

## Ongoing and Recent Work Relevant to Sound Financial Systems

Note by the Secretariat (with inputs from various bodies)  
6/7 September 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

In April 2001, the IMF released a revised Code and accompanying Manual on fiscal transparency, drawing on the feedback received through a public consultative programme from organisations and individuals involved in promoting improved fiscal management and transparency ([www.imf.org](http://www.imf.org)).

### 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

### 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

The 4<sup>th</sup> review of data standards was 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: Ongoing

A review of the experience with the IMF's policies to further enhance the transparency of the its operations and the policies of its members will take place just prior to the Spring 2002 IMFC meeting.

## 1.2 DEBT AND RESERVE MANAGEMENT

### 1.2.1 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.

### 1.2.2 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: Completed April 2001

Drawing on a broad consultative process, the IBRD and IMF have developed guidelines to assist governments to build capacity for managing their debt and thereby reduce their vulnerability to international financial shocks. The guidelines were endorsed by the IMFC at the Spring 2001 meetings ([www.imf.org](http://www.imf.org) and [www.worldbank.org](http://www.worldbank.org)). The guidelines are being complemented by 2 other companion documents: *Sound Practices in Government Debt Management* prepared by the IBRD, and a *Handbook on Domestic Debt Management*. Further, a report containing sample case studies of countries that have developed strong systems of public debt management will be prepared by the two institutions in due course.

### 1.2.3 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: Autumn 2001)

Work is progressing on draft guidelines for foreign exchange reserve management. An initial draft was prepared following consultations with a focus group, including representatives from 30 countries, the BIS, and the World Bank. An updated set of draft guidelines was released for public comments in June 2001 ([www.imf.org](http://www.imf.org)) and a broader outreach programme was conducted through 5 regional meetings in June-July 2001. A revised set of draft guidelines will be prepared for discussion by the IMF's Executive Board before the 2001 Annual Meetings.

## 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. In early March 2001, the second draft of External Debt Statistics: Guide for Compilers and Users (Debt Guide) was posted on the IMF's web site ([www.imf.org/np/sta/ed/guide.htm](http://www.imf.org/np/sta/ed/guide.htm)). A wide range of compilers and users, covering the breadth of the IMF's membership, were informed of its public availability, and comments were sought by early June 2001. The comments are currently being reviewed and work is underway to finalise the Debt Guide well before the end of the transition period for meeting the SDDS prescriptions. The IMF, along with other agencies represented on the Task Force, will have launched seven regional seminars on external debt statistics between March 2000 and October 2001 to explain the data dissemination standards for external debt and present the draft Debt Guide.

### **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, additional data, which either reduce or explain differences, have been collected and disseminated. The BIS is currently preparing a report comparing creditor and debtor short-term external debt data. This was circulated in July 2001 to the members of the Inter-Agency Task Force and the 22 developing countries that participated in the reconciliation exercise for comments.

## **1.4 CAPITAL FLOWS**

### **1.4.1 Capital Account Liberalisation**

Agency: IBRD, IMF, OECD

Objective: To review countries' experiences with capital account liberalisation and consider the policy context necessary as a precondition for capital account liberalisation.

Status: Ongoing

The IMF has prepared a paper on capital account liberalisation and financial sector stability, based on lessons drawn from country experience, and scheduled for discussion at a seminar in July 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 took stock of the results of accession and post-accession reviews of the recent OECD countries (Czech Republic, Hungary, Korea, Mexico, Poland, Slovak Republic) and was tabled at the April 2001 meeting of the Committee on Capital Movements and Invisible Transactions (CMMIT), the body in charge of the OECD Codes of Liberalisation (COL). A second paper scheduled for completion in 2002, will analyse the overall liberalisation experience of OECD members, and emphasise the positive aspects of OECD experience with the COL in terms of monitoring, benchmarking and peer review. The liberalisation study should have the potential of serving as reference for seminars/dialogues with non-members on the subject of capital account liberalisation, and encourage and eventually engage non-members in processes drawing on the Codes' implementation structure. The IBRD will issue a Policy Research Report on *Globalisation, Growth and Poverty: Fact, Fears and an Agenda for Action*. The report, which will be launched in time for the 2001 IMF and World Bank's Annual Meetings, will address some issues related to capital account 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

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The IBRD and IMF continue to make progress in assessing member countries' financial sectors through the FSAP, which provides a coherent and comprehensive framework for identifying financial system strengths, risks and vulnerabilities, assessing development needs and priorities and helping to develop appropriate policy responses. The staff aim to undertake 24 FSAPs per year. The FSAP also forms the basis of Financial System Stability Assessments (FSSAs) in which IMF staff address issues of relevance to IMF surveillance, including risks to macroeconomic stability stemming from the financial sector and the capacity of the sector to absorb macroeconomic shocks, and form part of the documentation supporting a country's Article IV consultation. Since January 2001, countries may choose to make FSSAs public (accessible at [www.imf.org/external/np/fsap/fsap.asp](http://www.imf.org/external/np/fsap/fsap.asp)).

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

Agency: IBRD, IMF

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, and insolvency regimes) so as to facilitate assessment of vulnerabilities in domestic and international financial systems.

Status: Ongoing

By 11 July 2001, 145 ROSC modules had been completed for a mix of 51 industrial, emerging and developing countries. The majority of countries for which the IMF and World Bank had undertaken standards assessments have chosen to make them public. These can be accessed at [www.imf.org](http://www.imf.org) and [www.worldbank.org/ifa](http://www.worldbank.org/ifa). The IMF has produced its first issue of the *Quarterly Report on the Assessment of Standards*, which reports on ROSC production and other relevant developments in the standards-related areas. It is also available at [www.imf.org](http://www.imf.org). The two institutions plan to prepare around 200 ROSC modules each year.

### 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 (Target: September 2001)

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

### 1.5.4 Methods for Analysing Financial Systems Soundness

Agency: IMF

Objective: To support enhanced monitoring of financial vulnerabilities through the development of financial soundness indicators (FSIs) and methods of macroprudential analysis, including stress testing of financial systems sensitivity to a variety of shocks.

Status: Ongoing

An IMF Executive Board review of progress with work on FSIs, including the responses to *The Survey of the Use, Compilation, and Dissemination of Macroprudential Indicators*, took place in June 2001. Relevant papers can be accessed at [www.imf.org](http://www.imf.org). Work is underway to (i) support compilation efforts by national authorities; (ii) further theoretical and empirical work on measuring and analysing FSIs; (iii) strengthen monitoring of FSIs, in cooperation with national authorities, as a key component of the FSAP process, and in those Article IV consultations where in-depth financial sector assessments are undertaken; and (iv) encourage and facilitate voluntary efforts by national authorities to disseminate FSIs. A comprehensive progress report to the IMF Executive Board on the work programme is scheduled for the end-2002.

## 1.6 EXTERNAL VULNERABILITY

### 1.6.1 External vulnerability assessments

Agency: IMF

Objective: To develop a framework that can be used to improve the IMF's assessments of external vulnerability and the risk of contagion and the design of preventative measures.

Status: Ongoing (Target: September 2002)

A discussion is scheduled for September 2001 on approaches to external vulnerability assessments. For this discussion, a staff paper will bring together tools derived from recent experience and national balance sheet perspectives. Accompanying material for that discussion will include technical papers on early warning systems in the IMF's work and on issues of reserve adequacy and management (see also section 1.2.3).

## 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 with 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 9 assessment modules have been completed with a further 9 launched by July 2001. The IBRD and OECD are promoting dialogue on corporate governance reform through *Regional Corporate Governance Roundtables* (in Asia, Europe, Latin America and Russia, with others being planned). An intended outcome of this process is the development of a "white paper" for each region or country, which highlights a strategy for reform using the OECD Principles as a conceptual framework. A multi-donor *Global Corporate Governance Forum* (GCGF) has been established with the aim of supporting governance reform by funding technical assistance, promoting research and disseminating best practices. The *Private Sector Advisory Group* and its task forces on Investor Responsibility, Audit/Accounting and Media have been established with an active work programme 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: 2001)

Work is underway on items (i) and (ii). To this end, the working group has surveyed the supervisory authorities of each financial sector in all of the countries represented on the Joint Forum. These sectoral surveys were supplemented with a questionnaire covering listed company requirements. Each country is preparing a joint “country reports” to outline main findings. The country reports will serve as a basis to analyse the similarities and differences among the 3 financial sectors across participating countries. The working group will meet next in September 2001 and will then discuss further steps and report to the Joint Forum.

### **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: Completed: May 2001

Following a recommendation by the FSF Working Group on Offshore Financial Centres, the OECD Steering Group on Corporate Governance has prepared a report on *The Misuse of Corporate Vehicles for Illicit Purposes*, which sets out possible options to facilitate the capacity of authorities to obtain and share information on beneficial ownership and control. The report was endorsed 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 IASB, and the International Standards on Auditing (ISA) issued by IFAC. To provide supervisory input in the further development of existing and new standards, in areas of supervisory interest.

Status: BCBS: Ongoing

The BCBS is taking close part of the IASB work on implementation guidance for IAS 39 *Financial Instruments: Recognition and Measurement*, and is also closely following changes that may follow from the IASB improvement project, in particular concerning IAS 39. The BCBS is also active in the IASB advisory group for updating IAS 30, the disclosure standard for banks. A BCBS Accounting Task Force is considering the issue of

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fair value accounting for financial instruments, a draft standard on which was issued by the IASB with other standard setters at the end of 2000. The BCBS Accounting Task Force is also close to finalising a new version of the BCBS paper “*Sound Practices for Loan Accounting and Disclosure*”.

**IAIS: Ongoing** (Target: 2003)

The IAIS has submitted its comments on the IASB's proposals for insurance accounting. It is working with the IASB to enhance the consistency of supervisory financial reports and system efficiency and to make the standards developed by the IASB 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). Four pilot assessments are close to completion and another 6-9 are scheduled for launch by July 2001.

**IOSCO:** IOSCO continues to work with the IASB on international accounting standards. It intends to survey its members by end 2001 regarding the implementation of the IOSCO resolutions (May 2000), related to the use of IASs for cross-border offerings and listings. The Technical Committee is undertaking a major efforts relating to international audit standards, including auditor independence, and expects to continue its interaction with IFAC.

**Other:** In May 2001, an informal meeting was held at the BIS with accounting standard setters, auditors, central banks, commercial and investment banks, fund management, insurance, banking and securities regulators, rating agencies and risk management consulting firms. The aim of the meeting was to promote a better understanding of the different views of the parties involved in the issue of fair value accounting for all financial instruments.

### **2.2.2 International Audit Standards**

Agency: BCBS

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

Status: Ongoing (Target: end 2001)

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. The BCBS is also closely following issues relating to auditor independence.

### **2.2.3 Internal Audit Practice**

Agency: BCBS

Objective: To improve internal audit standards in banks.

Status: Completed

The BCBS issued in August 2001 a best practice paper, *Internal Audit in Banks and the Supervisors Relationship with Auditors*. It calls for an independent internal audit function with professional competence in all banks.



## 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 a *Report of the Working Group on the 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 present data on an "ultimate" risk basis, while complementing the statistics with data on contingent facilities and off-balance sheet exposures. A group of statistical experts from BIS reporting countries intends to issue an implementation plan on the data series to be collected by the end of 2001 that would be implemented 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. So far, four (Australia, Portugal, Taiwan and Turkey) and five new centres (Hong Kong, Portugal, Singapore, Taiwan and Turkey) have begun to participate in the BIS locational and consolidated international banking statistics, respectively. In addition, Brazil, the Channel Islands and India plan to join later this year.

### 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 non-resident holdings of domestically issued securities.

Status: Ongoing (Target: end-2002)

About 70 major investing and other countries and OFCs are expected to participate in the second CPIS to be held in respect of end-2001. The CPIS collects data on the stock of countries' holdings of 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 second edition of the CPIS Guide, which was used in 5 regional CPIS outreach meetings in January-February 2001.

## 2.4 DISCLOSURE AND MARKET TRANSPARENCY

### 2.4.1 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 is being 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. A survey of the economic literature and of the current transparency requirements in member jurisdictions has been conducted. The report will raise options that might be considered by members to address transparency

concerns in light of recent developments. The Technical Committee expects to finalise the report at its next meeting in October 2001.

## **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: Completed June 2001

The first version of the handbook has been prepared by the IBRD and the IMF and was published in July 2001 ([www.worldbank.org](http://www.worldbank.org)). 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. The handbook will be revised over time to reflect comments and suggestions from national authorities and market participants.

### **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

The Emerging Markets Committee is considering issues and impediments affecting the development of vibrant corporate bond markets in emerging jurisdictions. The report will provide a description of current trends in development, identify impediments to the development of corporate bond markets and produce a detailed structural framework for establishing strong initial conditions required for a well functioning corporate bond market 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

A report will be prepared to provide guidance to regulators and securities firms on best industry 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. A report is expected to be considered by the Technical Committee at its meeting in January 2002.

### **2.5.4 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: Completed: April 2001

A report on a survey of stress tests and current practices at financial institutions was issued in April 2001 ([www.bis.org](http://www.bis.org)).

### **2.5.5 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 February 2001

A report was issued February 2001 ([www.bis.org](http://www.bis.org)). A workshop with senior private sector and central bank representatives was held in June 2001 to discuss and improve the understanding of the main issues raised in the report.

### **2.5.6 Asset Price Misalignments**

Agency: G-10

Objective: To consider the impact of structural policies such as prudential, tax and disclosure provisions on asset prices.

Status: Ongoing

Interested parties are currently preparing issues papers. The objective is to distil lessons about the role of structural and macroeconomic policies in shaping asset price movements. The first phase will be fact finding. Individual countries will prepare country notes addressing structural issues bearing upon asset prices. Comparative factual information relating to taxation, disclosure, and prudential regulations will also be collected. The second phase will involve synthesising the material, identifying common factors, seeking to better understand asset price behaviour, distilling general conclusions and drawing policy lessons.

### **2.5.7 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 (Target: early 2002)

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. The group intends to finalise a report in early 2002.

### **2.5.8 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 *Issues Paper on Stock Exchange Demutualisation* was published in June 2001 ([www.iosco.org](http://www.iosco.org)) The report summarises some of the main types of regulatory concerns and responses that have arisen in various jurisdictions from the trend of exchanges to become

“for profit” enterprises. The discussion is organised under 3 main themes: conflict of interest between the “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. A panel discussion on demutualisation was held at the IOSCO Annual meeting in June 2001.

### **2.5.9 Secondary Market Issues**

Agency: IOSCO

Objective: To examine the regulatory authority, practices and procedures related to trading halts affecting multi-listed securities.

Status: Ongoing (Target: mid-2002)

This work follows on a review of the Technical Committee’s 1992 Report on Co-ordination between Cash and Derivative Markets that noted the increasing linkages of world stock markets through the cross-listing of securities and development of derivatives products based on cash products located in different jurisdictions. The work will include compilation of responses to a questionnaire and consultation with the IOSCO Consultative Committee is contemplated. The project will result in a paper that explores in this context cross-border co-operation and information sharing.

### **2.5.10 Financial Cycles**

Agency: BIS

Objective: To understand better the forces driving financial cycles and to evaluate the usefulness of the various policy tools for dealing with these cycles.

Status: Ongoing

Work is underway on a number of issues, including the dynamics of credit booms, the evolution of aggregate risk over the business cycle and the evaluation of various approaches to provisioning for impaired loans.

## **2.6 MARKET INTEGRITY**

### **2.6.1 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

A consultative paper setting out guidance for banks and banking supervisors on customer due diligence ([www.bis.org](http://www.bis.org)) was prepared by the Working Group on Cross-border Banking, which includes members from the Offshore Group of Bank Supervisors, and was issued in January. Comments are now being incorporated and a final version is expected to be issued by the end of 2001.

### **2.6.2 Anti-Money Laundering (AML)**

Agency: IBRD, IMF

Objective: To contribute more to the global efforts against money laundering.

Status: Ongoing

The IBRD and the IMF Boards agreed in April 2001 to: work more closely with major international AML groups, including the Financial Action Task Force (FATF); to

intensify the focus on AML in all relevant supervisory principles; to work with FATF on how the FATF 40 Recommendations could be adapted and made operational to the Fund and Bank's work; and to increase the provision of technical assistance. Discussions have been held with FATF, and a draft methodology document on financial supervisory principles relevant to AML is out for discussion among standard-setters and others, and will be used as a pilot in the Fund's financial sector work.

### **2.6.3 Anti-Money Laundering and Non-Cooperative Jurisdictions**

Agency: FATF

Objective: To identify key weakness in the anti-money laundering systems of jurisdictions both inside and outside its membership.

Status: Ongoing

The FATF has completed a second round of assessments of 13 jurisdictions according to 25 publicly stated criteria and identified an additional 6 jurisdictions as non-cooperative in the fight against money laundering in a report issued in June 2001. At that time, 4 of the 15 jurisdictions that had been listed as non-cooperative in June 2000 were removed from list. Countermeasures were recommended for application to 3 jurisdictions unless their governments enact significant legislation that addresses FATF-identified money laundering concerns as of end September 2001 ([www.oecd.org/fatf](http://www.oecd.org/fatf)).

### **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

In response to concerns about the compatibility of national legal and institutional arrangements, interested representatives from principal international financial jurisdictions is collecting and analysing comparative information on the bank resolution procedures, contract enforceability and insolvency arrangements.

## **2.7 PAYMENT AND SETTLEMENT**

### **2.7.1 Implementation of the Core Principles for Systemically Important Payment Systems**

Agency: CPSS, IBRD, IMF

Objective: To promote effective implementation of the core principles.

Status: Ongoing

The CPSS working with the IBRD and IMF are currently preparing a Guidance Note for assessing observance of the Core Principles, The Guidance Note lays down the overall assessment framework, and provides assessment templates. The assessment report itself will consist of 2 outputs: (1) FSAP detailed assessment; and (2) a Financial Sector ROSC module (FSRM summary assessment). This is expected to be completed by Summer 2001. The IBRD and IMF, in co-operation with national experts identified with the help of the CPSS, assess the observance of the Core Principles in the context of the FSAP and support national efforts to enhance observance.

## **2.7.2 Recommendations for Securities Settlements Systems**

Agency: CPSS, IOSCO

Objective: To promote the implementation of securities settlement systems of measures that can enhance international financial stability, reduce risks, increase efficiency and provide adequate safeguards for investors by developing recommendations for the design, operation, and oversight of such systems. The recommendations identify the minimum requirements that systems should meet and best practices that they should strive for. They cover the settlement of both domestic and cross-border trades through individual settlement systems and links between these systems.

Status: Ongoing (Consultative period completed April 2001)

The joint CPSS-IOSCO Task Force is working toward the preparation of the final report, reflecting public comments received and the guidance from the parent committees. The Task Force expects to present its final report for consideration at the Governors' meeting in November 2001, after approval by the parent committees in October.

## **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 programmes. A report on risk management principles for e-banking was released in May 2001. The group is preparing a report on cross-border supervisory co-ordination issues.

### **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

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 2000. A new paper focused on specific policy issues in emerging markets was completed in June 2001. Over the next year, more in-depth work will be undertaken on specific applications of technology to delivery of financial services; implications for access to basic financial services and capital market development will receive particular attention.

### **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: Completed June 2001

Building on the foundations laid by its 1998 report, the IOSCO Technical Committee released a report on *Securities Activity on the Internet*, which addresses current use of the Internet by investors, the securities industry, and regulators. It reviews implementation of IOSCO's earlier recommendations in this area and explores regulatory issues raised by recent developments in Internet 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: Ongoing

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 E-Payments and E-Commerce**

Agency: CPSS

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

Status: Ongoing

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.

#### **2.8.7 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 held in February 2001 at which representatives 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 was held in March 2001 where market participants with special expertise in e-finance discussed current and prospective developments in e-finance with members of the CMF.

### **2.8.8 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 was held in May 2001 on the development of fixed-income securities markets in emerging market economies, which inter alia covered policy issues related to e-finance. The results from the various meetings on this topic will be published in the next Green Book on Public Debt Management and Government Securities Markets.

## **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

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 has completed a series of regional workshops covering some 75 countries and feedback from these and other agencies and experts has been incorporated in a consultative draft ([www.worldbank.org/ifa](http://www.worldbank.org/ifa)). The draft *Principles* focusing on creditor rights and corporate insolvency was presented to the Bank's Executive Board in Spring 2001, and additional feedback is now being sought. Phase 2 of the work on the *Principles*, including principles related to bank restructuring and systemic insolvency, is expected to be completed by Spring 2001. In parallel, a draft diagnostic template has been developed and an initial five insolvency regime assessments have already been launched, with 6-9 further assessments scheduled by July 2002. Further, a *Global Law Insolvency Database* (GLID) 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 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

In September 2000, the IMFC endorsed a framework for private sector involvement in the resolution of crises and work has continued on the practical application of this framework. Since the endorsement of the framework, work has continued on the practical application of this framework. The IMF Executive Board has discussed issues associated with the use of standstills, corporate workouts, and the restructuring of international sovereign bonds. The Board will soon discuss issues related to the comparability of treatment between official and private creditors, the prospects for market access by countries emerging from crises, and a balance-sheet approach to crisis resolution. On the basis of the work of the Capital Markets Consultative Group, a paper on relations between investors and sovereign debtors has been circulated. The PSI framework has been applied to two major emerging market members facing financial crises: Argentina and Turkey. A progress report to the IMFC will be discussed in September 2001.

## **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: September 2001)

The FSF's Working Group on Deposit Insurance has continued its work in developing international guidance on deposit insurance, including an extensive consultative process. The group will submit its report for the FSF meeting in September 2001.

## **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 ([www.fsforum.org](http://www.fsforum.org))

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

Agency: Joint Forum (BCBS, IAIS, IOSCO)

## FINANCIAL STABILITY FORUM

**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 prepared its report. There is a considerable amount of common ground among the 3 sets of core principles and no evidence of underlying conflict or contradiction between the principles themselves although there is likely to be scope for further work on regulatory practices to avoid the possibility of regulatory arbitrage and to improve consistency and transparency. The report provides a menu of options for consideration by the parent committees which may in turn result in issues for further study or action to be pursued by the Joint Forum or other groups. It is expected that the Report will be transmitted to the FSF for its meeting in September 2001.

### **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 has reviewed issues related to risk management, risk assessment techniques and supervisory practices, and regulatory capital requirements across the 3 sectors. While there is convergence between the sectors in various respects, there still remain significant differences in the core business activities and risk management tools that are applied to these activities. There are also significant differences in the regulatory capital frameworks, in many cases reflecting differences in the underlying business and in supervisory approaches. Thus, although resources are being allocated to integrate fully all risks into a common framework, the largest firms and financial groups have still to succeed in such an ambitious aggregation, and conclusions in this area can only be tentative at this stage. The report has been referred to the parent organisations for endorsement. It is expected that the Report will be transmitted to the FSF for its meeting in September 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 FSI has identified a number of areas in which additional guidance in implementing the principles was considered desirable. A subgroup of the CPLG is developing supporting documentation in these areas. In April 2001, the BCBS issued a paper providing a framework that bank supervisory authorities can use in conducting self-assessments of their supervisory

systems. In May 2001, the BCBS issued a statement setting out the essential elements of a Memorandum of Understanding (MOU) or similar document that can be used as reference for establishing relationships between banking supervisory authorities in different countries (and where appropriate, between banking supervisors and other financial regulators). Both documents are available at [www.bis.org](http://www.bis.org). Following up on a recommendation of the FSF, the CPLG is preparing an updated document integrating the 1980 BCBS paper on *Supervision of Bank's Foreign Exchange Positions* to include guidance on implementing foreign exchange limits in those jurisdictions that have not implemented the BCBS' *Market Risk Amendment*. The IBRD and IMF, with the co-operation of national experts, assess observance with the Principles in the context of the FSAP and support national efforts to enhance observance.

### 3.2.2 Dealing with Weak Banks

Agency: BCBS, CPLG, IMF, IBRD, FSI

Objective: To develop guidance for dealing with individual bank problems, with systemic risk being considered to the extent that sound approaches for weak individual banks could usefully be extended to dealing with systemic concerns.

Status: Ongoing (Target: 2002)

As a follow up to a FSF request in March 2001, the BCBS and CPLG are developing guidance on dealing with weak banks. A working group, composed of G-10 and Non G10-members as well as representatives of the IMF, World Bank and FSI, has been formed and a detailed work plan prepared. The focus will be on guidance for dealing with weak individual banks with systemic risk being considered to the extent that sound approaches for weak individual banks could usefully be extended to dealing with systemic concerns. A short status note will be prepared for the September 2001 meeting of the FSF. The group's report is expected to be submitted to the BCBS in February 2002. This work is being co-ordinated with the work on bank insolvency noted above (see 2.9.1). The IMF staff is preparing a paper on a financial policy framework for the management of systemic banking crises and the necessary elements to avoid such crises. The paper is scheduled for discussion by the Executive Boards in early 2002.

### 3.2.3 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: 2002)

The BCBS issued in January 2001 a second consultative paper on a "New Basel Capital Accord" to replace the Capital Accord issued in 1988 ([www.bis.org](http://www.bis.org)). In light of the more than 250 comments received from various financial and regulatory institutions and international organisations, the BCBS has decided to modify the timetable for completion and implementation of the new Accord. The BCBS will release a complete and fully specified proposal for an additional round of consultation in early 2002, and will finalise the new Accord during 2002. It is envisaged that the New Accord will be implemented in 2005.

### 3.2.4 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. Further work in this area is being undertaken and will be reflected in a package of consultative material to be released in early 2002.

### **3.2.5 Operational Risk**

Agency: BCBS

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

Status: Ongoing

In January 2001, a supporting document on operational risk was released as part of the consultative package for the New Basel Capital Accord. Further work in this area is being undertaken and will be reflected in a package of consultative material to be released in early 2002.

## **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 reviewed the responses. A report has been 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 the 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. In this connection, Technical Committee members agreed to request that some of their firms complete the BCBS's Quantitative Impact Survey to obtain relevant data. 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 Supervision of Multinational Securities Firms**

Agency: IOSCO

Objective: To develop guidance to emerging market regulators on the supervision of multinational securities firms.

Status: Ongoing

The Emerging Markets Committee has agreed to work on guidance to emerging market regulators on the supervision of multinational securities firms, whether regulated or unregulated, in instances where their activities are conducted from other jurisdictions.

### **3.3.4 Collective Investment Schemes**

Agency: IOSCO

Objective: To examine issues arising in the area of collective (or managed) investment schemes (CIS).

Status: Ongoing

The Technical Committee will address two particular concerns in the area of CIS: the regulatory assessment of operational risks of CIS operators; and CIS performance advertising where past results are used by operators to promote their schemes to investors. A survey of CIS performance presentation standards will initially be undertaken with a view to producing a report which complements the earlier Emerging Markets Committee works as well as formulating some regulatory principles.

## **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: Ongoing

IAIS members are currently undertaking comprehensive self-assessments based on the Core Principles Methodology ([www.iaisweb.org](http://www.iaisweb.org)). The results will be reviewed by the IAIS in September 2001. A seminar was held 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: Ongoing

IAIS is developing standards 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 HIGHLY LEVERAGED INSTITUTIONS (HLIs)**

#### **3.5.1 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: Completed (March 2001)

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. The group's report is available at [www.bis.org](http://www.bis.org).

### **3.6 OFFSHORE FINANCIAL CENTRES**

#### **3.6.1 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. So far 19 visits were made in 2001 and another 18 are expected by the end of 2001. (Some of these are done in the context of the IMF-World Bank FSAP.) A progress report was issued to the IMF Executive Board in July 2001 and published on the IMF web site ([www.imf.org](http://www.imf.org)). A further paper for discussion by the IMF Board is expected to be issued around the end of 2001.

#### **3.6.2 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. Outreach visits were held in 2000 and early 2001. An additional meeting covering national macroeconomic statistics is scheduled for September 2001. To date, 25 OFCs with significant external positions have agreed to participate in the 2001 CPIS.

**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
IASB	International Accounting Standards Board
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 Co-operation and Development