and is expected to be printed and ready for circulation by April 2000. It addresses key issues such as enhancing market liquidity, developing financial infrastructure, developing investor demand, the government's role as an issuer, and securities market regulation and supervision.

#### 2.5.2 Development of Domestic Bond Markets in Emerging Market Economies

Agency: IOSCO

Objective: To provide a detailed framework for establishing the initial conditions required for well-functioning bond markets in emerging market economies.

Status: Ongoing

Work is continuing to examine the factors necessary for the establishment of efficient bond market structures in emerging markets.

### **2.5.3 Management of Funding and Liquidity Risk by Securities Firms**

Agency: IOSCO

Objective: To examine sound practices in the management of liquidity risk by securities firms.

Status: Ongoing (preliminary report by April 2001)

A report will be prepared to provide guidance to regulators and firms on sound practices in the management of funding and liquidity risk under a variety of market conditions. In particular, the report will focus on internal systems and controls, orderly liquidation of assets, liquidity to fund commitments, and the use of models.

### **2.5.4 Financial Sector Consolidation**

Agency: G-10

Objective: To provide policymakers with a framework for addressing the issues raised by the process of consolidation in the financial sector.

Status: Completed (January 2001)

The G-10 released the *Report on Consolidation in the Financial Sector* prepared by a Working Party established in September 1999 to study the possible effects and implications of consolidation in the financial sector ([www.bis.org](http://www.bis.org)). The report covers: patterns and fundamental causes of financial consolidation, the effects of consolidation on financial risk, on monetary policy, on efficiency, competition and credit flows, and on payment and settlement systems. It is available on the web-sites of the BIS, IMF and OECD.

### **2.5.5 Survey of Stress Tests at Major Financial Institutions**

Agency: CGFS

Objective: To assess the role of stress testing in risk management and to identify which exceptional events were considered to be significant risks by market participants

Status: Ongoing

Report to be discussed at March CGFS meeting.

### **2.5.6 Collateral in Wholesale Financial Markets**

Agency: CGFS

Objective: To assess how changes in the usage and availability of collateral might alter market dynamics and risk management demands on financial institutions particularly in stress periods.

Status: Completed (Report issued February 2001 [www.bis.org](http://www.bis.org))

### **2.5.7 Asset Price Misalignments**

Agency: G-10

Objective: To consider the impact of prudential, tax and disclosure provisions on asset prices

Status: Ongoing

A contact group has been formed and issues papers are being prepared.

## **2.5.8 Financing of the New Economy**

Agency: CGFS

Objective: To explore issues related to developments in corporate finance with potential implications for financial stability and monetary policy fostered by changes in production and real investment resulting from the use of new technologies.

Status: Ongoing

A working group has been established and its work involves the consideration of innovations in financing practices and related risks, as well as possible changes in the role of different providers of financial services.

## **2.5.9 Demutualisation and Privatisation of Exchanges**

Agency: IOSCO

Objective: To review issues for regulators and markets in the demutualisation and privatisation of exchanges.

Status: Ongoing

A report *Discussion Paper on Stock Exchange Demutualisation* was released for public comments ([www.iosco.org](http://www.iosco.org)). The report examines the possibility of conflict of interest between “for profit” status of exchanges and their role as regulatory bodies, the public good role of exchanges, and financial issues such as fees, allocation of costs, and cross-subsidisation. Comments received will be considered in the context of possible future work in this area.

## **2.6 MARKET INTEGRITY**

### **2.6.1 Co-operation in Parallel or Joint Investigations and Subsequent Enforcement Actions**

Agency: IOSCO

Objective: To identify issues that may arise in parallel or joint investigations, and subsequent enforcement actions, of conduct that spans multiple jurisdictions.

Status: Ongoing (Target: Q1 2001)

The globalisation of markets has resulted in increased cross-border activity and a greater number of cross-border securities law violations. Therefore, regulators may have interests in pursuing parallel or joint investigations. This coordination may extend beyond the investigation phase, and into the prosecution of formal charges. The report will be a practical guide to the issues that need to be considered by regulators when they initiate joint or parallel investigations. The guide would also include a number of actual cases for reference.

### **2.6.2 Customer Due Diligence Standards for Banks**

Agency: BCBS

Objective: To develop customer due diligence standards for banks to help guard against financial system abuses.

Status: Ongoing (consultative report issued January 2001)

The consultative paper sets out guidance for banks and banking supervisors on customer due diligence ([www.bis.org](http://www.bis.org)). The paper has been prepared by the Working Group on

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Cross-border Banking, which includes members from the Offshore Group of Bank Supervisors. Comments will be sought until end-March 2001.

### 2.6.3 Financial Abuse

Agency: IBRD, IMF

Objective: To consider incorporating work on financial abuse, particularly money laundering, in the work of the IMF and World Bank.

Status: Ongoing

The IMF Executive Board held a seminar in February to discuss a background paper on financial system abuse. The IBRD and IMF staff will prepare material for discussion by the Executive Boards in March 2001.

### 2.6.4 Legal and Institutional Underpinnings of Global Financial Markets

Agency: G-10

Objective: To identify deficiencies in the legal and institutional underpinnings of the financial system.

Status: Ongoing

A contact group has been formed and issues papers are being prepared.

## 2.7 PAYMENT AND SETTLEMENT

### 2.7.1 Core Principles for Systemically Important Payment Systems

Agency: CPSS

Objective: To provide guidance particularly for central banks and international organisations in their efforts to improve the safety and efficiency of payment and settlement systems.

Status: Completed (January 2001)

The CPSS *Core Principles for Systemically Important Payment Systems* were finalised and publicly released following a second consultative period ([www.bis.org](http://www.bis.org)).

### 2.7.2 Recommendations for Securities Settlements Systems

Agency: CPSS, IOSCO

Objective: To develop recommendations for the design, operation, and oversight of securities settlement systems. The recommendations focus on the functions to be performed, rather than on the institutions that may perform them and address both domestic as well as cross-border aspects.

Status: Ongoing (Consultative report issued in January 2001)

These recommendations are intended to promote the implementation by securities settlement systems of measures that can enhance international financial stability, reduce risks, increase efficiency, and provide adequate safeguards for investors ([www.bis.org](http://www.bis.org), [www.iosco.org](http://www.iosco.org)). The recommendations identify minimum requirements that domestic securities settlement systems should meet in order to minimise risks for domestic and international financial stability, as well as address additional issues raised by cross border settlement activity. Comments will be sought until April 2001, and the recommendations finalised thereafter.

### **2.7.3 Managing Foreign Exchange Settlement Risk**

Agency: BCBS, CPSS

Objective: To monitor and encourage private sector developments to reduce foreign exchange settlement risk.

Status: Completed (September 2000)

The BCBS published revised supervisory guidance for managing settlement risk in foreign exchange transactions ([www.bis.org](http://www.bis.org)). The guidance was drawn up in close consultation with the CPSS.

## **2.8 ELECTRONIC FINANCE**

### **2.8.1 Electronic Banking**

Agency: BCBS

Objective: To review developments in electronic banking in G-10 countries, discuss supervisory issues in this area, and identify areas for future work.

Status: Ongoing

The BCBS Working Group on Electronic Banking's Phase 1 Report and White Papers were released in October 2000. Four areas for future work were identified: (a) developing guiding principles for prudent risk management of e-banking activities; (b) consideration of cross-border issues; (c) promoting international co-operation and (d) encouraging and facilitating supervisory training programs. The group is currently finalising a report on risk management principles for e-banking (planned release March 2001) and preparing a report on cross-border supervisory coordination issues for the March meeting of the BCBS.

### **2.8.2 Implications for Developing Countries of Globalisation and Electronic Finance**

Agency: IBRD

Objective: To review policy implications of changes in financial services markets and institutions driven by globalisation and technological advances, and to explore the implications for the international community on strengthening and developing financial systems in developing countries.

Status: Ongoing (Target: Spring 2001)

A paper assessing near-term implications for the provision of financial services, which addressed some of the more important policy questions arising from these developments, was distributed in September 2001. A video conference and background paper focused on specific policy issues in emerging markets is planned for Summer 2001.

### **2.8.3 Internet Banking and Money Laundering**

Agency: FATF

Objective: To identify the vulnerability of internet banking to money laundering activities

Status: Ongoing

The FATF is further examining how new payment technologies (on-line banking, electronic cash, smart cards) can facilitate money laundering. (the FATF-XII Report on Money Laundering Typologies includes a section dealing with on-line banking;

[www.oecd.org/fatf/pdf/TY2001\\_en.pdf](http://www.oecd.org/fatf/pdf/TY2001_en.pdf)). In this context, consideration will be given to whether any amendments to the 40 Recommendations may be desirable.

#### **2.8.4 Securities Activity on the Internet**

Agency: IOSCO

Objective: To review new developments in securities activity on the internet, in order to identify those Internet securities activities and cross-border issues of such activities which warrant further guidance.

Status: Ongoing (Target: late 2001)

Building on the foundations laid by the 1998 report *Securities Activity on the Internet*, the Internet Task Force has been mandated by the IOSCO Technical Committee to conduct a further analysis of new developments in the use of the Internet as a communication and trading network and explore the regulatory issues raised by such use.

#### **2.8.5 Insurance Activities on the Internet**

Agency: IAIS

Objective: To review developments in insurance activities on the internet, discuss supervisory issues, and set supervisory standards in this area.

Status: Completed (October 2000)

Principles on the Supervision of Insurance Activities on the Internet were adopted by at the IAIS Annual Meeting 2000 ([www.iaisweb.org](http://www.iaisweb.org)). A paper on risks related to insurance activities and the internet is underway.

#### **2.8.6 Implications of Electronic Trading on Financial Stability**

Agency: CGFS

Objective: To assess the trends in the use and nature of electronic trading in financial markets and to study their potential implications on financial stability.

Status: Completed (January 2001)

A report on *The Implications of Electronic Trading* was released, examining how electronic trading (ET) systems function in wholesale financial markets that are most relevant to central banks and their actual and potential impact on market structure, price dynamics and overall financial intermediation. ([www.bis.org](http://www.bis.org)) The report drew on interviews with a wide range of market participants (including dealers end-users and systems providers) and concentrated on ET in foreign exchange and government bond markets.

#### **2.8.7 E-payments and E-Commerce**

Agency: CPSS

Objective: To study developments in features of internet payment methods.

Status: Completed (September 2000)

A report on *Clearing and Settlement Arrangements for Retail Payments in Selected Countries* was released ([www.bis.org](http://www.bis.org)). The Working Group on Retail Payments of the CPSS is currently analysing the policies of central banks for the development of retail payments (including e-payments), with particular attention to strategies on innovations in payment systems.

#### **2.8.8 E-finance and Cross-border Financial Services**

Agency: OECD

Objective: To assess the implications of e-finance on cross-border financial services, including the consequences for member countries' obligations laid down in the OECD Codes of Liberalisation.

Status: Ongoing (Target: end-2001)

A seminar was arranged on 5 February 2001 where representative of the financial services industry, national regulators and international bodies discussed with the members of the OECD Committee on Capital Movements and Invisible Transactions (CMIT) the main current issues in electronic cross-border trade in financial services. The results of the seminar will serve as input to the CMIT's work on the impact of e-commerce on the functioning of the OECD Codes. In a parallel activity, the Committee on Financial Markets (CMF) will consider at its October 2001 session a report on *Cross-border Trade in Financial Services: the Implications of Electronic Finance*, currently under preparation by an experts' group. As a first step in the preparation of this report, a roundtable will be held on 26 March 2001 where market participants with special expertise in e-finance will discuss current and prospective developments in e-finance with members of the CMF.

### **2.8.9 E-finance and Debt Management**

Agency: OECD

Objective: To review the impact of e-finance on public debt management techniques and practices.

Status: Ongoing

A Working Party on Debt management has an ongoing project on the implications of technology development for public debt management and government securities markets. At a meeting in November 2000, the working party discussed the impact of electronic systems on (i) issuance of government debt securities, (ii) the future of primary dealer systems and (iii) sovereign debt markets. Further work on these issues will be undertaken in co-operation with debt managers from both OECD and non-member countries. A joint OECD/World Bank meeting will be held in May 2001 on the development of fixed-income securities markets in emerging market economies which will inter alia cover policy issues related to e-finance.

## **2.9 INSOLVENCY**

### **2.9.1 Insolvency Procedures and Debtor-Creditor Regimes**

Agency: IBRD, IMF

Objective: To improve insolvency procedures and debtor-creditor regimes.

Status: Ongoing (Target: Spring 2001)

The IBRD is co-ordinating a broad-based effort, involving relevant institutions and legal experts, to develop a set of "Principles and Guidelines on Effective Insolvency and Creditor Rights Regimes". The IBRD recently completed a series of regional workshops covering some 75 countries and feedback from these and other agencies and experts have been incorporated in a consultative draft ([www.worldbank.org/ifa](http://www.worldbank.org/ifa)). A revised draft will be discussed by the Bank's Executive Board in Spring 2001. In parallel, a draft diagnostic template has been developed and six insolvency regime assessments are being launched by July 2001. Further, a *Global Law Insolvency Database* (GILD) has been developed as a companion piece to the initiative (available on the bank's web site).

Building upon the work done by other international institutions (including the IBRD and the IMF), UNCITRAL is currently preparing a legislative guide for insolvency. It is

expected that UNCITRAL's insolvency legislative guide – a combination of model provisions and explanatory notes – will be specific, detailed and didactic, making it suitable for use in country assessments on this subject.

## **2.10 PRIVATE SECTOR INVOLVEMENT IN CRISIS RESOLUTION**

### **2.10.1 Collective Action Clauses**

Agency: G-10

Objective: To promote the wider use in international sovereign bonds of clauses that facilitate the co-ordination of bondholders and the orderly resolution of crises.

Status: Ongoing

A process of dialogue with the private sector has been established to discuss the steps that could be taken by the private sector to improve bond contracts.

### **2.10.2 IMF Policy on Involving the Private Sector in the Resolution of Financial Crises**

Agency: IMF

Objective: To review IMF policy on involving the private sector in the resolution of financial crises.

Status: Ongoing (Target: Spring 2001)

In September 2000, the IMF Executive Board reviewed progress in developing a framework and had a preliminary discussion of issues associated with the possible use of standard stills. Further board discussions have taken place on corporate workouts and on restructuring international sovereign bonds. Additional discussions will take place on comparability of treatment between official bilateral and private creditors, and on prospects for market access by countries emerging from crises. These discussions should enable the IMF Executive Board to make further progress by the Spring IMFC meeting in establishing an operational framework for private sector involvement.

## **2.11 SAFETY NETS**

### **2.11.1 Deposit Insurance**

Agency: FSF

Objective: To synthesise the key lessons from recent experience with deposit insurance schemes and to develop international guidance on deposit insurance taking account of country differences.

Status: Ongoing (Target: Fall 2001)

The FSF's Working Group on Deposit Insurance is continuing its work in developing international guidance on deposit insurance. An extensive consultative process is underway. The group will provide an update on its progress to the FSF in March 2001.

## **2.12 ROLE OF INTERNATIONAL FINANCIAL INSTITUTIONS**

### **2.12.1 Contingent Credit Lines**

Agency: IMF

Objective: To provide contingent credit facilities to help guard against contagion.

Status: Completed (November 2000)



In the context of a review of the IMF's financing facilities, the IMF Board adopted a number of changes in the terms and modalities of the Contingent Credit Line Facility (CCL) in November 2000 ([www.imf.org](http://www.imf.org)).

### **3 PRUDENTIAL REGULATION AND SUPERVISION**

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#### **3.1 GENERAL**

##### **3.1.1 Consolidated Training Directory**

Agency: BIS, IBRD, IMF

Objective: To provide and disseminate a comprehensive and frequently updated world-wide Directory of training related to financial sector regulation and supervision.

Status: Ongoing

The Directory is being updated and extended to cover insurance and securities regulation, as well as payment system oversight.

##### **3.1.2 Comparison of Core Principles**

Agency: Joint Forum (BCBS, IAIS, IOSCO)

Objective: To compare the Core Principles issued by the banking, insurance and securities sectors, identifying common principles and understanding differences where they arise.

Status: Ongoing (Target: September 2001)

The Core Principles Comparison Group of the Joint Forum has developed a comparison matrix. The group is continuing its discussions, notably with respect to the question of risk and risk identification. A status report will be prepared for the Joint Forum's consideration at end March. An interim report would be available for the FSF's March meeting and a final report by September.

##### **3.1.3 Risk Assessment and Capital**

Agency: Joint Forum (BCBS, IAIS, IOSCO)

Objective: To consider issues of common interest to the three financial sectors (banking insurance and securities) for risk assessments and management, internal controls, the different definitions of banking insurance and securities activities and the potential that they may lead to regulatory arbitrage; to examine the different purposes of, and approaches to, capital requirements in the three sectors (including the different definitions of capital); and, pertaining to financial conglomerates, to assess the appropriateness of group-wide methods of supervision.

Status: Ongoing (Target: July 2001)

The working group is preparing a first report for the meeting of the Joint Forum in March 2001. The report will review issues related to risk management, risk assessment techniques and practices and regulatory capital requirements. It will describe the current state of play on A final report is expected to be ready for discussion at the Joint Forum meeting in July 2001.

## 3.2 BANKING

### 3.2.1 Implementation of Core Principles for Banking Supervision

Agency: BCBS, IBRD, IMF, FSI

Objective: To promote the effective implementation of the Core Principles.

Status: Ongoing

The Core Principles Liaison Group (CPLG) continues to review experience with the Core Principles and Methodology with the view to revising and updating them in a year or two. Drawing on its work with regional supervisory groups, the Financial Stability Institute (FSI) has identified a number of areas in which additional guidance in implementing the principles was considered desirable. A subgroup of the CPLG, including representatives of the IBRD and IMF, are developing supporting documentation in these areas. The IBRD and IMF, with co-operation of national experts, assess observance with the Core Principles in the context of the FSAP and support national efforts to enhance observance.

### 3.2.2 Revision of the Basel Capital Accord

Agency: BCBS

Objective: To better align bank regulatory capital requirements to underlying risks and to recognise the improvements in risk measurement and control in banks.

Status: Ongoing (Target: end 2001)

The BCBS issued in January 2001 a second consultative paper on a “New Basel Capital Accord” to replace the Capital Accord issued in 1988. The consultative period will close at end of May 2001, and the final package should be produced by the year-end. The New Accord is expected to be implemented in 2004.

### 3.2.3 Principles for the Management of Credit Risk

Agency: BCBS

Objective: To provide guidance on establishing an appropriate credit risk environment.

Status: Completed (September 2000)

A revised version of guidance on credit risk management and disclosure was issued ([www.bis.org](http://www.bis.org)). It specifically addresses the following areas: establishing an appropriate credit risk environment; operating under a sound credit-granting process; maintaining an appropriate credit administration, measurement and monitoring process; and ensuring adequate controls over credit risk.

### 3.2.4 Credit Risk Disclosure by Banks

Agency: BCBS

Objective: To provide guidance on best practices for public disclosure of credit risk in banking institutions.

Status: Completed (September 2000)

The BCBS has issued a paper *Best practices for Credit Risk Disclosure* aimed at promoting adequate and effective transparency of banks’ credit risk profiles by providing guidance to banks on useful credit risk disclosure and discussion supervisory information needs with respect to credit risk in banks ([www.bis.org](http://www.bis.org)). The guidance covers credit risk in all types of banking activities, including lending, trading, investments, liquidity/funding management and asset management.

### **3.2.5 Collateral Management, Asset Securitisation, and Credit Derivatives**

Agency: BCBS

Objective: To provide guidance on risk management in credit mitigation techniques.

Status: Ongoing

The Committee's Capital Group, Transparency Group and Models Task Force have been looking at the topics of asset securitisation and credit derivatives as part of their work related to revising the Capital Accord and developing risk management techniques. In January 2001, a supporting document on asset securitisation was released as part of the consultative package for the new Capital Accord.

### **3.2.6 Operational Risk**

Agency: BCBS

Objective: To enhance operational risk assessment efforts and develop a regulatory capital charge for operational risk.

Status: Ongoing (end 2001)

In January 2001, a supporting document on operational risk was released as part of the consultative package for the New Basel Capital Accord.

## **3.3 SECURITIES**

### **3.3.1 Implementation of the Objectives and Principles for Securities Regulation**

Agency: IOSCO, IBRD, IMF

Objective: To promote the effective implementation of the objectives and principles.

Status: Ongoing

A self-assessment exercise of IOSCO members' implementation of the objectives and principles is underway. Members have responded to three self-assessment methodologies: one high-level survey on compliance, and detailed surveys based on principles relating to the issuer and the regulator. Regional teams have been formed to review the responses. A report will be prepared, following the initial assessment of the responses, identifying key issues and areas in which further work might be undertaken and in which technical assistance might be provided. The IBRD and IMF, with co-operation of national experts, assess observance with the Principles in the context of the FSAP and support national efforts to enhance observance.

### **3.3.2 Operational Risk**

Agency: IOSCO

Objective: To identify and elaborate categories of operational risk, and examine current and evolving industry practice for managing this risk.

Status: Ongoing (Draft Report: March 2001)

The working group is currently reviewing the methodology for "other risks" by the Basel Committee. The group is also engaged in a dialogue with major financial and accounting firms regarding the assessment of this type of risk.

### **3.3.3 Screen-Based Derivatives Trading Systems**

Agency: IOSCO

Objective: To survey the current use of exchange-operated, screen-based trading systems for

derivatives contracts (including issues related to domestic and cross border access to such systems) and survey the current regulatory approaches for the approval and oversight of such screen based trading systems

Status: Completed (November 2000)

A set of principles on the oversight of screen based trading systems for derivatives was finalised and published ([www.iosco.org](http://www.iosco.org)).

### **3.4 INSURANCE**

#### **3.4.1 Implementation of Core Principles for Insurance Supervision**

Agency: IAIS, IBRD, IMF

Objective: To monitor and promote the implementation of the Core Principles.

Status: Completed (October 2000)

The Core Principles Methodology was approved ([www.iaisweb.org](http://www.iaisweb.org)) and IAIS members are currently undertaking comprehensive self-assessments based on it. These are to be completed by end February and the results reviewed by the IAIS in September 2001. A seminar will take place at the BIS in April 2001 for insurance supervisors in order to review the provisional results of the self-assessment exercise and to learn from experiences of insurance sector assessments under the FSAP. The IBRD and IMF, with co-operation of national experts, assess observance with the Core Principles in the context of the FSAP and support national efforts to enhance observance.

#### **3.4.2 Supervisory Standards**

Agency: IAIS

Objective: To set out standards governing the supervision of insurance companies.

Status: Completed (October 2000)

IAIS approved a standard on group co-ordination and a guidance paper on fit and proper principles and their application ([www.iaisweb.org](http://www.iaisweb.org)). Further papers are being prepared on (a) solvency; (b) reinsurance; (c) electronic commerce; (d) market risk; (e) exchange of information; (f) insurance fraud; (g) international cooperation in connection with financial crime and regulatory abuse; and (h) public disclosure for insurers.

### **3.5 FINANCIAL CONGLOMERATES**

#### **3.6 HIGHLY LEVERAGED INSTITUTIONS (HLIS)**

##### **3.6.1 Financial Institutions' Interactions with HLIs**

Agency: BCBS, IOSCO

Objective: To review ongoing interactions by banks, securities firms and, if necessary, insurance companies with HLIs.

Status: Ongoing

The joint group established to monitor ongoing interaction with HLIs and review technical developments in counter party and other risk assessment through a dialogue with the industry has conducted a survey and visits to a number of regulated financial intermediaries having material exposure to HLIs to assess the extent to which they are

implementing sound practices in their dealings with HLIs. A report will be presented to the parent committees in Q1 2001.

### **3.7 OFFSHORE FINANCIAL CENTRES**

#### **3.7.1 Assessment of Offshore Financial Centres**

Agency: IMF

Objective: To include offshore financial centres (OFCs) in the Fund's work on assessing observance of standards and codes and financial system vulnerabilities.

Status: Ongoing

Following an outreach program, the IMF's assessment and assistance program for OFCs commenced in Autumn 2000. To some extent, the assessment process takes place in the context of the FSAP, conducted jointly with the IBRD.

#### **3.7.2 Statistics on Offshore Financial Centres**

Agency: IMF

Objective: To intensify efforts to develop more comprehensive coverage of statistics of OFCs.

Status: Ongoing

The IMF is helping jurisdictions to improve their statistics, primarily by encouraging them to participate fully in international statistical collections, such as the Co-ordinated Portfolio Investment Survey (CPIS), but also by helping them to improve their national macroeconomic statistics. Following outreach visits in 2000, outreach meetings related to the CPIS were held in early 2001 and at least one additional meeting that will cover national macroeconomic statistics is planned for late 2001.

**List of Agencies**

BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
CGFS	Committee on the Global Financial System
CPSS	Committee on Payment and Settlement Systems
ECB	European Central Bank
FATF	Financial Action Task Force
FSF	Financial Stability Forum
FSI	Financial Stability Institute
G-10	Group of Ten
G-20	Group of Twenty
IAIS	International Association of Insurance Supervisors
IASC	International Accounting Standards Committee
IBRD	World Bank
IFAC	International Federation of Accountants
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
Joint Forum	BCBS, IAIS, and IOSCO
OECD	Organisation for Economic Cooperation and Development